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A pie in the sky

With the slogan to stabilise the economy under tight scrutiny of the International Monetary Fund (IMF) program, Pakistan Tehreek-e-Inslaf- (PTI) led government is going to pull the curtain on its next budget for 2019-20 before the parliament this week.

It will be a daunting task for the treasury benches to pass the upcoming budget through the parliament swimmingly. With a thin majority and expected tough measures, the government will have to do a lot of homework to ensure the finance bill approved without much resistance.

The government will have to walk on a tightrope in terms of generating revenues and curtailing expenditures by adopting well-controlled fiscal and monetary policies to stabilise economy. The course of action is not easy for any government, so status quo approach will not provide any solutions.

The budget-making process is highly flawed in Pakistan. Over the years, successive governments, political and military alike, used to write down a wish-list on expenditures front and then fix the revenue target in a bid to show fiscal discipline at least on papers but these projections had always been far removed from the ground realities.

There is a need to come up with realistic projections regarding raising revenues in the shape of Federal Board of Revenue (FBR) collection and non-tax revenues as well as on expenditure heads when budgetary figures for fiscal year are finalised.

First of all, parliamentary oversight needs to be strengthened. According to the constitution, it is the prerogative of the parliament to approve the annual budget. In theory, this occurs through the parliament approving the money bill, which defines the revenues to be collected and the funds allocated to each of the budget “demands” provided to the various ministries/divisions of the federal government. The budget also includes, constitutionally mandated expenses “charged” (budgets of bodies deriving directly from the constitution such as the Supreme Court) and for payment of public debt without appropriation. So on paper there is a legal budget which should form the basis for the collection of revenues and the incurring of expenditures by the federal government.

However, in practice the budget approved by the parliament in June each year has little bearing on the way public monies are actually spent by the executive, at least with regard to the “voted” component of the budget. This is because of the extremely widespread use of supplementary appropriations by the executive during the budget year, without seeking prior approval of the parliament.

The executive argues that Article 84 of the constitution empowers them to make such changes in the use of funds (re-appropriations from one area of expenditure to another, and supplementary appropriations which involve allocating funds to areas of expenditure not provided for in the budget (e.g. new projects introduced during the budget year) without seeking prior approval from the parliament. It should be emphasised that this way of managing the budget is quite out of line with internationally accepted standards of budgetary management. Only a very small number of countries in the world allow their executive branch to spend money without prior approval from the parliament.

There has been a lot of discussion and disagreement about the appropriate interpretation of Article 84 of the constitution which relates to supplementary appropriation. However, the Supreme Court has indicated that it does not accept that Article 84 should be interpreted as permitting appropriations which have not been received prior parliamentary approval - Reference to the 2013 Supreme Court viewpoint on the case of Raja Pervaiz Ashraf. But later, the federal government approached the Supreme Court for review and got permission to continue the practice of getting supplementary budgets with the approval of the Economic Coordination Committee (ECC) and the federal cabinet.

The practice of the Executive in spending without prior approval from the parliament has two important negative impacts. First, it undermines the basic principle in the constitution that the parliament should have ultimate control and oversight over the federal budget. This control cannot be achieved if the executive exercises freedom to change, remove, or add to the areas of spending without prior approval of the legislature. In fact it makes a farce of the annual process of presentation of the budget by the executive to the parliament. Secondly, the practice of introducing new projects during the budget year has completely undermined the planning process. The Planning Commission was established to ensure that proper procedures are followed to plan the use of scarce public resources and rigorous project appraisal procedures. It is no exaggeration to say that the federal planning processes have been destroyed by the breakdown of budgetary discipline and the constant within-a-year changes to the budget.

Finally, in the situation where the approved budget is disregarded and subjected to radical changes within the year, there can be no accountability for the delivery of projects and public services by the ministries/divisions of the Federal government. A secretary, who has not received his approved budget cannot be held to account for the delivery of the services by his division.

The root cause of the problem undermining the legality of the budget arises from the prevailing political culture. It is considered acceptable to change and modify at will the budget which has been approved by the parliament, and only notify the parliament at the very end of the budget-year through a set of tabled supplementary appropriations. This is not the role of the parliament aspired to by the constitution.

The recent years have witnessed a strong tendency for the economic and budgetary forecasts to be overoptimistic. Revenue forecasts are routinely substantially overoptimistic, involving projected annual growth of 20 or 25 percent, when in reality it is around 10-15 percent. At the same time the approved budget usually involves substantial under-estimation of important expenditure lines in the budget.

The result of overoptimistic budgeting, whether on the revenue side or on the expenditure side, is that the budget as approved cannot actually be implemented in full. Something has got to give. Either the government will increase the budget deficit over and above the target, leading to increased debt accumulation, or room will have to be found by cutting down the amounts provided in the approved budget. The pattern that is emerging is that soon after the approval of the budget the ministry of finance announces cuts, in implicit recognition that actually the budget is overoptimistic. These cuts are concentrated in two main areas: (i) the operations and maintenance budget lines of the recurrent budget, and (ii) the projects provided for in the development budget. These cuts have the effect of removing the possibility of accountability for service delivery by line ministries, departments and agencies. If these bodies do not receive their full budget they have a permanent excuse for failure to deliver planned services in full

The constitution anticipates that the parliament will play a critical oversight role over the federal budget. In practice it fails to do so. Symptoms of this state of affairs are: (i) the failure of the parliament to insist on ex ante appropriation of all supplementary appropriations proposed by the executive; (ii) failure of the parliament to insist on an adequate period for parliamentary scrutiny of the budget prior to the budget debate; (iii) failure of the parliamentary committees to scrutinise adequately the sectoral investment plans of the ministries and agencies. These committees will have to work irrespective of any political divide to deliver instead of using this forum to get political mileage and only point-scoring.

The status quo approach will not work, thus we must increase the size of the pie otherwise the widening fiscal imbalances will result in another suspension of the IMF program.

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