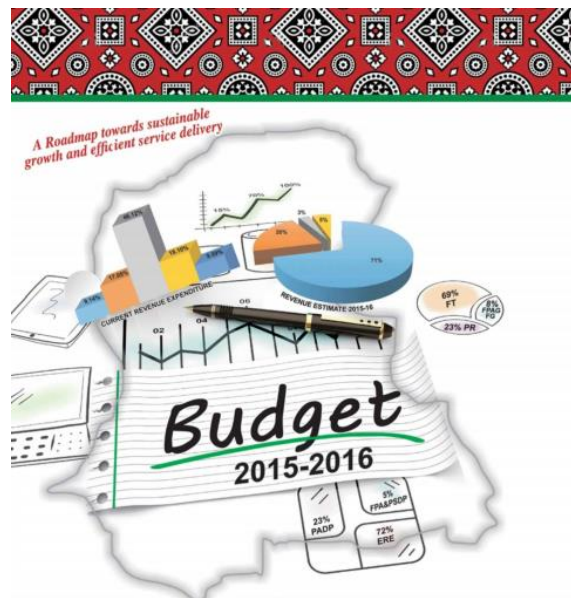


Outreach Programme for Members of Sindh Assembly



Budget Processes and Analysis



The project is funded
by European Union



PUBLIC FINANCIAL
MANAGEMENT SUPPORT
PROGRAMME for PAKISTAN

Office 94, 5th Floor, Finance Department
Karachi

Agenda

- SESSION 1 THE BUDGET PROCESS
 - SESSION 2 UNDERSTANDING THE BUDGET DOCUMENTS
 - SESSION 3 ANALYSING THE BUDGET
 - SESSION 4 ROLE OF THE LEGISLATURE IN BUDGET OVERSIGHT
 - SESSION 5 PUBLIC FINANCE MANAGEMENT (PFM) REFORMS IN SINDH
- CLOSING REMARKS
- DINNER



We don't need to be rocket scientists or financial experts to understand and analyze the budget.

We just need a basic knowledge of Arithmetic and some patience to walk through the budget books...

Session 1

Budget Process

Budget

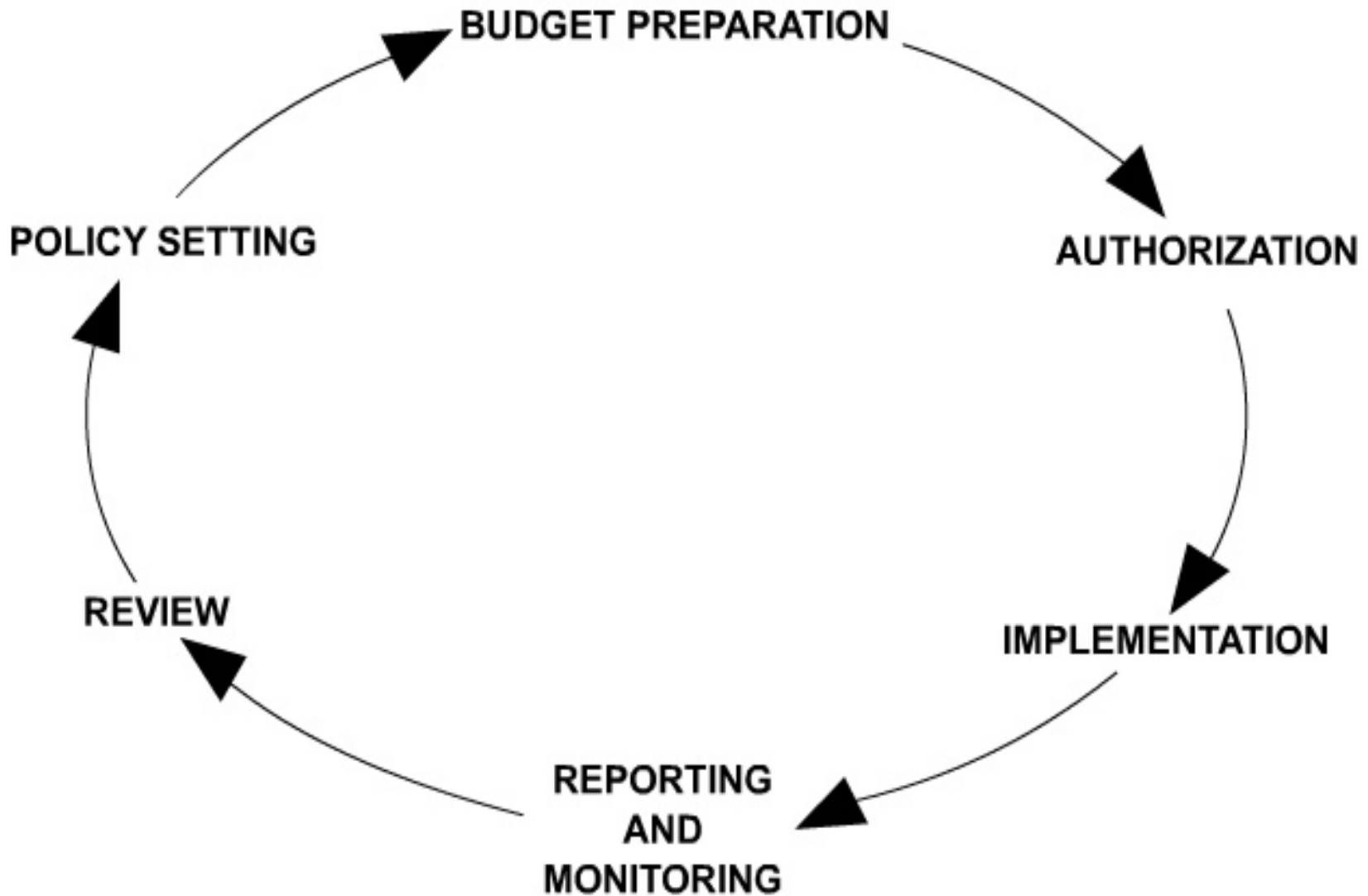
A budget is an itemized summary of estimated or intended expenditures for a given period along with proposals for financing them (receipts).

Why Budget?

Because 'Budget' assists the Governments in:

- Allocation of resources
- Distribution of wealth and incomes
- Policy Implementation, i.e. Used as a 'tool' for implementing policy decisions
- Stabilization of economy

Typical Budget Cycle



Budget Cycle

- Budget making is a continuous process
- Same tasks are performed every year at specified time / date
- The phases in Budget Cycle are interdependent
- Members role typically during:
 - Authorization; and
 - Policy Setting phases
- PAC's role in 'Review' phase (typically as part of review of budget spending for previous years)
- Overall budget process looks like this...

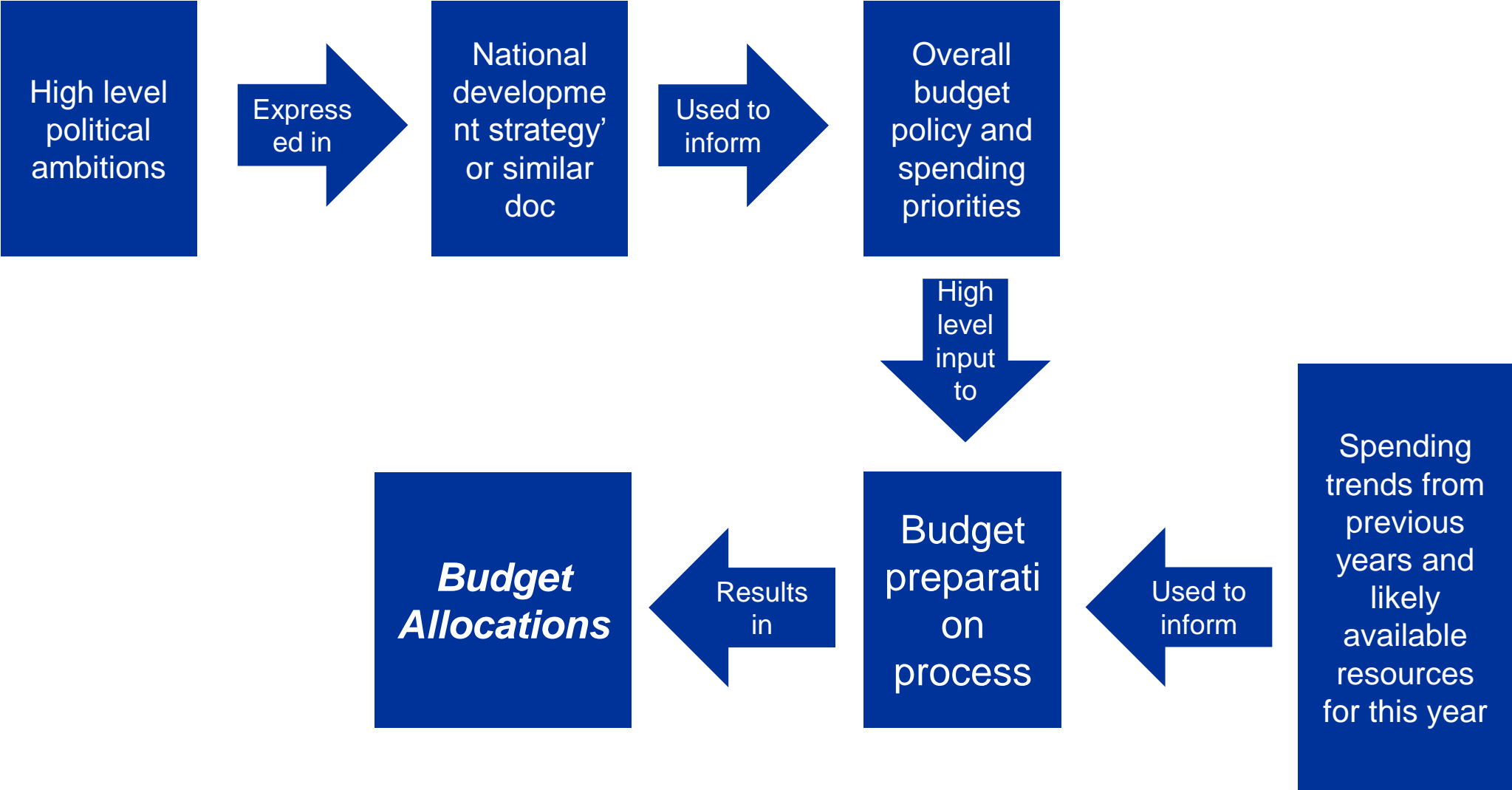
Budget Preparation Process

Activity	(October - May)							(May - June)		(June)	
Budget Preparation	Budget Strategy Paper (BSP), Medium Term Fiscal Framework (MTFF) <i>(by FD and P&DD)</i>	Issue Budget Call Circular and Budget Ceilings <i>(separately by FD and P&DD)</i>	Forward BCC to spending units <i>(by Administrative Departments)</i>	Prepare detailed Budget Estimates <i>(by spending units)</i>	Submit Budget Estimates to Department Headquarters <i>(by spending units)</i>	Scrutinize, analyze, review, consolidate and finalize budget estimates <i>(by AD)</i>	Submit budget estimates to FD (current budget) and P&DD (Development budget) <i>(by AD)</i>				
Budget Review and Finalization								Approve Current Budget <i>(by FD)</i>	Approve Development Budget <i>(by P&DD)</i>		
Budget Authorization								Budget Presentation in Sindh Assembly <i>(by Finance Minister)</i>	Budget Debate <i>(Sindh PA)</i>	Authorize Budget Demands for Grants - Current & Development <i>(by Sindh PA)</i>	

Budget Publications

- Finance Bill
- Budget at a Glance
- Budget Speech (English & Urdu)
- Annual Budget Statement (ABS)
- Estimates of Receipts
- Estimates of Demands for Grants And Appropriations (Current)
- Estimates of Demands for Grants And Appropriations (Development)
- Public Sector Development Programme (PSDP)
- Supplementary Demands for Grants and Appropriations
- Schedule of New Expenditure (SNEs)

Political Ambitions & Budget



Session 2

Understanding the Budget Documents

Budget Presentation

- The 'Budget Day' – typically in second week of June
- What is presented before the Provincial Assembly includes:
 - Approx. 12-14 different publications
 - Covering approx. more than 4,000 pages
- Extent of information made available is enormous
- The level of details varies from publication to publication. However, they are all linked in one form or the other

Budget Presentation

Budget is classified in the following ways:

- Current
- Development
- Charged & Voted
- Demand wise
- Administrative Departments
- Spending Entity
- Object (economic classification)
- Function (purpose)

Budget Documents

- Finance Bill
- Budget at a Glance
- Budget Speech (English & Urdu)
- Annual Budget Statement (ABS)
- Estimates of Receipts
- Estimates of Demands for Grants And Appropriations (Current)
- Estimates of Demands for Grants And Appropriations (Development)
- Public Sector Development Programme (PSDP)
- Supplementary Demands for Grants and Appropriations
- Schedule of New Expenditure (SNEs)

Sequence & Relationship of Budget Documents

Budget Book	Purpose	Level of Detail
Budget at a Glance	Receipts and Expenditure	One liners
Annual Budget Statement	Receipts and Expenditure – Summaries	High Level description
Estimates of Receipts	Receipts only	Detailed level – with explanatory notes
Public Sector Development Programme (PSDP)	Expenditure – Development only	Department-wise & Project-wise budget allocation
Estimates of Charged Expenditure and Details of Demands for Grants (Current & Development)	Expenditure only	Detailed level – Spending unit wise details (Object & Function)
(of Previous Year): Supplementary Expenditure Revised Estimates		
Schedule of New Expenditure	New Expenditure only	Detailed level – with explanatory notes

Session 3

Analyzing the Budget

Need for Analyzing Budget

Many reasons to analyze budget including:

- Does it represent government's priorities?
- Is it in line with policy objectives?
- Is it in right direction?
- Does it represent needs of the people?
- Does it support pro-poor objectives?

Need for Analyzing Budget

Broadly the following dimensions of the budget can be analyzed :

- Resources
- Expenditure (current and development)
- Supplementary Budget
- Deficits

Resources

- Tax Revenue Assignment
- Straight Transfers / Grant-in-Aid
- Provincial Tax & Non-Tax Receipts
- Capital Receipts
- Public Account Receipts (net)

Tax Revenue Assignment

- Taxes on income
- Wealth tax
- Capital value tax
- Taxes on sales and purchases of goods imported, exported, produced, manufactured or consumed
- Export duties on cotton
- Customs-duties
- Federal excise duties excluding the excise duty on gas charged at well-head

Straight Transfers / Grant-in-Aid

- Royalty on Crude Oil
- Royalty on Natural Gas
- Development Surcharge on Natural Gas
- Excise Duty on Natural Gas
- Grant-in-Aid: Equal to 0.66% of Provincial Share in net proceeds of Divisible Pool (representing losses on abolition of octroi & zilla tax)

Provincial Tax Receipts – key budget heads

Direct Taxes

- Tax on Income (Agriculture)
- Property Tax
- Land Revenue
- Capital Value Tax on Immovable Property

Indirect Taxes

- Sales Tax on Services
- Provincial Excise
- Stamp Duty
- Motor Vehicle Tax

Provincial Non-Tax Receipts – key budget heads

- Interest Income
- Dividends
- Income from Property & Enterprise
- Receipts from Civil Administration

Expenditure

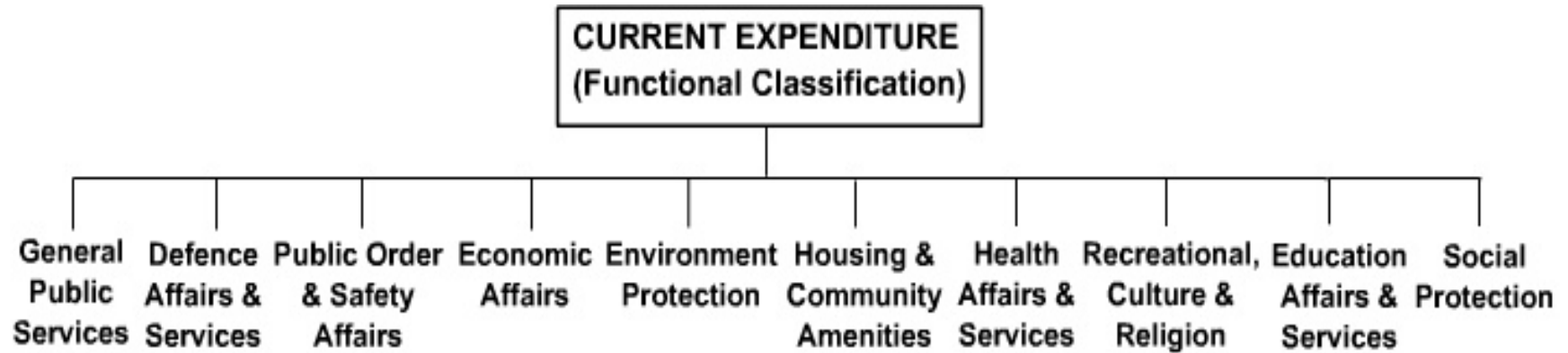
- Expenditure side occupies most of the space in the Budget Books
- A WHO, WHAT and WHY combination can be applied to analyze Expenditure classification
- ‘Who’ - covers administrative dimensions to expenditure like Department, spending unit
- ‘What’ - covers type of expenditure like salaries, repairs, etc. Also known as economic / object classification
- ‘Why’ - represents the purpose of expenditure. For example meeting socio-economic objectives like health, education, agriculture, etc. (It is called ‘functional’ classification).

Expenditure Classification

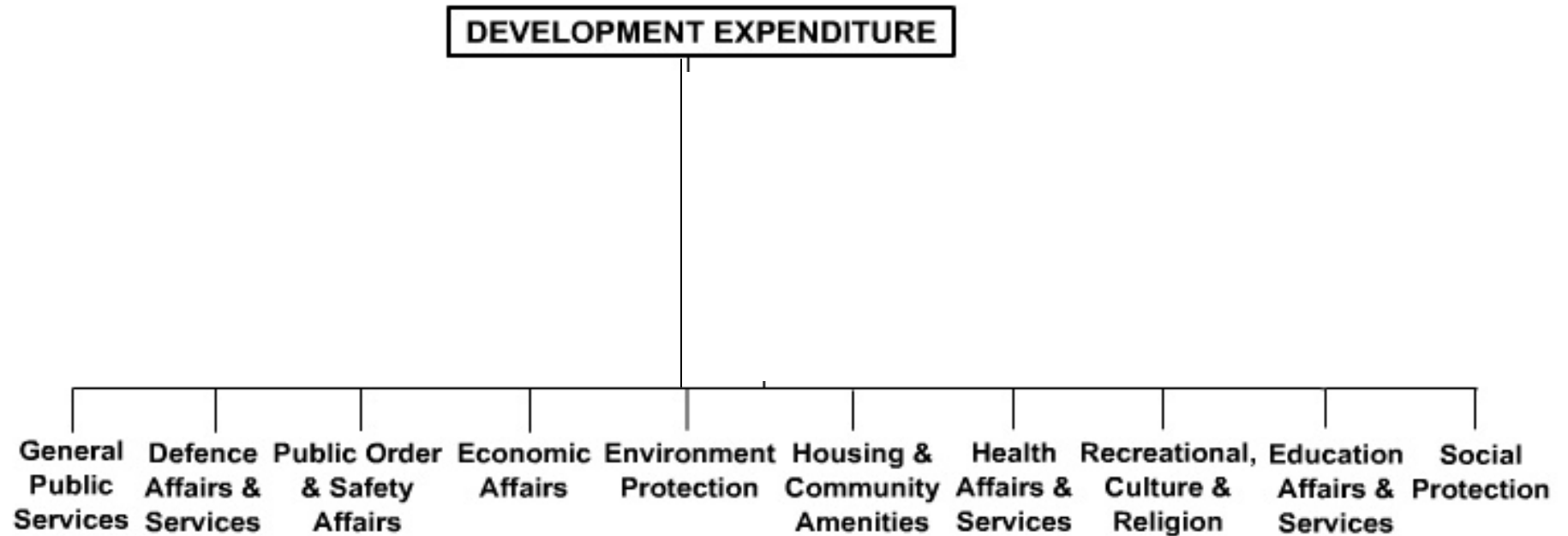
Object Codes

A01	Employee Related Expenditure
A02	Project Pre-Investment Analysis
A03	Operating Expenses
A04	Employee Retirement Benefits
A05	Grants, Subsidies and Write-off Loans
A06	Transfers
A09	Physical Assets
A12	Civil Works
A13	Repairs & Maintenance

Expenditure Classification



Development Expenditure



Capital Expenditure

- Repayment of Federal Loans
- Loans and Advances (to employees & others)
- Repayment of loan to SBP

Inter-Governmental Transfers (NFC Award)

Inter-Governmental Transfers

- Generally, central governments collect taxes and redistribute to sub-national governments (Provincial / Local Governments)
- Provincial / state share in the overall national resources is generally significantly less when compared to the tax collections by central governments, resulting in fiscal imbalances in the provinces
- The purpose of fiscal transfer system is to 'equalize' vertical fiscal imbalances between the central governments and the provinces / states and correct horizontal imbalances in fiscal capacity among the provinces

Types of Inter-Governmental Transfers

- Conditional Grants
 - Matching Open-Ended Grants
 - If provincial government spends a specific amount of funds for a specific activity, the central government will provide equivalent amount of funds for the activity
 - Matching Closed-Ended Grants
 - Contribution of a MAXIMUM amount of funds for a specific activity financed by the provincial government
 - Non-Matching Grants
 - Contribution by central government of a FIXED amount of funds for a particular activity
- Unconditional Grants
 - No restriction on use of funds
 - The purpose is to equalize fiscal capacities of sub-national governments to ensure minimum level of service delivery

Comparison of Grant System in Nine Countries

	USA	Canada	UK	Germany	Australia	India	Japan	Korea	Indonesia
Equalizing fiscal capacities	No	Yes	Yes	Yes	Yes	To some extent	Yes	Yes	To some extent
Adjusting for expenditure needs	No	No	Yes	To some extent	Yes	Yes	Yes	Yes	Yes
Sources of equalization fund	Central Government Revenue	Central Government Revenue	Central Government Revenue	VAT sharing, inter-regional transfers (from rich to poor states)	Central Government Revenue	Fixed percentage of income tax and value added tax	Fixed percentages of central taxes	Fixed percentage of total central taxes	Central Government Revenue
Data requirement	Ad hoc	Data on sub national tax base	Data on properties (provided by localities) and detailed expenditure factors (provided by various agencies)	Data on local tax bases and expenditure factors	Data on local tax bases and expenditure factors	Data on population, income, land area and tax effort	Data on local tax bases, and detailed expenditure factors	Data on local tax bases, and detailed expenditure factors	Main scheme is an equal per capita transfer, only need data on population

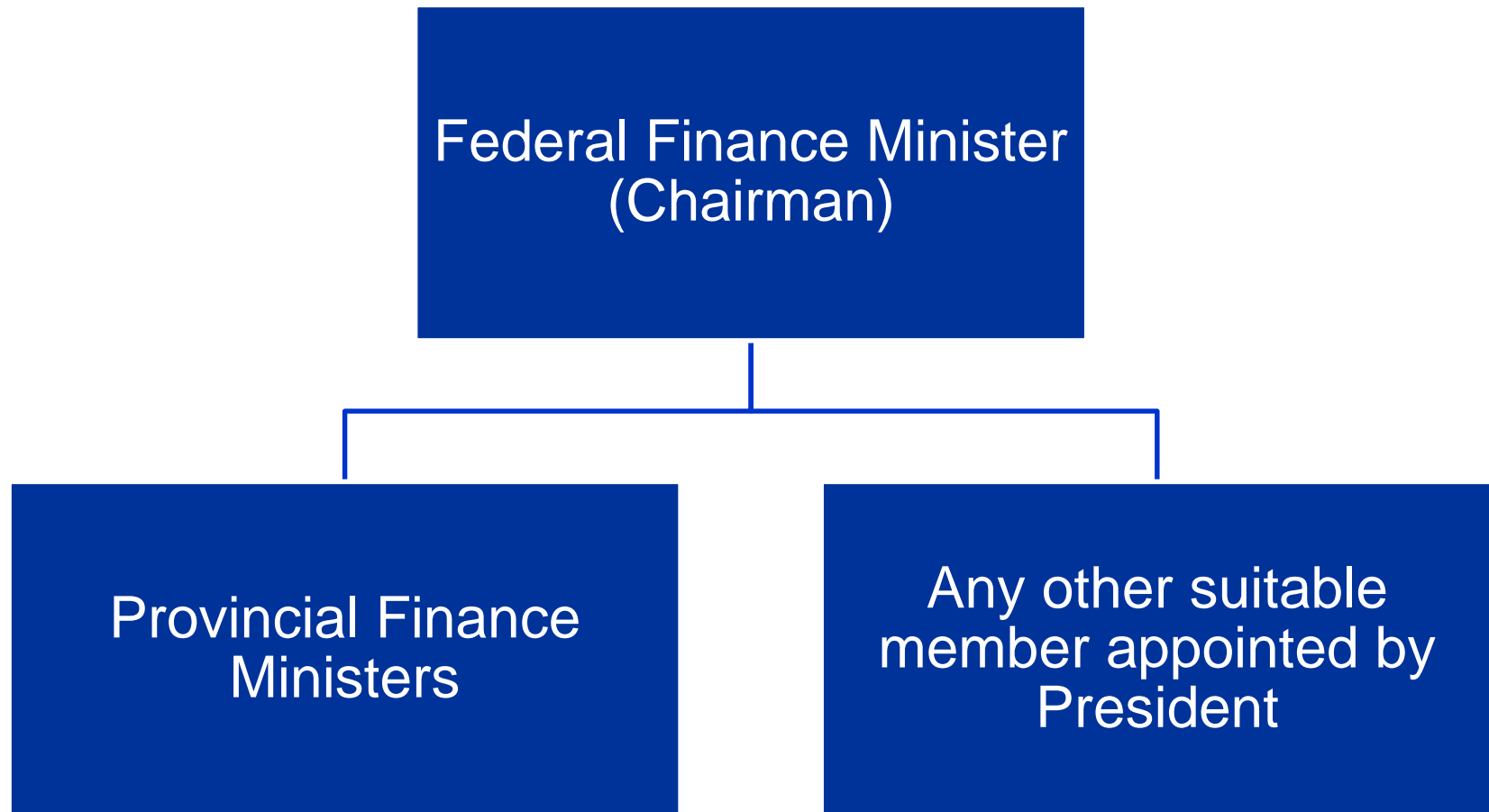
About NFC Award

- Pakistan is a federation with centralized Government structure
- National Finance Commission (NFC) responsible for finance award for transferring revenue to the federating units
- Constitutional provision for NFC Awards under Article 160
- Step forward for decentralization and Fiscal Federalism
- Taxes collected in each province redistributed according to the NFC formula
- 7 NFC awards announced since 1973

Charter of NFC

- Distribution of the net proceeds of the taxes between the Federation and the Provinces
- Making of grants-in-aid by the Federal Government to the Provincial Governments
- Exercising borrowing powers by the Federal Government and the Provincial Governments
- Any other matter relating to finance referred to the Commission by the President

Composition of NFC



Chronology of NFC Awards

Awards	Presented by	Status	Projected Fiscal year
First NFC Award 1974	Zulfikar Ali Bhutto	Conclusive	1974–79
Second NFC Award 1979	Zia-ul-Haq	Inconclusive	1979–84
Third NFC Award 1985	Zia-ul-Haq	Inconclusive	1985–90
Fourth NFC Award 1991	Nawaz Sharif	Conclusive	1991–96

Chronology of NFC Awards

Awards	Presented by	Status	Projected Fiscal year
Fifth NFC Award 1995	Benazir Bhutto	Inconclusive	1995–2000
NFC Award 1997	Nawaz Sharif	Conclusive	1997–2002
Sixth NFC Award 2002	Pervez Musharraf	Inconclusive	2002–07
Seventh NFC Award 2010	Yousaf Raza Gillani	Conclusive	2010–15

Provincial Dissent

- Punjab
 - Sole Population based criterion
 - Royalty on wheat and cotton
- Sindh
 - Consideration for Sales Tax and Services Collection
- Balochistan
 - Geographical Size
 - Royalty on Natural Resources
 - Backwardness
- KPK
 - War on Terror Attrition
 - Backwardness
 - Royalty on Hydro Electric Power Projects

Key Features of 7th NFC Award

- Unanimous consensus after a lapse of 13 years
- Multi Indicator based distribution criterion
- Collection charges cut from 5% to mere 1%
- Compensation for KPK and Balochistan
- Sales tax on services as provincial subject

Taxes subject to Distribution

- Taxes on income
- Wealth tax
- Capital value tax
- Taxes on sales and purchases of goods imported, exported, produced, manufactured or consumed
- Export duties on cotton
- Customs-duties
- Federal excise duties excluding the excise duty on gas charged at well-head
- Any other tax that may be levied by the Federal Government

Resource Distribution Criteria

INDICATOR	% WEIGHT
Population	82.00
Poverty/backwardness	10.30
Revenue Collection/ generation	5.00
Inverse population density	2.70
TOTAL	100





Provincial Share

FINANCIAL YEAR	%AGE SHARE
2006-07	41.50%
2007-08	42.50%
2008-09	43.75%
2009-10	45.00%
2010-11	56.00%
2011-12 onwards	57.50%

Comparative Analysis : 7th vs 6th NFC Award

SHARE	6 TH NFC AWARD	7 TH NFC AWARD	EFFECT
Federal Share	52.7%	44% (2010-11) 42.5% (2011-12 onwards)	Reduced
Provincial Share	47.3%	56% (2010-11) 57.5% (2011-12 onwards)	Increased

Comparative Analysis : 7th vs 6th NFC Award

PROVINCE	6 TH NFC AWARD	7 TH NFC AWARD	NET EFFECT
Punjab	53.10%	51.70%	1.26% 
Sindh	24.94%	24.55%	0.39% 
Khyber Pakhtunkhwa	14.88%	14.62%	0.26% 
Balochistan	7.17%	9.09%	1.29% 

Divisible Pool Calculation - Example

Divisible Pool	
Taxes on Income	
Wealth Tax	
Capital Value Tax	
Taxes on sales & purchase of goods	
Export duties on cotton	
Customs duties	
Federal excise duties (excluding the excise duty on gas charged at wellhead prices)	
Less: Federal Government's Collection Charges (1%)	
Less: 1% charge on war on terror (for KP only)	
Net Divisible Pool	
Of which:	
Federal Government's Share --> 42.5% (FY2011-12 onwards)	
Provincial Share --> 57.5% (FY2011-12 onwards)	
Distribution of Provincial Share amongst Provinces	
Punjab	51.70%
Sindh	24.55%
Khyber Pakhtunkhuwa	14.62%
Balochistan	9.09%

Key Considerations for overall Budget

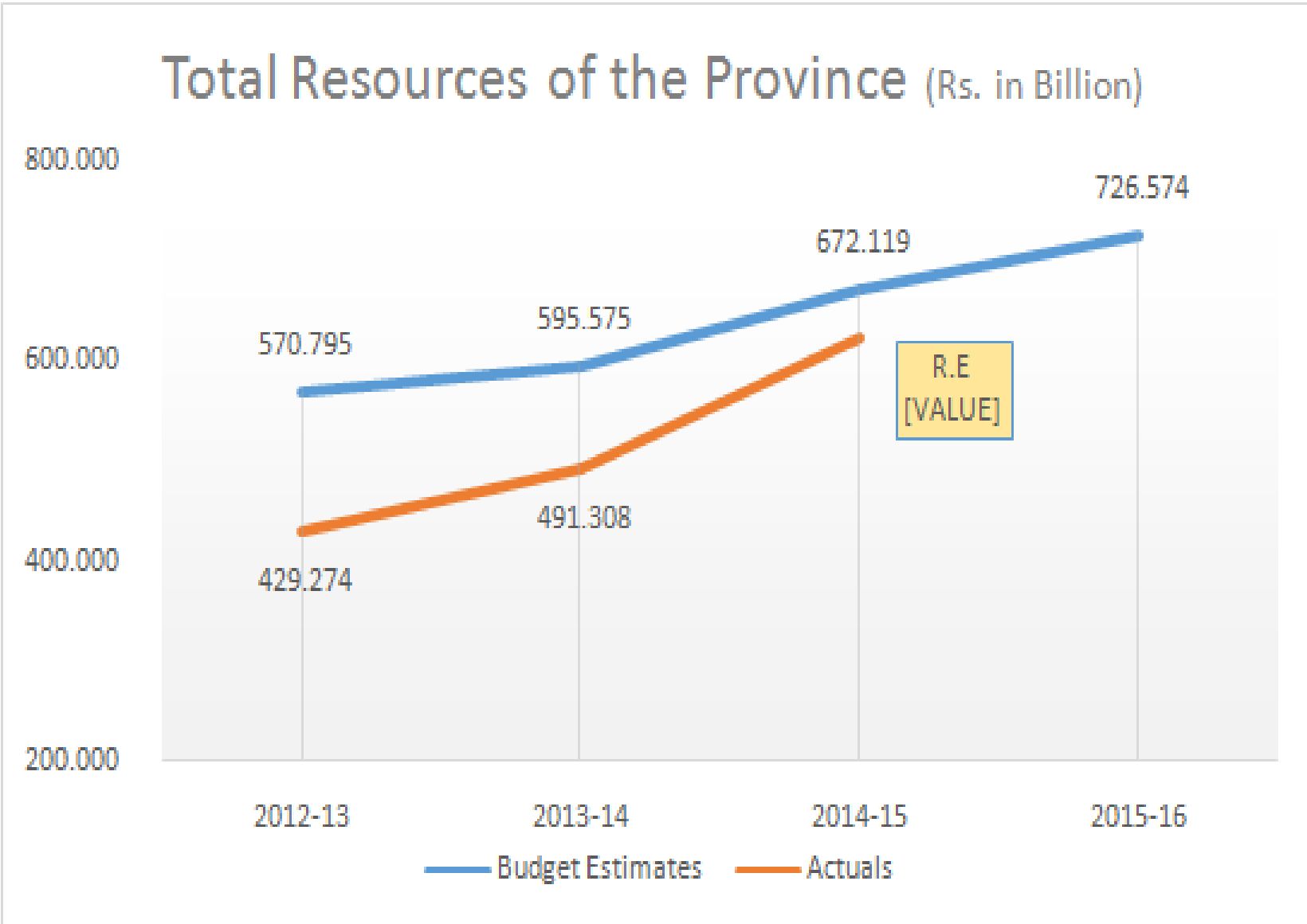
- Is the budget a balanced or a deficit budget?
- What are the sources of receipts?
- What is the current year's budget performance vis-à-vis the next year's budget proposals?
- What is the current year's supplementary budget?
- What is the impact of tax proposals on various budget users?
- Are the socio-economic indicators improving or deteriorating?
- Are poverty and unemployment rates rising or falling?
- Is the debt-servicing or debt-repayment position improving or deteriorating?
- Are investment and growth rates rising or falling?

Key Considerations – Sectoral Budget

- Departmental strategic / spending plan
- Historical trend of budget allocations
- Releases vs. Budget Allocations
- Expenditure vs. Releases
- Expenditure vs. Budget Allocations
- Likely savings (and surrenders) and excesses over the original budget allocations
- Target achievements (in terms of service delivery) vs. original targets
- Reasons for short- and over-spending
- Budget allocations / releases for emergent needs
- Budget allocations for new services / activities
- Major re-appropriations / supplementary budgets

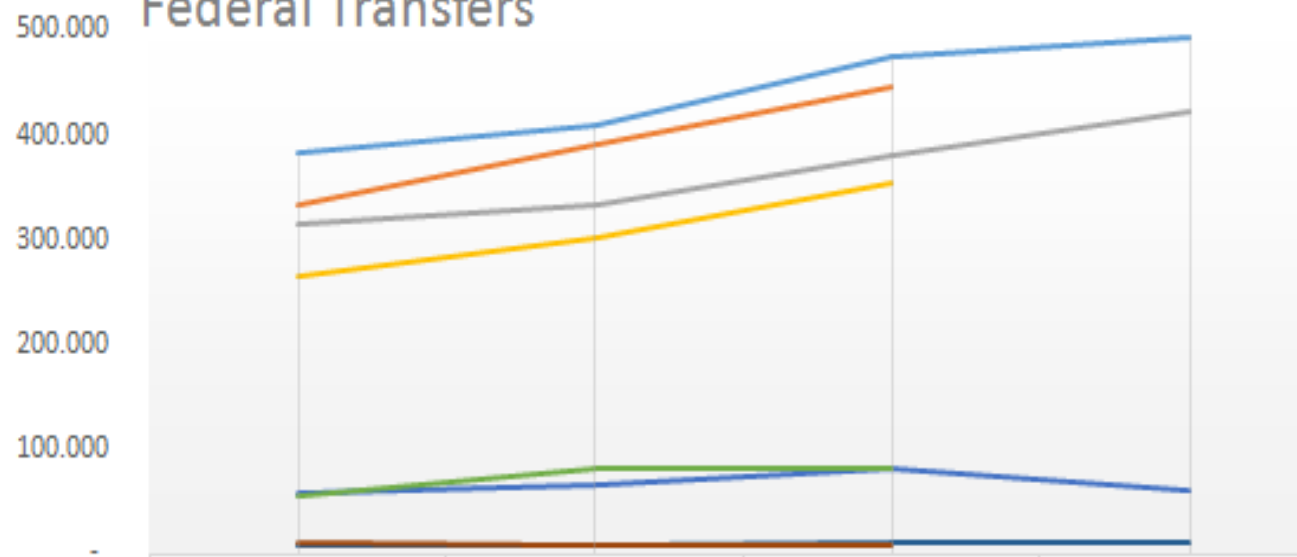
Provincial Budget Analysis

Provincial Resources(2012-13 onwards)



Federal Transfers

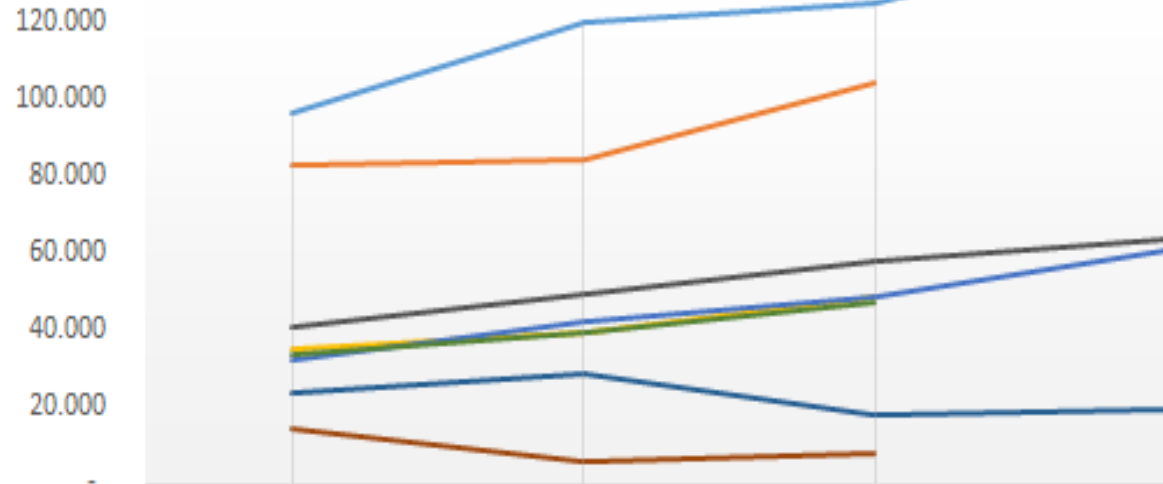
Federal Transfers



	2012-13	2013-14	2014-15	2015-16
Federal Transfers BE	381.911	409.013	474.260	494.126
Federal Transfers Actuals	332.920	391.811	445.228	
Revenue Assignments BE	314.366	332.935	381.383	421.301
Revenue Assignments Actuals	266.152	302.278	353.665	
Straight Transfers BE	59.252	67.127	82.624	61.500
Straight Transfers Actuals	54.550	81.407	82.624	
Grants BE	8.292	8.951	10.253	11.326
Grants Actuals	12.218	8.126	8.939	

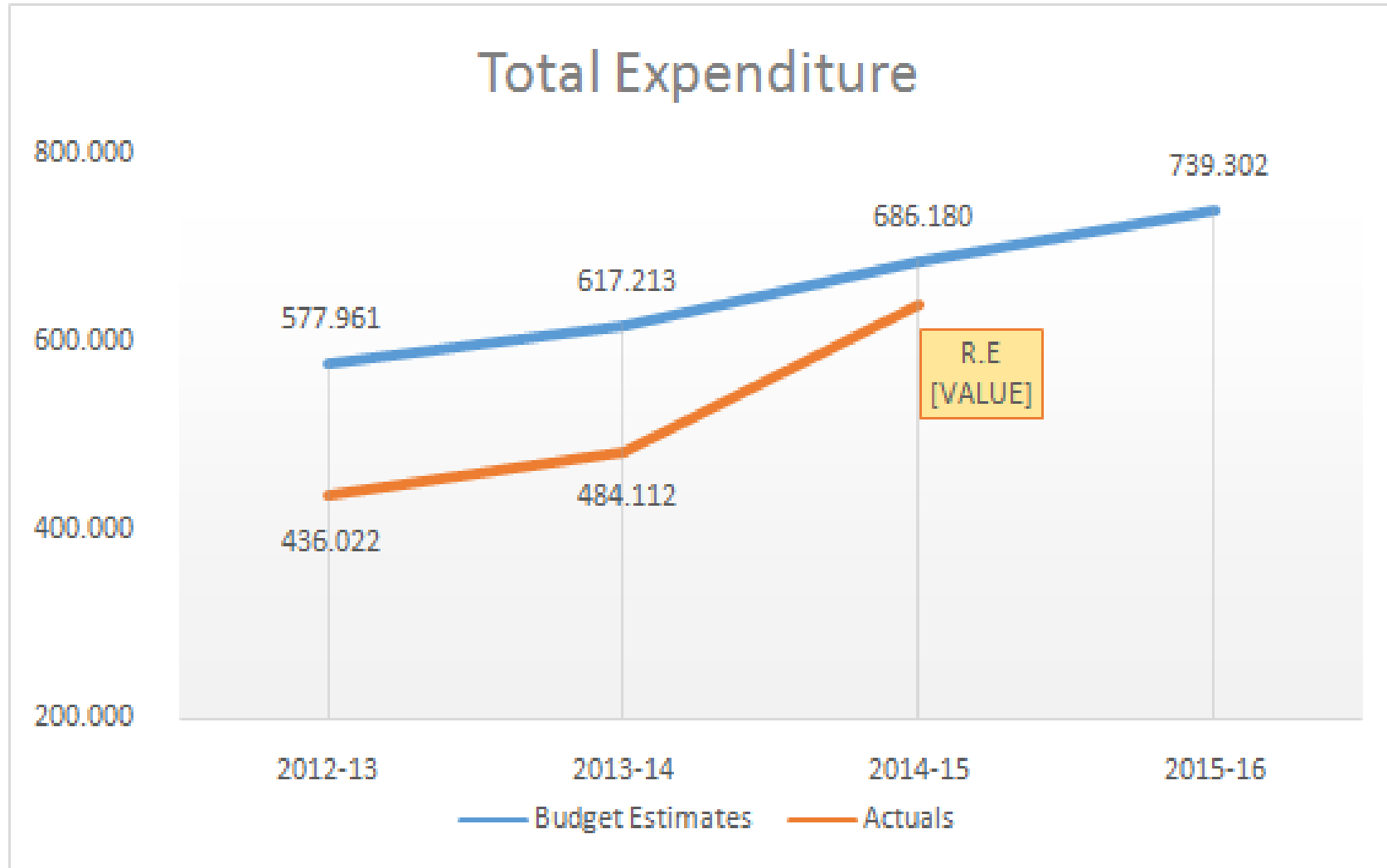
Provincial Own-Source Receipts

Provincial Own-Source Receipts

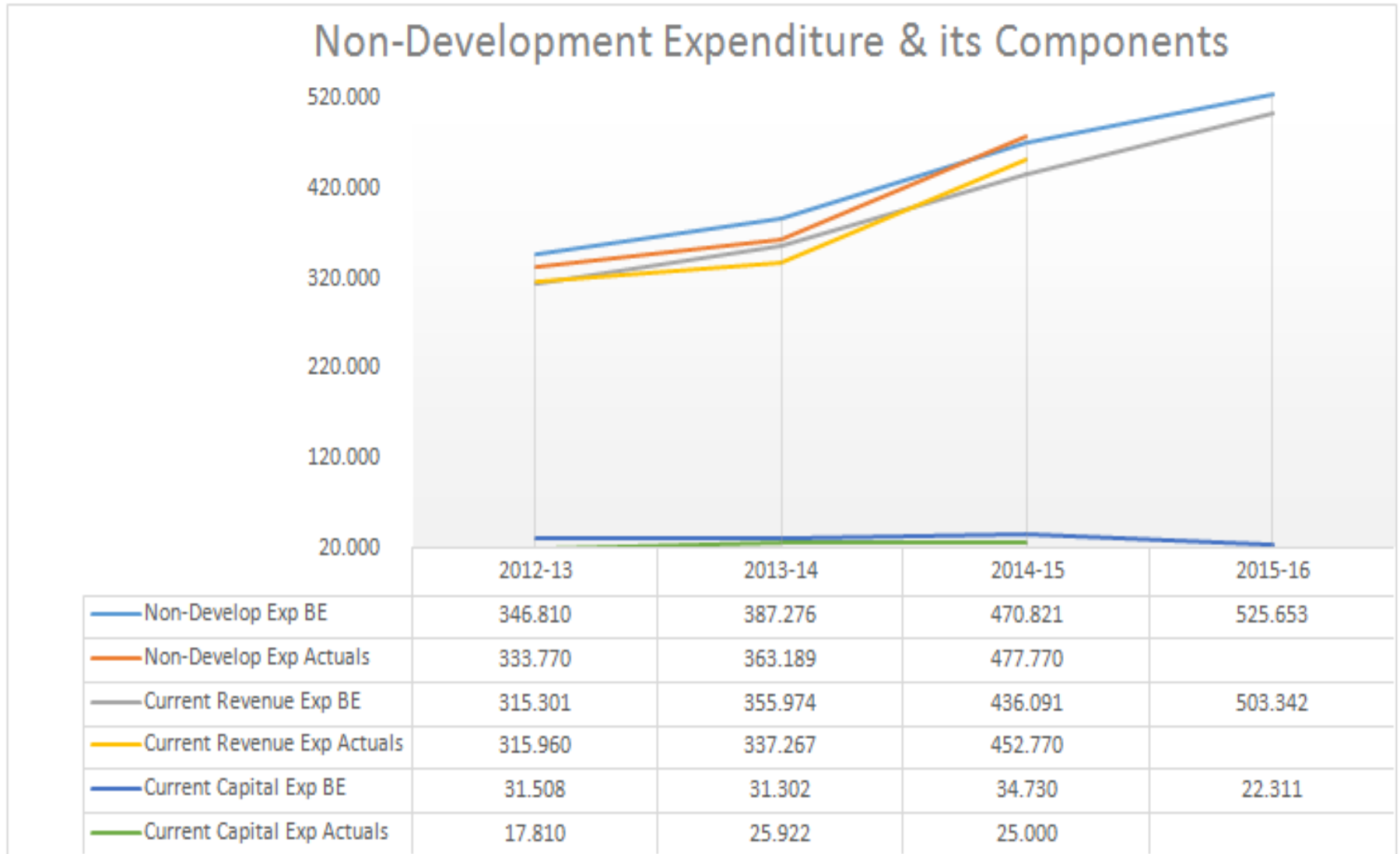


	2012-13	2013-14	2014-15	2015-16
— Prov. Own Receipts BE	96.633	120.183	125.061	144.120
— Prov. Own Receipts Actuals	83.091	84.555	104.300	
— Prov. Tax Receipts BE	41.189	49.370	58.025	63.620
— Prov. Tax Receipts Actuals	35.032	39.510	49.000	
— Prov. S. Tax on Services BE	32.000	42.000	49.000	61.000
— Prov. S. Tax on Services Actuals	33.665	39.438	47.000	
— Prov. Non-Tax Receipts BE	23.444	28.813	18.036	19.500
— Prov. Non-Tax Receipts Actuals	14.394	5.607	8.300	

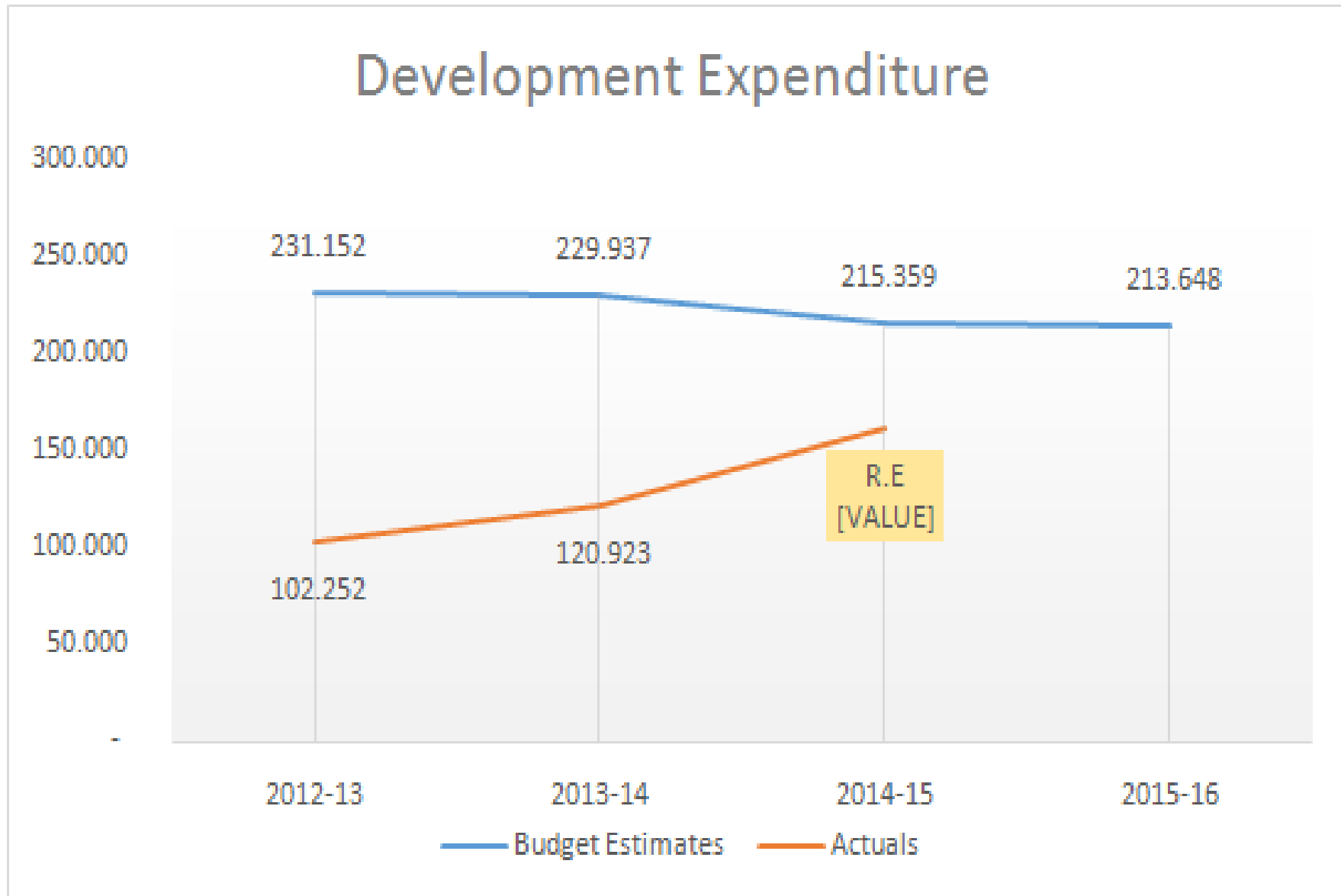
Provincial Total Expenditure



Non-Development Expenditure



Development Expenditure



Federal Transfers 2015-16 – Budget vs. Actual

Rs. in million

Description	Budget 2015-16	Proportionate 6 Months	Actual 6 Months	Shortfall
A- Revenue Assignment	421,300.752	210,650.376	196,631.533	-6.66%
B-Straight Transfers	61,499.934	30,749.967	31,193.540	1.44%
Total (A+B)	482,800.686	241,400.343	227,825.073	-5.62%
C-0.66% GST Shortfall	11,326.212	5,663.106	5,833.398	3.01%
Total Federal Transfers(A to C)= D	494,126.898	247,063.449	233,658.471	-5.43%

Provincial Receipts 2015-16 – Budget vs. Actual

Rs. in million

Description	Budget 2015-16	Proportionate 6 Months	Actual 6 Months	Variation	% age Increase (+)/Decrease(-)
A-Tax Receipts (exl.GST on Services)	63,620.000	31,810.000	26,761.251	-5,049	-15.87
B-GST on Services (Provincial)	61,000.000	30,500.000	28,391.464	-2,109	-6.91
Total Tax Receipts (A+B)	124,620.000	62,310.000	55,152.715	-7,157	-11.49
C-Non-Tax Receipt	19,500.400	9,750.200	2,920.021	-6,830	-70.05
Total Provincial Own Receipts (A to C)=D	144,120.400	72,060.200	58,072.736	-13,987	-19.41

Dept-wise Current Budget 2015-16 Utilization

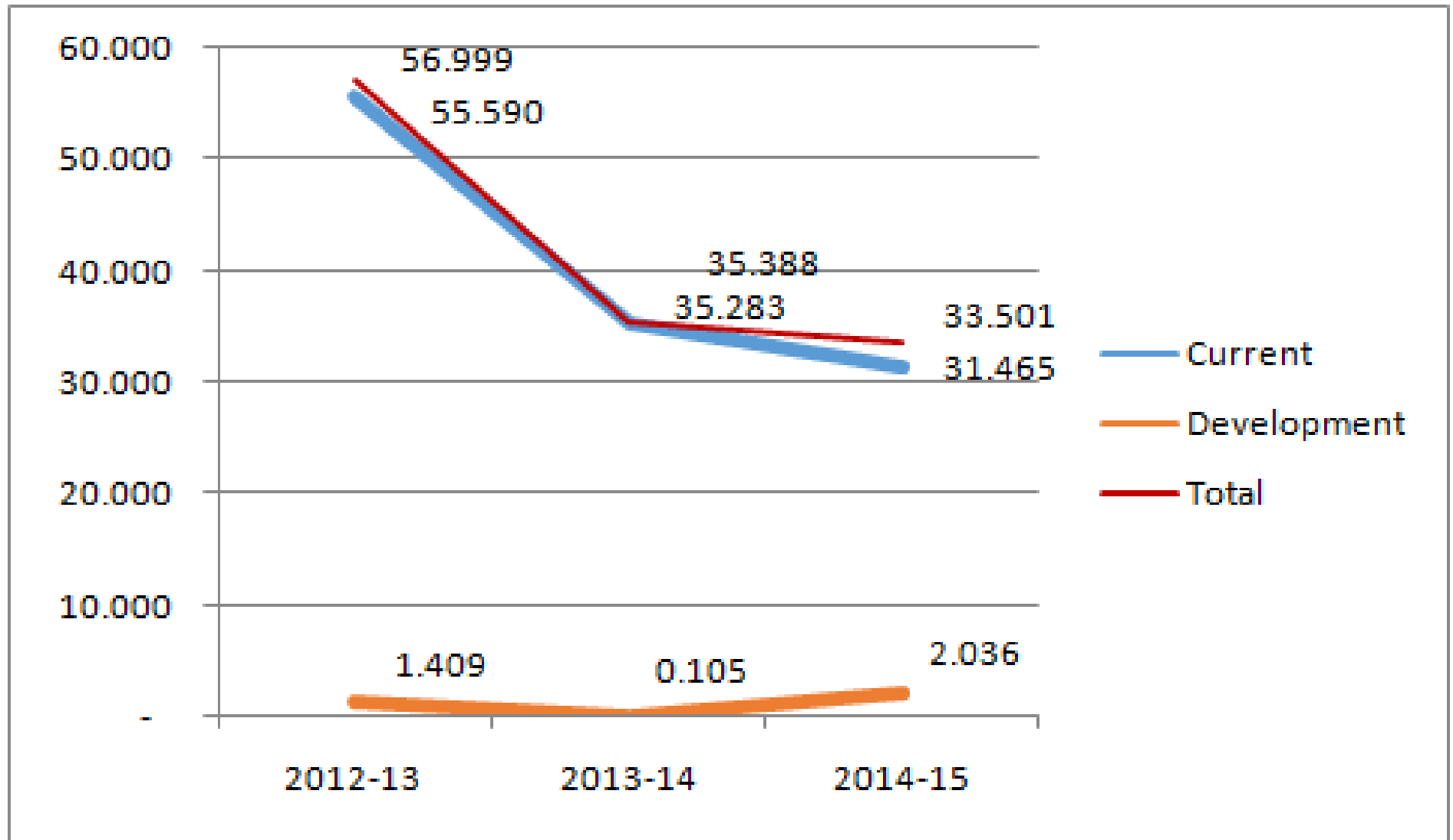
- Current Budget utilization vs. Allocation / Releases
- [\[Link to Summary\]](#)

Dept-wise Development Budget 2015-16 Utilization

- Development Budget utilization vs. Allocation / Releases
- [\[Link to Summary\]](#)

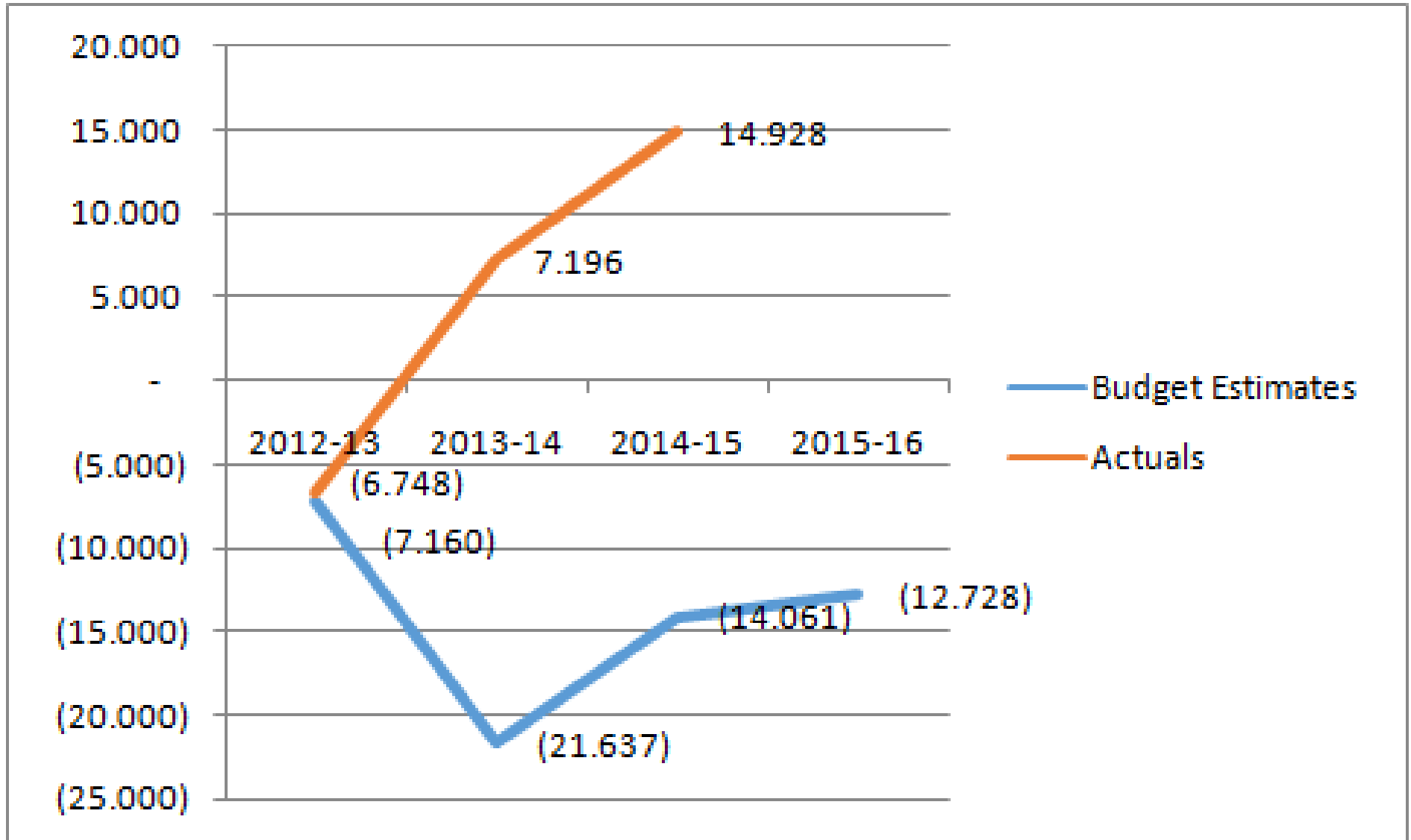
Sindh Supplementary Budget

(Rs in Billion)



Sindh Budget Deficit

(Rs in Billion)



Session 4

Role of Legislature in Budget Oversight

Role of Members in Budget Formulation

Members can make budget formulation more effective and meaningful by:

1. Holding Debates and Discussions
2. Scrutinizing the Budget with respect to relevant Provisions in the Constitution and Rules of Procedures
3. Relying on Standing Committees
4. Building Linkages



Un-Packing Rule 167(7)

A Committee may examine the *expenditures, administration, delegated legislation, public petitions* and *policies* of the Department concerned and its associated bodies, and may forward reports of findings and recommendations to the Department and the Department **shall** submit its reply to the Committee within a period of two weeks.

Un-Packing Rule 174

Summoning Government Officials and Record

(1) A Committee **shall** have power to summon and examine any person and the records of the Government and of statutory bodies, autonomous or semi-autonomous, under the Government

Education Sector Budget / Spending

Examples

- Education Fact Sheet
- Education Budget

Systemic Issues in Budget Process

Unless Systemic Issues are resolved - The Budget will Continue to:

- Lack Planning
- Lack linkage to Policy
- Rely on Arbitrary Allocations (Incremental)
- Have fudged and manipulative Data
- Undermine the sovereignty of the Legislature (Supplementary Budget)

Session 5

Sindh PFM Reform Strategy & PFM Action Plan

Sindh PFM Reform Strategy

- World Bank in their report 2013 identified certain weaknesses in Sindh Government's Public Finance Management (PFM) systems, processes and institutions
- These necessitated undertaking PFM reforms
- EU provided technical assistance to GoS to improve PFM systems, processes and institutions
- PFM-SSP (Public Finance Management Support Programme for Pakistan) launched in September 2014
- PFM-SPP focuses on PFM reforms in Sindh and Federal Government
- PFM Reform Strategy developed in response to PFM issues / challenges already identified

Objectives of Sindh PFM Reform Strategy

A public finance system based on the principles of transparency, accountability, equity, fiscal discipline and efficiency in the management and use of public resources

Linked to other reforms in the GoS which will target:

- Economic growth and poverty reduction
- Rapid improvement of service delivery through performance contracts
- Promotion of principles of good governance

Steering Committee for PFM Reforms

1. Chief Minister Sindh – Chairman
2. Advisor to the C.M. on Finance
3. Chief Secretary, GoS
4. Two MPAs to be nominated by C.M.
5. Senior Member BOR
6. Additional Chief Secretary (Planning & Development)
7. Secretary Finance
8. Secretary E&T
9. Accountant General, Sindh
10. Director General Audit, Sindh
11. Chairman SRB
12. Managing Director, Sindh Public Procurement Regulatory Authority (SPPRA)
13. Special Secretary Finance (Budget & Resource)
14. Chief Economist (Finance Department)

Sindh PFM Action Plan

- Objective is to establish a prioritised, sequenced and feasible plan for the phased implementation of the PFM Reform Strategy
- To be implemented in 10 years, divided into 3 sub-periods, i.e.
 - Short Term: next 2 years (Now until June 2017);
 - Medium Term: a succeeding period of 3 years (July 2017 to June 2020); and
 - Long Term: a final period of 5 years (July 2020 to June 2025)

Components of Sindh PFM Action Plan

- Resource Mobilization & Debt Management
- Planning & Budgeting
- Budget Execution & Monitoring
- External oversight
- Institutional Framework & Support Systems

[[Link to PFM Action Plan Summary](#)]

“We Mussalmaans in general and young men in particular do not know the value of money. A paisa saved today is two paisas tomorrow, four paisas after that and so on and so forth. Because of our addiction to living beyond means that we lost our sovereignty over the Subcontinent”

Quaid-e-Azam Muhammad Ali Jinnah
Ziarat, Balochistan - 1948

Thank You!