

PAKISTAN PFM ACT-2019 – A YEAR INTO ITS ENACTMENT

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Pakistan's extensive legal and institutional framework for Public Financial Management (PFM) is evolving. Still, gaps have existed between actual and projected expenditures and revenues, thus reducing predictability and necessitating in-year adjustments in allocating expenditures. In June 2019, in line with the constitutional requirements to strengthen public finances Pakistan's Parliament approved the Public Financial Management Act-2019 later amended in June 2020. The PFM Act sets the mechanism to establish a Treasury Single Account for a unified government bank account structure. Other mandatory provisions of the legislation include the compulsory publication of mid-year budgetary performance reports and development of budget strategy paper to be presented in March [three months before the budget presentation] allowing sufficient time to scrutinize budgetary proposals.

Through this Act, the government has shown its commitment to set-up an internal audit function to address the insufficient authority given to internal financial control and audit units within line ministries. The legislation earmarked a timeline to develop a Budgetary Manual.

The June 2020 legislative amendment contains an additional chapter on policy formulation and administration of non-tax revenue. The recent amendment also binds the government to place its performance monitoring report before the Parliament. The

report will comment on the budget and expenditure by outputs and an explication on the planned and delivered vital performance targets.

Recent Progress on PFM Act 2019 (as amended):

i. Strengthening the PFM system for budgetary discipline and transparency.

Some of the government's key policy actions include preparing the first fiscal risk statement, finalizing the budget manual, developing a PFM Reform Strategy and putting in place budget checks on GFMS in line with Section 23 of the Act.

Aligned with section-43 of the PFM Act-2019, Finance Ministry in January 2020 made the Budget Manual publically available. The Budget Manual elaborates the legal provisions, principles, policies, procedures and methods, and formats and forms to prepare the budget estimates for revenue, expenditure, and financing. This first edition of the Budget Manual 2019 is based on performance-based budgeting and aims to improve the Public Financial management institutional framework efficiency and effectiveness.

The government has launched the required analytical work and data-gathering exercise to prepare a mid-year budget review and a strategy paper for Parliament approval.

Since, March 2020, the Finance Ministry has without interruption published Monthly Economic Update & Outlook. In the Economic Survey 2019-20, the government presented the macro-economic impact assessment of CoVID-19 outlining the economic and fiscal policy vulnerabilities amid recognizing the more significant challenges in the next fiscal year.

ii. Rollout of Treasury Single Account (TSA):

Aligned with Section 42 of the PFM Act, the Finance Ministry [in July 2020] notified the Cash Management, and Treasury Single Account Rules 2020. In August 2020, the government concluded the inventory of government accounts and established a dedicated TSA implementation team in the Ministry of Finance (MoF). The accounts of line ministries, autonomous organizations and arm-length agencies have been brought into the TSA architecture.

MoF replaced Assignment Accounts [independent drawing facility for development projects and allied activities] procedure-2008 with Assan (Easy) Assignment Account Procedure-2020 (AAP 2020) and made them part of the TSA structure. The revised procedure disallows the government entities from transferring public funds [other than payments related to pension, provident fund and retention monies of contractors] to any other bank account. The successful rollout of AAP-2020 will ensure MoF full control over budget allocations and strengthen the budget

appropriation authority.

iii. Streamlining tax policy and administration for expanding tax net and fiscal space:

MoF is in the process of establishment of a macro-fiscal unit to identify and monitor selected macroeconomic and budgetary risks correctly. The unit will guide general tax design, perform revenue, guide tax reforms and coordinate tax policy between governments.

Key required Policy intervention areas

i. Improvement in Statistical Capacity, economic forecasting and cash management: Effective implementation of the PFM Act will require a concerted effort in upscaling the country's national statistical capacity. Pakistan's World Bank Statistical Capacity Indicator for 2019 was 71.1 and higher than the South Asian average of 69.9. The country's score has remained on a decline since 2016. Substantive efforts are required to improve the statistical human capital (cross-country knowledge and skills), coordination between statistical stakeholders and data systems and technologies. World Bank estimates an average length of upscaling of the statistical capacity-building requires three to eleven years.

The MoF also needs to upscale efforts to finalize the data entry points from which cash forecasts will be required; development of a



functional specifications document to include projections in the GFMIS to configure the systems, applications, and products to start the cash-forecasting system. Otherwise, an ineffective cash management and forecasting system will hinder the accurate understanding and management of liquid financial assets and shortages and, consequently, predictability in budget execution.

ii. Establishment of a Fiscal Council: PFM Act puts an immense focus on improving macro-economic forecasting, public reporting of budgetary progress, and encouraging sound fiscal policies. The government needs to place softer institutional arrangements of an Independent Fiscal Council mandated to conduct international or supranational institutions' routine surveillance activities and enrich the public policy debate through analysis, information, and advice.

As vast literature suggests, fiscal councils are uniquely positioned to foster transparency and accountability and trigger reputational effects. The mandate also carries a degree of legitimacy that could encourage the government to "comply or explain," even if it is not legally compelled to do so. For instance,

in the United Kingdom, the Institute for Fiscal Studies analyses are highly visible and discussed. In Austria, the government generally uses the forecasts provided by the WIFO, a privately funded and reputable research institute.

iii. Roadmap for Commitment Accounting and Reporting: Aligned with Section -26 of the Act, MoF in consultation with the Auditor General of Pakistan needs to expedite the Commitment control system. The development of a commitment control system needs to be supported by concomitant measures in other PFM areas, significantly improving the budget formulation process and the overall credibility of the budget, and strengthening cash planning and management.

Amid the ongoing financial and economic crisis due to CoVID-19 has proved to be quite a test for Pakistan's PFM framework. It has revealed how many reforms were far from being well-entrenched. Finally, with the hallowing fiscal deficit, the related need for budgetary adjustment has increased the government's incentives to engage in activities that cloud the actual state of its public finances.