Information Kit on
The Federal Budget of Pakistan

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1. Overview of the Budget of Pakistan

1.1 Introduction

In Pakistan, the general budget is known as the Federal Budget. In the Constitution, it is referred to as the Annual Budget Statement (ABS), prepared and presented by the Federal government before the National Assembly (lower house) every year. It is a statement of the estimated receipts and expenditure of the Federal government in a particular financial year. The financial year starts on 1st July and ends on 30th June.

The Constitution underlines that all receipts and expenditure to be incurred in a particular financial year are to be met by the *Federal Consolidated Fund* (FCF) of Pakistan. All revenues received, all loans raised and all moneys received by the Federal Government form the FCF. Besides the fund, there is also another account of government known as *Public Account of the Federation* (PAF). In this account, all other moneys received by or on behalf of the federal government; or received by or deposited with the Supreme Court of Pakistan or any other court established under the authority of the federation gets credited. The custody of both the FCF and PAF is governed and regulated by the Act of Parliament (*Majlis-e-Shoora*).

The ABS derives the required sums for a particular financial year from the federal consolidated fund under the categories of '*Charged*' expenditure and '*Other*' /*voted* expenditure. Whereas the '*Charged'* expenditures are not subject to voting in Pakistan Parliament and remains beyond legislative scrutiny; '*Other'* expenditures are submitted to vote in the National assembly and hence are subject to legislative enquiry. However nothing can prevent the members of parliament to discuss the expenditure made under the charged category. Charged expenditure in the federal budget is also known as '*Authorised Expenditure'* which gets authenticated by the Prime Minister of Pakistan and introduced in the Parliament of Pakistan.

'Charged' expenditures is predominately related to constitutional functionaries and offices and therefore meant to maintain their administrative as well as functional

autonomy. These includes the salaries payable to the President and other disbursement relating to his office; the salaries payable to the Judges of the Supreme Court, the Chief Election Commissioner, the Chairman and the Deputy Chairman, the Speaker and the Deputy Speaker of the National Assembly, the Auditor-General; and other administrative expenses including the remuneration payable to officers and servants of the Supreme Court, the Department of the Auditor-General, the Office of the Chief Election Commissioner and of the Election Commission, and the Secretariats of the Senate and the National Assembly. Besides, there are other committed liabilities of the government such as debt servicing, interest payments, the repayment or amortization of capital, and other expenditure in connection with the raising of loans, which have been made on the security of the FCF.

1.2 Structure of Pakistan Budget

The Federal Budget in the country comprises of Revenue Budget and Capital Budget. While the Revenue Budget is constituted by both Revenue Receipts as well as the Current/Non-development Expenditures; the Capital Budget comprises both Capital Receipts and Developmental Expenditure. The distinction between revenue budget and capital budget is inconsequential and they compliment each other in the expenditure budgeting process. To comprehend the structure of the budget, it is also imperative to further classify the budget on the lines of expenditures and receipts.

1.2.1 *Current and Developmental Expenditure:*

The distinction between Current/Non-developmental and Developmental Expenditure is significance one. These two form together the total budgetary expenditure of the federal budget. The Current expenditures are for day-to-day recurring expenditures or non-developmental expenditures of the government. This includes, among others, the General Public Services such as maintaining administrative, executive and legislative organs of the country, servicing of foreign debt, foreign loan repayment and servicing of domestic debt, maintaining national defence and public affairs of the country. More importantly, it also includes various areas of economic affairs (agriculture and its allied activities, energy, mining &

manufacturing, transport and communication); environment protection (water waste management); housing and community amenities, health and education, etc. The outlays for current expenditure are met through revenue budget. If revenue receipts are greater than the current and non-development expenditures, the surplus amount is transferred to Capital Budget to meet the developmental expenditure. If revenue receipts are less than the current expenditures, the government has to meet the deficits through borrowings. Ministry of Finance plays very crucial role in making of current expenditure in Pakistan.

Developmental Expenditure is the expenditure meant to keep intact, enlarge and to improve the physical resources; improve the knowledge, skills and productivity of the people; and encourage efficiency with which the available resources are used. The developmental budget is designed to create material assets which add to the economic potential of the country. It essentially involves construction of a work or acquisition of a permanent asset of public utility through Public Sector Development Programme (PSDP). With ever increasing investment to promote economic development, the capital budget is assuming increasing importance. The developmental expenditure is also called as capital expenditure. The capital expenditure is generally met from the revenue surplus, reserve funds and borrowing for specific or general purpose. Provision for development expenditure is included in the budget on the basis of the Annual Development Programme (ADP) prepared by the Planning Commission in consultation with the Ministry of Finance and the Provincial Governments and approved by the National Economic Council.

1.2.2 Resource Mobilisation:

After determining the priority and quantum of expenditure under different heads, the government work out the mobilisation and estimation of resources to meet the expenditure needs. The resource mobilisation is done through two sources-Internal Receipts and External Receipts.

1.2.2.1 Internal Receipts:

The internal resources come through Revenue Receipts (tax & non-tax), net Capital Receipts, financing of PSDP by the provinces and change in the provincial cash balance. Revenue Receipts is further divided into Principal Heads of Tax Revenue-(Direct Taxes and Indirect Taxes and Surcharges), and Other Head of Revenue (Non-Tax Revenue)-the Income from Property and Enterprises, receipts from Civil Administration and miscellaneous. Net Revenue Receipts (NRR) can be obtained by deducting 'Transfer to Provinces' from Revenue Receipts.

Capital Receipts on the other hand are intended to plug the gap of revenue deficit through internal resources-- Permanent Debt, Floating Debt and also recoveries of Loans and Advances. Importantly, saving schemes, G.P. Fund and other deposits at the Public Account of the federation also form part of the capital receipts. Net Capital Receipts (NCR), can be obtained when capital disbursement is deducted from the capital receipts. Capital disbursements are those disbursements in which the government makes some investments or provides loans and advances and makes short-term credits both internally and externally.

1.2.2.2 External Receipts:

External resources/ receipts come from foreign loans and grants. The external borrowing is called for to meet the shortfall in the estimation of internal receipts.

External resources mainly comprise (i) loans and credits from friendly countries and specialized international agencies and (ii) grant assistance under specific country programmes. The Foreign Aid (Loans, Credits and Grants) is broadly categorized as project aid, commodity aid and other aid.

Project aid generally takes the shape of foreign loans and grants for procurement of project equipment and supply of services etc. *Commodity aid* is utilized for commercial imports. Goods imported under this aid are generally industrial raw materials, equipment, consumer goods, chemicals, fertilizers and such other commodities as may be specified or generally agreed to or, if the aid is untied, as the country may actually need. Commodity aid also helps to generate rupee funds which augment the country's rupee resources to meet its development needs. The assistance under *"Other Aid"* comprises loans and grants from non-traditional sources generally by way of balance of payment support.

1.3 Budget Cycle:

The budget is technically the document that includes the government's expenditure and revenue proposals, reflecting its policy priorities and fiscal targets. However, the budget document is the culmination of an on-going budget decision-making process, and of a country's system for managing and assessing its spending and tax policies. Looking at any one aspect of the overall budget system in isolation misses the important interaction between the various parts. Therefore, a discussion on the budget cycle is imperative. The Budget Cycle consists of the major events or stages in making decisions about the budget, and implementing and assessing those decisions.

The budget cycle usually has four stages:

- Budget formulation, when the budget plan is put together by the executive branch of government;
- Enactment, when the budget plan may be debated, altered, and approved by the legislative branch;
- Execution, when the policies of the budget are carried out by the government; and
- Auditing and assessment, when the actual expenditures of the budget are accounted for and assessed for effectiveness.

1.3.1 Preparation & formulation stage:

The initial formulation of the budget occurs almost exclusively within the executive branch of government, though it can include a number of actors within the branch.

Typically, the Ministry of Finance or a division within it — coordinates and manages the formulation of the budget, requesting information from individual departments and proposing the trade-offs necessary to fit competing government priorities into the budget's expenditure totals. This process can take a few weeks to several months, largely depending on the extent to which departments are involved and their views are taken into account.

The quantum and size of the budget are largely determined by its projections of key parameters — such as economic growth, inflation, or demographic changes, priorities and gravity of welfare measures — that will influence overall revenues and expenditures. The contours of a budget also are influenced by consideration of goals, such as maintaining the deficit or debt at a certain level, raising or reducing taxes, or increasing expenditures for certain priority areas.

In Pakistan, budget making as an annual process starts in October each year on issuance of a Budget Call Circular (BCC) by Ministry of Finance. BCC is issued to all the ministries, divisions and departments of the government. It explains the procedure for preparation of Budget estimates. A detailed timeline is also given for completion of various stages of the Budget. The original estimates are framed minutely by the agencies and departments, which collect the receipts and incur the expenditure, keeping in view the past actual, current trends and future expectations and commitments. These estimates are by then submitted by the estimating authorities to their administrative ministries and divisions who, in turn, examine and pass these on to the concerned Financial Advisers with their recommendations. The Financial Adviser and Ministry of Finance, as recommended by the administrative ministries and divisions carry a detailed scrutiny of the estimates before they are finally accepted for inclusion in the budget.

The budget estimates for the ensuing year are formulated separately in respect of non-development/current expenditures and development expenditure. While the proposed estimates for developmental expenditure sent to the Planning Commission every year for the preparation of Annual Development Programme

(ADP) by the spending ministries, the proposed estimates for current expenditure are sent directly to the ministry of finance.

Following a review by the financial officer and approval by the Principal Accounting Officer, all budget estimates are forwarded to the budget wing of the finance division or department. The finance division or department will review and consolidate the estimates to ensure that overall budget policy and objectives have been met after consultation with concerned ministries and departments when required.

For the finalization of ADP, there is another institution named as Priorities Committee (PC) which meets regularly in the month of April. The meeting is chaired by the Planning Division and attended by all the line ministries and provincial governments. Projects are evaluated and prioritized for allocation of resources. This is followed by the meeting of Appropriations Committee in the month of May. All the line ministries and provinces are again invited to this committee. The meeting is chaired by Finance Division. Sectoral allocations are discussed in this meeting. As a result of these discussions, proposals for sector-wise allocations are finalized by Finance Division.

In the month of June, the National Economic Council (NCE) meets. The NCE is a constitutional forum chaired by the Prime Minister with representation from the provinces. It plays the important role of setting economic and budgetary priorities for the country. The federal budget proposals are presented in the meeting. The executive committee of NCE is the ECNEC (Executive Committee of the National Economic Council) which meets more frequently under the chairmanship of the Finance Minister. Its job is to periodically assess the economy and take decisions in accordance with the economic policy of the government. It plays crucial role in the process of finalization of annual budget. After passing through NEC, the budget finally gets approved in the federal cabinet before the Finance Minister presents it to National Assembly for its enactment.

1.3.2 Enactment stage

The second stage of the budget cycle occurs when the executive's budget is discussed in the legislature and consequently enacted into law. This stage begins when the executive formally proposes the budget to the legislature. The legislature then discusses the budget, which can include public hearings and votes by legislative committees. The process ends when the budget is adopted by the legislature, either intact or with amendments. The budget also can be rejected by the legislature and, in some countries, replaced by the legislature's own proposal[*].

1.3.3 Implementation Stage

The next stage of the process occurs once the budget has been enacted. Governments differ widely in how they regulate and monitor spending to ensure adherence to budgets. In some cases, the Treasury (or Finance Ministry) exercises strong central control over spending, reviewing allocations to departments and approving major expenditures. Where departments enjoy more independence, treasuries will monitor expenditures by requiring, for instance, regular reporting by each department of its spending.

In practice, budgets are not always implemented in the exact form in which they were approved; Funding levels in the budget are not always adhered to and authorized funds are not always spent for the intended purposes. Deviations can result from conscious policy decisions or in reaction to changing economic conditions, but concerns arise when there are dramatic differences between the allocated and actual budgets that cannot be justified as reflecting sound policy. While these cases can result from outright abuse by the executive, they may also reflect the effects of a poor budget system and technical problems that make it difficult for the executive to implement the budget in line with what was enacted into law. For instance, the budget may not be clear about the intended purposes of particular funds, while weak reporting systems can limit the availability of information that the executive needs to monitor the flow of expenditures.

[*] Rules and procedures of legislation of budgets in the Parliament are discussed in detail separately.

After legislative and executive approval of the Budget, Finance Ministry sends a release letter to ministries, departments and agencies and their respective offices of the Accountant General of Pakistan Revenue (AGPR) or Accountant General (AG) advising that funds are being made available against their budgets. AGPR/ AG offices in turn inform district accounting/ treasury offices of the availability of their funds.

The federal government releases funds at specific intervals according to specific formulae and percentages. The provinces release allocations to district governments on the first of every month so that the funds are available for the coming month.

Ministries/divisions are required to send a monthly statement of expenditure to the Ministry of Finance through financial advisors. A mid-year review of the budget based on reconciled accounts is conducted. The review helps formulate a strategy for budget implementation for the remainder of the fiscal year. There are clearly established procedures for approved reallocation of expenditures from one line item to another. The Principal Account Officer (PAO) has the power to reallocate funds within the department below a certain threshold. Reallocations above a certain threshold and transfers between major budget heads must be approved by the Ministry/ Departments of Finance at the time of each month's reconciliation process. In-year flexibility for the budget process is provided by the use of six and nine-month lists of excesses and surrenders, and supplementary grants for essential expenditures. If funds for excess expenditure are not available within existing grants, a supplementary grant can be approved by the Finance Department on a temporary basis. All supplementary grants are subject to approval by the Parliament at the time of the next year's budget.

The funds are released in instalments after the specific clearance of the Finance Division on a case-to-case basis and subject to resource availability.

1.3.4 Audit

The last stage in the budget cycle includes a number of activities that aim to measure whether there is an effective use of public resources. Ideally, the executive branch should report extensively on its fiscal activities to the legislature and the public. These fiscal activities also should be subject to regular review by an established independent and professional body, such as audit institutions or an Auditor General. The audit office should have the capacity to produce accurate reports in a timely manner.

Evaluation and auditing are not only necessary for the legislature to exercise its oversight function, they are an integral part of the overall public expenditure management system; reports on performance are necessary to secure the best possible use of public resources. A strong emphasis of modern budgeting reforms is to provide public entities and agencies with information on performance in order to improve their operations.

In the federal Pakistan, the Auditor General of Pakistan conducts independent and objective assessment of the process of financial governance and hence facilitates the legislative oversights of the people's representatives on government operations at all levels- National, Provincial, and Districts. It is a constitutional body fully mandated to conducts audit on broad ranges of activities such certification audits, regularity and compliance audits of expenditure and revenue receipts, performance audits on the outcomes of various projects and programmes with emphasis on social sectors. Furthermore it also conducts special studies on any matter of public importance on the case of urgency.

The audit reports are placed before the assembly and the Public Accounts Committee carries out deliberation on the reports. The committee, in accordance with the nature of each case, decides to hold the officials accountable for audit findings and may even order action including administrative or criminal action against officials.

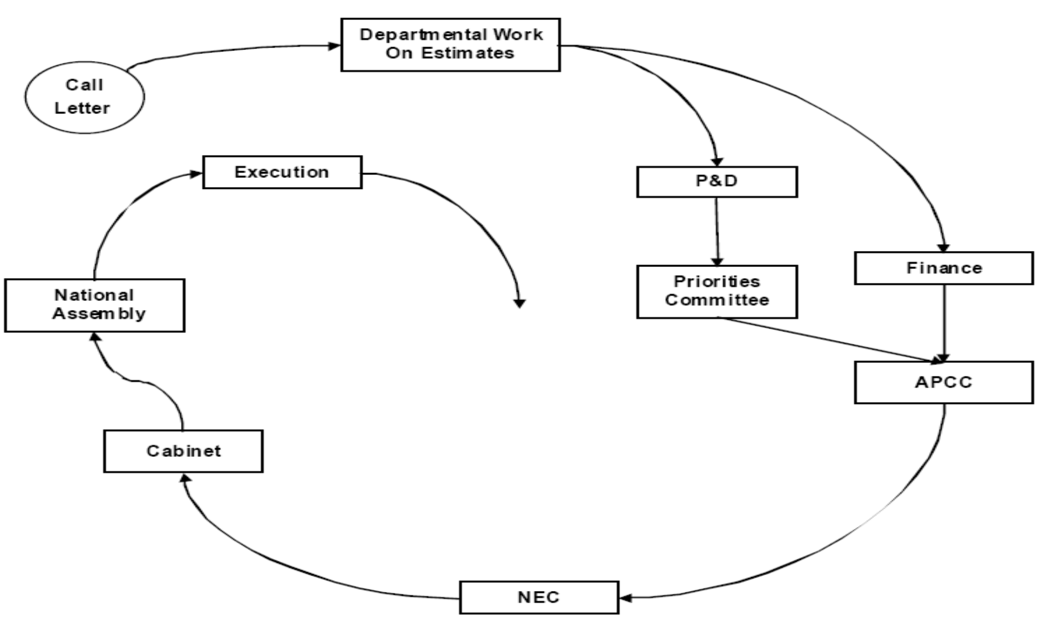
The document "System of Financial Control and Budgeting (2006)" has underlined the scope for internal auditing of the spending by each ministry/department. In each ministry/division there is a Chief Finance and Accounts Officer (CFAO) who is assigned with the matters of risk management, asset protection, *internal control/audit*, reconciliation of accounts, monitoring and coordination with Departmental accounts Committee, Public Accounts Committee and financial properties of expenditure and receipts.

Budget Calendar of Federal Budget in Pakistan

Budget Call Circular	August-October
Budget Estimation	November-January
Detailed scrutiny by Controlling Officers	November - December
Detailed scrutiny by Finance Department	January- February
Formulation of Budget proposals by Finance Department	April
Federal Cabinet approval	May/June
Budget in Federal Assembly	June
Authentication of the schedule of approved expenditure by Parliament	June
Funds release by Finance department	July

Source: Budget Tracking Manual (A tool of Community Empowerment), Human Rights Commission of Pakistan, Lahore, 2005.

Budget making (the Federal Cycle)



Source: Cyan, Masharraf Rasool (2005), Study of the Recent Budgetary and Planning Reforms in Pakistan, Gender Responsive Budgetary Initiative, Ministry of Finance, Government of Pakistan.

2. Presentation and legislation of the Budget in Parliament

2.1 Constituents of a Money Bill

The Constitution of Pakistan defines that a Bill or amendment is considered a Money Bill if it contains provisions dealing with all or any of the following matters:

- the imposition, abolition, remission, alteration or regulation of any tax;
- the borrowing of money or the giving of any guarantee by the Federal Government, or the amendment of the law relating to the financial obligations of that Government;
- the custody of the Federal Consolidated Fund, the payment of moneys into or the issue of moneys from that Fund;
- the imposition of a charge upon the Federal Consolidated Fund, or the abolition or alteration of any such charge; and
- the receipt of moneys on account of the Public Account of the Federation, the custody or issue of such moneys.

A Bill is not deemed to be a Money Bill if it only provides:

- for the imposition or alteration of any fine or other pecuniary penalty or for the demand or payment of a license fee or a fee or charge for any service required; or
- For the imposition, abolition, remission, alteration or regulation of any tax by any local authority or body for local purposes.

2.2 Stages of the Budget debate in Parliament

The **Annual Budget Statement** is presented in the National Assembly of Pakistan by the Minister of Finance on any suitable date and times as the Leader of the House consider appropriate in accordance with Article 80 of the Constitution. The rules and regulation of the National assembly also suggest that on the day the Budget is presented, no other business, including questions, calling attention notices, question of privilege and adjournment motion, shall be transacted except introduction of Finance Bill.

Besides ABS, the Minister of finance also introduces the Demands for Grants which is made in respect of the grants proposed for each Ministry or Division. Each demand contains a statement of the total grant proposed and a statement of the detailed estimate under each grant divided into items.

Budget not to be discussed on presentation**:** Except for the speech of the Finance Minister when presenting the Budget, there is no discussion on the Budget on the day on which it is presented to the Parliament.
There are following stages relating to Budget process in the National Assembly:

1. General discussion on the Budget as a whole;
2. Discussion on appropriations (in respect of charged expenditure); And
3. Discussion and voting on demands for grants (in respect of expenditure other than charged expenditure), including voting on motions for reduction, if any.

The Speaker shall, in consultation with the Minister-in-Charge allot days for the different stages of the Budget provided that at least two days shall elapse between the day the Budget is presented and the first day allotted for the general discussion on the Budget.

2.2.1 General discussion on the Budget- On the days allotted for general discussion on the Budget, the Assembly may discuss the Budget as a whole or any question of principle involved therein, but no motion shall be moved at this stage nor shall the Budget be submitted to the vote of the Assembly. There are at least four days allotted for the general discussion of the Budget. The convention is that the Minister-in-Charge shall have a general right of reply at the end of the discussion. The Speaker may, if he thinks fit, prescribe a time limit for speeches.

Consideration of expenditure to be charged to the fund is limited to discussion only and is not subject to vote upon in accordance with the provisions of the Constitution.

2.2.2 Discussion on Demands for Grants: Demands made by various departments are open to discussions and voting as demands made by these spending departments constitutes not chargeable expenditure to FCF. In general, a very detailed discussion takes place on the each proposal made by various ministries under their respective demands for grants. Members may advance motions in relation to individual grants to reduce (but not increase) the level of the grant sought. Such motions are known as "Cut Motions" in business rules and business of the national assembly. Each motion on Demands for Grants are discussed and voted upon separately. Towards the end of the period of the discussion on demands for grants, Speaker puts forthwith every question concerning all the demands for grants for the Parliament consideration and takes a final voting on the demands for grants. This process is called as *guillotine* in the parliamentary language.

2.2.2.1 Cut-motions- There are various conditions for admissibility of cut-motions. The Speaker of the National Assembly has the discretion to decide these preconditions. Any member who intends to move a particular cut motion gives notice of two days prior to a scheduled discussion of a particular demand of a ministry. No amendment to a particular cut motion takes place once the motion is admitted under a particular condition. There are three cut motions which can be moved in the National Assembly during detailed discussion on Demands for Grants of various ministries. These cut motions are- Disapproval of Policy Cut, Economic Cut, Token Cut.

Disapproval of Policy Cut: Through this motion, the mover intends that the amount of the demand be reduced to "Re. 1" represents disapproval of the policy underlying the demand. A member giving notice of such a motion indicates in precise terms the particulars of the policy, which he proposes to discuss. During this process, the discussion is expected to be confined to the specific point or points mentioned in the notice and open to members to advocate an alternative policy.

Economy Cut: On this motion, the procedure suggests that the amount of the demand be reduced by a "specified amount". Such specified amount may be either a lump-sum reduction in the demand or omission or reduction of an item in the demand. The notice for moving Economy Cut shall indicate briefly and precisely the particular matter on which discussion is to be raised and speeches shall be confined to the discussion as to how economy can be affected.

Token Cut: While moving token cut motion, it is suggested that the amount of the demand be reduced by "Rs.100" in order to ventilate a specific grievance which is within the sphere of the responsibility of the Government. Such a motion shall be known as "Token Cut" and discussion thereon shall be confined to the particular grievance specified in the motion.

2.2.3 Vote on Account. The Federal Constitution provides the provisions for the Vote on Account which is generally undertaken for the period not exceeding four months in a financial year. National assembly has the power to make any grant in advance on Votes on Account. It follows the same path as the Annual Budget Statement (ABS). It is discussed and voted similar in accordance with the procedures that are followed in the case of general budget. Discussion of a general character may be allowed on the motion or any amendments moved thereto but the details of the grant shall not be discussed further than is necessary to develop the general points.

2.2.4 Supplementary, Excess Grants

Supplementary and Excess Grants are regulated by the same procedure as is applicable in the case of demands for grants subject to such adaptations, whether by way of modification, addition or omission, as the Speaker may deem necessary or expedient. The procedure for dealing with supplementary estimates of expenditure and excess demands shall, as far as possible, be the same as prescribed for the

Budget except that, if, on a demand for a supplementary grant, funds to meet the proposed expenditure on a new purpose are available by re-appropriation, a demand for the grant of a token sum may be submitted to the vote of the Assembly and if the Assembly assents to the demand, funds may be made available.

2.2.5 Budget in Upper House (Senate):

Constitutionally, the Money Bill can originate only in the National Assembly. *The Legal Framework Order (LFO) of 2002* provides that simultaneously with the laying of Finance Bill in the National Assembly, a copy of the Money Bill is transmitted to the Senate. The Senate within seven days makes recommendations to the National Assembly. In the case of India, the Upper House (Rajya Sabha) sends its' recommendation within the 14 days of Lower House approval of the union budget.

There are no provisions in the *Rules of Procedures* and *Conduct of Business* for the Senate as to how Money Bill should be dispensed with. However, procedures are gradually evolving through conventions of the House. At the present, the procedure is that after a Bill is laid on the table of the House, a member may, within two days, give notice of a proposal for making recommendations together with the statement of reasons for such proposals in writing to the secretary of Senate. These recommendations should be made with reference to the Finance Bill and the Annual Budget Statement.

The recommendations are placed before the House for referral to the Senate Standing Committee on Finance and Revenue. The committee considers these recommendations and submits its report. The House considers the report of the committee and finalizes recommendations. The recommendations are then submitted to the National Assembly for consideration.

3. Institutions Influencing Budget Formulation and Implementation

3.1 National Finance Commission (Article 160)

National Finance Commission (NFC) is a constitutional body in Pakistan. It plays critical role in the annual budget making process as it underlines the nature of share of distribution of revenue based on certain criterion as laid out by itself on time-to-time between the federal centre and its constituent units. Specifically, the NFC makes recommendations upon the distribution of specified taxes, duties between federation and provinces; the disbursement of grants to provincial governments; the borrowing powers exercised by federal and provincial governments; any other financial matter as referred to commission by the President of the country.

The NFC as per constitutional requirements make *Awards* upon which Provinces are assigned in each year a share of the net proceeds of following taxes and duties levied and collected by the Federal Government. Such *Awards* always remains a significant area of attention in the annual budget making process. These Awards can be found from the Budget Documents- *Budget in Brief and Explanatory Memorandum on Federal Receipts.*

At present, each year followed by 2006 NFC Awards, percentage share of the provinces from proceeds of taxes and duties would be as under:

Financial Year	Percentage share
2006-07	41.50%
2007-08	42.50%
2008-09	43.75%
2009-10	45.00%

Source: Federal Budget in Brief 2007-08, Finance Division, Government of Pakistan

Allocations of distribution of revenue to the Provincial Governments (Province wise ratios) are based on multiple indicators which, at present, carry following weights:

Indicators	Weights (%)
Population	82.00
Poverty and Backwardness	10.30
Revenue Collection or Generation	5.00
Population Density	2.70

Source: Explanatory Memorandum on Federal Receipts 2010-11

3.2 National Economic Council (NEC) (Article 156)

This is a constitutional body which is constituted by the President under chairmanship of the Prime Minister. The apex body functions under the auspices of Cabinet Secretariat of the Federal government to review the overall economic condition of the country and advises the Federal Government and the Provincial Governments to formulate plans in respect of financial, commercial, social and economic policies. Its core functions also include approval of the Five Year Plans in the country; the Annual Development Programme as formulated in every year budget; all Federal and Provincial Schemes costing above Rs.200 million (non-recurring); all non-Plan Schemes in the budget. It also formulates schemes in the private sector. Besides, it reviews implementation of various development projects and programmes during the preceding year, with particular emphasis on major schemes.

3.3 Executive Committee of the National Economic Council (ECNEC)

This committee is an extra-constitutional body which looks after over all execution of all functions assigned to National Economic Council (NEC). The Prime Minister acts as the chairman of the ECNEC and other members include other federal ministers, the Provincial Finance Ministers and members of Provincial Planning Ministry also participate. It is similar to National Development Council (NDC) of India. The core functions of ECNEC include the sanction development schemes (in the Public Sector) pending their submission to the National Economic Council; allowing moderate changes in the plan and sectoral re-adjustments within the overall plan allocation; the supervision of the implementation of the economic policies lay down by the Cabinet and the National Economic Council. This committee finally approves the federal budget and has significance influence in the budget making process.

3.4 Standing Committees of Parliament

There are provisions to form the Standing Committees (SC) in the National Assembly of Pakistan. With regards to its number, there are 41 Standing Committees in National Assembly each corresponding to federal ministry/divisions. These SCs carry out analysis, reviews and scrutiny of the budget relating their specific mandates. Any consideration of the budget as a whole fall within the purview of the SC on Finance and Revenue, and Planning and Development, while individual committees consider budgets of the relevant ministry/division within their respective subject areas. Unlike other legislations, the Finance Bill is not referred to any committee. It is important to note that these committees play very insignificant role in the budget making process and they have only says when the budget is in the National Assembly for consideration.

3.5 Auditor General of Pakistan:

The Supreme Audit Institution in Pakistan is appointed by the President which is not subject to the approval of the National Assembly. Under the Law, the Auditor-General shall, "on the basis of such audit as he may consider appropriate and necessary, certify the accounts, compiled and prepared by the Controller General of Accounts or any person authorized on that behalf for each financial year, showing under the respective heads the annual receipts and disbursements for the purpose of the federation, of each province and of each district, and shall submit the certified accounts to the President and the Governor to be laid before the National Assembly and Provincial Assembly respectively. In Federal case, the National Assembly appoints a 'Select Committee' known as 'Public Accounts Committee' to examine the above mentioned accounts and reports relating to the Federation.

3.5 Public Accounts Committee (PAC)

The principle functions of PAC are: to examine appropriations of Government expenditure; the annual finance accounts of the Government; the report of the Auditor-General of Pakistan and such other matters as the Minister for finance may refer to it. It comprises of 19 members. The report of the committee is required to be presented within a period of one year to the National Assembly. The role of Public Accounts Committee is advisory in nature. It is up-to the executive to take action on the recommendations of the parliament.

3.6 Pakistan Development Forum (PDF):

It is an international consortium that provides economic aid to Pakistan. The Pakistan Development Forum, formerly Aid-to-Pakistan Consortium, is an annual feature ahead of federal budget aimed at presenting the country's economic performance and development needs to the international lenders such as Paris Club Countries and Multilateral Institutions. PDF is a unique opportunity for the Government of Pakistan to share with its development partners, its policies, reform agenda and initiatives in areas such as poverty alleviation, human resource development, governance and infrastructure development, etc. It also sets the stage for multilateral funding arrangements and individual loan commitments.

3.7 Planning Commission of Pakistan

Planning commission, a non-constitutional body however government established body, is entrusted with managing the economy of the country. Its main function is to prepare five-year plans of economic and social development. The Public Sector Development Programmes (PSDPs) also fall under domain of the commission. In every financial year, the Planning Commission prepares the Annual Developmental Programme (ADP) with the support of spending ministries and divisions. After preparation of ADP, it submits the NEC for scrutiny and final inclusion to the federal budget. The Prime Minister is the chairman of the Planning Commission which, apart from the Deputy Chairman, comprises nine Members including Secretary, Planning and Development Division/ Member Coordination; Chief Economist;

Director, Pakistan Institute of Development Economics, Executive Director, Implementation and Monitoring; and Members for Social Sectors, Science and Technology, Energy, Infrastructure, and Food and Agriculture.

3.8 State Bank of Pakistan:

It is the Central Bank of the country. It performs both the traditional and developmental functions to achieve macro-economic goals in Pakistan. In the traditional functions category, the State Bank of Pakistan has been entrusted with the responsibility to formulate and conduct monetary and credit policy in a manner consistent with the Government's targets for growth and inflation and the recommendations of the Monetary and Fiscal Policies Co-ordination Board with respect to macro-economic policy objectives. The basic objective underlying its functions is two-fold i.e. the maintenance of monetary stability, thereby leading towards the stability in the domestic prices, as well as the promotion of economic growth. One of the fundamental responsibilities of the State Bank is regulation and supervision of the financial system to ensure its soundness and stability as well as to protect the interests of depositors.

Besides discharging its traditional functions of regulating money and credit, the bank has played an active developmental role to promote the realisation of macro-economic goals. The explicit recognition of the promotional role of the Central Bank evidently stems from a desire to re-orientate all policies towards the goal of rapid economic growth. Accordingly, the orthodox central banking functions have been combined by the State Bank with a well-recognized developmental role.

4. Documents Related to Pakistan Budget†

4.1 Budget Speech of the Finance Minister

The Finance Minister introduces the budget in the National Assembly with Budget Speech. The Budget Speech can be seen with two parts. First part of the budget speech contains the information on the performance of the economy during the previous year and major efforts proposed to be made during the new budget year for improving the working of the economy. It is without tax proposals and printed both in Urdu and English. The second part of the budget speech covers proposals for levy of new taxes. The new enhanced or revised taxation conceived as a part of the budget are given effect by means of a distinct legislation called Finance Act. This legislation is an integral part of the budget presentation and without it no tax can be levied, enhanced or revised.

4.3 Details of Demands for Grants and Appropriations (Pink Book)

This document is referred to as pink book, consists of two volumes representing the current and developmental expenditure of various ministries, departments and divisions of the federal government respectively. The document containing Details of Demands for Grants and Appropriations reflects in detail the budget estimates of last year, revised estimates of current year and budget estimates of next financial year of the Federal Government.

4.4 Demands for Grants and Appropriations (White Book)

Demands for Grants and Appropriations contain estimates of expenditure on both revenue and capital accounts. Besides, distinctly showing the expenditure which is charged to the FCF under the legal provisions, each demand also exhibits separately summary of Functions and Object-wise classification. This book has been divided into three parts as follows:

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† This sections have compiled from the PILDAT Briefing Paper for Pakistani Parliamentarian, "The Federal Budget Process in Pakistan", May 2003. www.pildat.org

Part I: Demands for current expenditure.

Part II: Demands for development expenditure.

Part III: Appropriations charged upon the Federal Consolidated Fund.

The demands for each Ministry, as shown in Part I and II, are further bifurcated into two sectors: (i) Expenditure met from revenue; and (ii) Expenditure met from capital. Part III comprises wholly of the 'charged' expenditure. However, the expenditure shown in Part I and II comprises both 'charged' and 'voted' expenditure. There are three schedules appended at the end of the book.

In Schedule I, the demands and appropriations are listed in their serial order indicating the nomenclature of each and further classifying the estimates of gross expenditure into:

(i) Sums required meeting expenditure charged upon the Federal Consolidated Fund.

(ii) Other than charged expenditure.

(iii) Total expenditure (Charged + Other than Charged).

(This schedule indicates the total amount allowed to a Ministry/Division under a specific demand/appropriation for expenditure in ensuing year).

Schedule II classifies the expenditure included in the demands and appropriations by major functions which serves as a means of reconciling these estimates with disbursements out of FCF. The schedule will help understanding as to what amount has been allocated for a particular function i.e. Health, Education etc.

Schedule III, which indicates the object of current and development expenditure, provides a more useful and informative economic analysis of the expenditure. This schedule gives details as to what specific allocation (under a demand or object as a whole) has been proposed to be allocated i.e. for pay and allowances and other purpose i.e. purchases, repairs etc.

4.5 Budget in Brief

The Budget-in-Brief attempts a presentation of the budget in a simple language. This document contains the brief features of revenue/ expenditure. It also contain the main features of past year achievement/ performances. This document is printed both in Urdu and English.

Contents of Budget in Briefs
2010-11

Contents

4.6 Annual Budget Statement

The Annual Budget Statement gives, in broad details and by function classification-wise accounts, the estimates of: (i) Revenue receipts and expenditure on revenue account. (ii) Capital receipts and disbursements. (iii) Transactions anticipated under the debt, deposit and remittance heads.

The estimates of receipts and payments included in the annual budget statement are further segregated into transactions relating to the Federal Consolidated Fund and Public Accounts. This document is printed both in Urdu and English.

4.7 Explanatory Memorandum of the Federal Receipts

This compilation exhibits the receipts of the Federal Revenue as well as Capital Receipts. The explanatory notes pertaining to receipts included in 'The Budget' serve to indicate, among other things, the basis on which proceeds of Federal Taxation are shared with the provincial governments and also specify the provincial shares in the proceeds of various taxes and duties.

Explanatory Memorandum on Federal Receipts
2010-11

Contents

4.8 Schedule of Authorised Expenditure

After the Budget has been approved by the competent forum, an authenticated Schedule of Authorized Expenditure is drawn up in the same form as the Annual Budget Statement, in so far as it relates to expenditure. This Schedule constitutes the sole authority for withdrawal of money from the Federal Consolidated Fund to meet expenditure specified in the Annual Budget Statement and the corresponding demands for grants and appropriations.

4.9 Supplementary Demands for Grants and Appropriations

Supplementary Demands for Grants and Appropriations are prepared in terms of Article 84 of the Constitution. This is to cater for the additional requirement of current financial year i.e. the budget year. It represents details of estimates of additional expenditure from the Federal Consolidated Fund.

This book like budget is also divided in three parts.

- Demands for current expenditure.
- Demands for development expenditure.
- Appropriations charged upon the Federal Consolidated Fund.

4.10 Estimates of Foreign Assistance

This documents outlines estimates of various external resources mainly comprises the following: (i) Loans and credits from friendly countries and specialized international agencies. (ii) Grant assistance under Food Aid Convention, World Food Programme and other specific country programmes.

4.11 Budget at a Glance

It explains the overall budgetary position covering all aspects of both revenue and expenditure. This document is also printed both in Urdu and English.

4.12 Winding-Up Budget Speech by the Finance Minister

Answers by the Finance Minister on the points raised by the members of the House and detailed explanation regarding various aspects of the budget and the suggestions for accelerating the pace of economic development and social progress etc form part of winding up Budget Speech of the Finance Minister.

5. Explanatory Note on Budget Terminology

Accounting Systems: Accounting systems record financial transactions. The two major accounting systems are cash accounting and accrual accounting. Cash accounting systems recognize transactions and events when cash is received or paid; they do not recognize non-cash events. Accrual accounting systems, on the other hand, record payments and receipts when parties enter into a commitment, not when cash changes hands. For instance, an accrual accounting system would record the purchase of naval helicopters when the government signs a contract to buy the helicopters, not when the helicopters are actually delivered and paid for (which would be the case in a cash accounting system). An accrual accounting system views the commitment, rather than the exchange of cash for goods or services, as the event that has economic significance. Most governments rely on cash accounting systems.

Appropriation: Appropriation refers to the legal authority granted to the executive by the legislature to spend public funds. Appropriation legislation varies in terms of its detail some provide funds for an entire department, while others provide funds for specific programs. Appropriations typically provide spending authority for a single fiscal year. However, permanent appropriations or standing appropriations provide spending authority over a series of years. Supplemental appropriations are sometimes granted subsequent to the annual appropriation law if the amounts provided in that appropriation prove to be insufficient to meet the intended purpose.

Budget: A budget is a comprehensive statement of government finances, including spending, revenues, deficit or surplus, and debt. The budget is usually the government's main economic policy document, indicating how the government plans to use public resources to meet policy goals. As a statement of fiscal policy, the budget shows the nature and extent of the government's impact on the economy. The budget is prepared by the executive and then generally is submitted to the legislature to be reviewed, amended, and adopted as law. The budget preparation process begins many months before the start of the fiscal year covered by the budget, so that it can be enacted into law before the fiscal year begins.

Capital Expenditure: A government's assets could be financial (e.g. investments, loans/ advances given, equities) or physical (factories, bridges, school buildings, hospital buildings). Almost all financial assets provide future monetary benefits, while some of the physical assets may also provide monetary benefits in future. On the other hand, a government's liabilities are by nature financial and they are amounts owed to other parties (e.g. borrowings and advances received by the government). Capital Expenditure incurred by any government is usually meant for increasing the government's assets or reducing its liabilities.

Debt: Government debt is the outstanding amount that the government owes to private lenders at any given point in time. Governments borrow when they run deficits, but reduce outstanding debt when they run surpluses. Thus debt essentially represents the total of all annual deficits, minus any annual surpluses, over the years. Governments can borrow by taking out a loan directly from a financial institution, such as a bank. Governments can also issue bonds that are purchased by domestic and foreign businesses and individuals. Purchasers of government bonds are essentially lending money to the government with an agreement that the amounts will be repaid on a certain date and that interest will be paid periodically. The interest payments, also known as debt service costs, are a line-item in government budgets. Particularly in developing countries, debt service costs can consume a large share of total spending, reflecting the significant debt accumulated by these countries as well as the high interest rates they must pay to borrow.

Earmark: When funds have been earmarked, it means that they have been dedicated to a specific program or purpose. In some cases, a particular stream of revenue is earmarked for a specific purpose. For instance, revenues resulting from taxes on fuel are frequently dedicated to transportation-related expenses, such as road construction or mass-transit subsidies.

Expenditure: This refers to government spending (or outlays). Expenditures are made to fulfil a government obligation, generally by issuing a check or disbursing cash. Expenditures may pay for obligations incurred in previous fiscal years or in the current year. Expenditures are sometimes distinguished between capital and current. Capital expenditures are investments in physical assets, such as a roads and buildings that can be used for a number of years. Current expenditures reflect spending on wages, benefit payments, and other goods or services that are consumed immediately. Actual expenditure may differ from the amounts established by the budget. Significant and persistent differences between actual expenditure and budgeted amounts are a sign of weakness in a country's budget and expenditure management systems.

Extra-budgetary: The term generally refers to government transactions that are not included in the annual budget presentation. A wide variety of extrabudgetary arrangements are used, including funds set up under separate legislation that are financed by revenue earmarked specifically for that purpose. In other cases, state-sponsored businesses such as utilities or airlines have independence in certain respects, but the government may ultimately be responsible for bailing out these businesses when they run into financial trouble. Extra-budgetary activities may not be subject to the same level of scrutiny or accounting standards as programs in the annual budget (though they should be).

Finance Accounts: Finance Accounts, sometimes called Annual Accounts of the government, is compiled by controller general of accounts (CGA). It incorporates comprehensive accounts of receipts and expenditures of the government. It classifies transactions under respective heads pertaining to all approved heads of government accounts and is kept in two parts. Part one comprises the accounts of total receipts and expenditures, the resultant revenue surpluses or deficits, the capital expenditures, including transactions related to temporary and permanent debts, deposit transactions, and money adjustments. Part two exhibits accounts of debts, deposit transactions, and money remittances. The accounts commence with a certificate of the C&AG that represents and authenticates CGA's reports and accounts.

Fiscal Deficit: Fiscal Deficit of a government is the gap between its "Total Expenditure (including Loans net of Repayments)" and its "Total Receipts (excluding new Debt to be taken)". Thus, Fiscal Deficit indicates the borrowing to be made by the government in a particular year for which the Budget is meant. If Total Receipts (excluding new Debt) exceed Total Expenditure of the government, then there would be a Surplus for the government, and hence, no need for borrowing.

Fiscal Policy: Fiscal policy refers to government actions with respect to aggregate levels of revenue and spending, and the resulting surpluses or deficits. Fiscal policy is the primary means by which the government influences the economy. An "easy" fiscal policy is intended to stimulate short-term economic growth by increasing government spending or reducing revenues. A "tight" fiscal policy restrains short-term demand by reducing spending or increasing taxes and is often intended to restrain inflation. The government sets and implements fiscal policy through the budget.

Fiscal Year: The fiscal year is the government's 12-month accounting period; it frequently does not coincide with the calendar year. The fiscal year is named after the calendar year in which it ends. Function (as in functional classification) — International standards (such as the IMF's Government Finance Statistics) exist for classifying government expenditures and revenue according to the broad purposes for which transactions are undertaken. A functional classification organizes government expenditure according to its various activities and policy objectives — such as health, education, and transportation.

GDP (Gross Domestic Product): This is the total value of final goods and services produced in a country during a calendar year. Economic growth is measured by the change in GDP from year to year.

Grants: Grants are funds that the national government disburses directly to lower levels of government, corporations, non-profit organizations, and individuals. Some grants are given for specific purposes, requiring the recipients to meet certain conditions or requirements. In other cases, the grants may be used for whatever purpose the recipient deems important. For instance, a national government may make general-purpose grants to state and local governments to support their operations or may provide grants targeted at specific programs, such as the construction of a road or the purchase of school textbooks.

Incremental Budgeting: Incremental budgeting typically refers to a budget formulation process that focuses only on one year and how the budget for each program differs from the levels adopted in the previous year. Incremental budgeting is often criticized as having a narrow focus, concentrating on funding changes to existing programs rather than having the flexibility to address the implementation of new policy priorities, or eliminating low priority programs.

Multi-year Budgeting: This term generally refers to budgets that take into account more than one year. In some cases, this means governments enact into law budgets that specify spending and revenue amounts for more than a single year. For instance, many U.S. states enact budgets that specify spending and revenue amounts for two years, and are known as biennial budgets. In other multi-year budgets, only spending and revenue amounts for one year are adopted, but the budget includes estimates for subsequent years that reflect the multi-year impact of its policies and plans; these estimates are not binding on future budgets. In some countries that enact a one-year budget, however, the forward estimates associated with the enacted budget do serve as the starting point for preparing the budget in the next year. This approach is typical in countries that employ a Medium-term Expenditure Framework (MTEF).

Outputs/Outcomes: The performance of government programs is assessed by examining whether they have delivered the desired outputs and outcomes. Outputs are defined as the goods or services provided by government agencies. Some examples include: teaching hours delivered, immunizations provided, or welfare benefits paid. Outcomes are a broader concept and include the impact of the program on social, economic, or other indicators, such as whether an increase in hours taught improved student test scores, whether more immunizations reduced sickness, or whether higher welfare benefits increased social equity. Outputs tend to be easier to measure than outcomes. Further, factors beyond the control of a government program can affect outcomes, making it difficult to assess the impact of the program. For instance, even at a time when welfare benefits are increased, the number of people in poverty could increase as a result of a slowdown in the economy.

Performance Budgeting: As a general concept, performance budgeting refers to a budget process that integrates information about the impact of government spending. In its simplest form, performance budgeting places more emphasis on the outputs and outcomes associated with government expenditure and takes this information into account when setting future funding levels. Performance budgeting is often associated with giving managers of government programs more flexibility to achieve specific policy goals within a set budget. Efficiency of expenditure therefore is an important goal. Developing countries (as well as many developed countries), however, often lack the data and other information necessary to fully assess performance objectives; gathering such information is a difficult task.

Revenues: Revenues or taxes are funds that the government, as a result of its sovereign powers, collects from the public. Typical revenues include individual and corporate income taxes, payroll taxes, value-added taxes, sales taxes, levies, and excise taxes. In contrast, user fees are paid voluntarily by the public in return for a government-provided service or good. Because the purchaser receives a direct benefit (the good or service) in return for paying the fee, the payment is not considered a tax. A tax that increases as a percentage of income as one's income increases is known as a progressive tax; while a regressive tax is one where a taxpayer pays a smaller percentage of income in tax as income increases.

Revenue Deficit: The gap between "Total Revenue Expenditure" of the government and its "Total Revenue Receipts" is called the Revenue Deficit. If Revenue Receipts are higher than total Revenue Expenditure, then the government would have a Revenue Surplus.

Revenue Expenditure: Revenue Expenditure incurred by the government generally does not have anything to do with creation of assets or reduction of liabilities of the government. Most kinds of Revenue Expenditures are recurring or current expenditures, since the government incurs those expenditures periodically from every Budget.

- Some examples of Revenue Expenditure:
- Government pays the Interest charges due on a loan from International Monetary Fund (no effect on the size of the original liability of Government)
- Government expenditure on Food Subsidy (no effect on assets/ liabilities)
- Government spending on Salary of its employees
- Government spending on procurement of medicines for its hospitals
- Government spending on operation and maintenance of its assets

Tax Expenditures: These are concessions or exemptions from a "normal" tax structure that reduce government revenue collections. These tax breaks are typically granted in order to achieve some government policy objective, though they also can result from targeted political pressure. Because the policy objective could also have been achieved through a subsidy or other expenditures, the tax concession is essentially regarded as equivalent to budget expenditure — hence the term tax expenditure. Estimating tax expenditures, however, can be somewhat more complex than estimating budget expenditures, in part because it requires a precise definition and estimation of revenues under the "normal" tax structure and subsequently the revenues lost as a result of the tax break.

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