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*The government has reiterated time and again its commitment to economic growth and specific packages are given to trigger growth momentum in the economy. Growth framework for next year will be approved in the forthcoming meeting of National Economic Council (NEC). The recently released statistics by the PBS estimates that the GDP growth for 2020-21 is 3.97 percent, which is mainly on account of low base effect in 2019-20, exceptional growth in major crops, rebound in industrial sector and partial recovery in the services sector. I believe a major reason for V-shaped recovery is the positive impact of fiscal and monetary stimulus packages along with emergency support for protection of lives and livelihood for the vulnerable segments of the society. Of course, the policy push in the growth framework for 2021-22 will be evenly balanced and, hopefully, with the roll-back of COVID-19 pandemic and particularly with easing of travel restrictions, the economy will benefit from rebound in business activities. Of course, the government will remain vigilant to monitor downside risks of the economy, particularly developments in the external sector during the FY21.*

**Q1. Do you expect the size of development budget to be large enough to sustain growth?**

Economic growth is sustained on the strength of fundamentals such as quality human capital, upscaling of technological capability, industrial competitiveness, sustainable agriculture, strategic trade policy framework, national SME policy, financial inclusion, social protection and, above all, an investment strategy for efficient resource allocations. Development budget is one aspect of investment strategy and its size is determined by various factors including the availability of funds, socio-economic priorities and the growth outcomes of this development spending. The government of Pakistan finalizes its macroeconomic framework in a way that macroeconomic targets and development spending are aligned with the private sector business profile. For the present government, sustainability of economic growth is of prime importance. The size of the PSDP is still being finalized but it will be growth oriented by crowd-in private investments. In particular, within the Planning Commission, the PPP Authority is operationally ready and has developed a pipeline of PPP projects which will also crowd-in investments by the private sector.

**Q2. M/o Finance started zero based Budgeting framework: has that exercise yielded any improvements? What about the other frameworks for expenditures management such as MTDF and MTBF?**

Zero-based budgeting exercise was undertaken by MoF a few years ago. The main aim was to identify savings. Meetings were held with PAOs across the Federal Government. However, no major savings could be identified. In some cases, positions lying vacant for the past three years were abolished.

MTDF (development framework) exercise was discontinued a few years ago. The linkage between macro-fiscal frameworks in national plans/development frameworks and annual budgets could not be established.

MTBF was introduced with the aim to improve fiscal discipline, link govt plans with strategic budgets, and improve delivery of public services. Medium-term budget strategy paper, fiscal framework, and ceilings have been institutionalized together with results-based budget system. An evaluation is needed to understand which of these systems have resulted in achievement of the three aims.

**Q3. PFM Law of 2019 has been promulgated, what is the progress on its implementation and bottlenecks?**

The PFM Act promulgated in 2019 and amended in June, 2020, sets the mechanism to establish a Treasury Single Account for unified government bank account structure, 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, improvement in Statistical Capacity, economic forecasting and cash management. Within the Planning Commission, a draft of Development Projects Operations Manual is under review. Let me highlight some of the major implementation progress:

*Implementation progress*

**Improved delegation to PAOs: Abolition of Financial Adviser Organization and promulgation of new Cabinet approved** regulations: 'Financial Management and Powers of PAOs'.

- Start of work on implementation of Treasury Single Account: Information on bank accounts collected, new TSA and cash management rules promulgated, new rules of assignment accounts in public account promulgated, and its implementation is underway.

- Bank Manual: Promulgation of Federal Government's Budget Manual

- Start of work on update of General Financial Rules and Treasury Rules: To move forward from the legacy financial rules and comply with the new Act.

- Transparency: Publication of Budget Strategy Paper on MoF's website.

Publication of mid-year budget outturn report and presentation in the Parliament.

- Fiscal Control: Improved budget checks on payroll and pensions. Roadmap for sanctioning of expenditure from Consolidated Fund Account, Pakistan Post, Pakistan Railways, Federal Board of Revenue, State Bank of Pakistan, Central Directorate of National Savings.

- Performance based budget: Presentation in the parliament for the years 2019-20 to 2022-23.

- PSDP: All projects received technical approval prior to tabling in the budget 2019-20.

*Bottlenecks*

Implementation of Treasury single account – difficult to find signatories of thousands of govt bank accounts.

Slow progress in moving from manual pensions (Pakistan Post Office) to direct credit system for civil and military pensioners.

**Q4: There was a PRSP in place to monitor resource allocation towards MDGs; is the same being carried out for SDGs and how do provinces comply with that?**

PRSP is housed under the Ministry of Finance where resource allocation are earmarked to monitor implementation of MDGs. The last report published by the Ministry of Finance on PRSP Budgetary Expenditures 2017-18 and 2018-2019 includes the figures of the provinces as well. The Annual PRSP Progress report 2015¬16 also explains the SDGs and PRSP synergy (Section 6.5). Therefore, the PRSP still can be used as a tool to monitor SDGs resource allocation upon publication of latest figures by the Ministry of Finance.

**Q5: One of the recommendations by Nadeem et al. in their book "Doing Development Better", published by PIDE was "Reforms of overall budget management system to provide real integration across the development and recurrent dimensions of the budget: Do you agree that there is a disconnect in recurrent and development budget? Budgeting these two separately for a sector has a negative consequence for budgeting.**

Yes. We agree that the recurrent and development budgets should be closely aligned. Some steps have already been taken for improved alignment but more needs to be done. We need to define a roadmap which can include:

- Presentation alignment: Divide between recurrent and development budget demands is removed. Each PAO is presented with a single Demand for Grants. Budget presentation should be based on outputs/programmes (for example: Performance based budgeting can become the main budget book)

- Organizational alignment: MoF and project wing of Planning will need to be unified under a single projects' portfolio management system. Also, recurrent and development budgets in line Ministries will need to be unified. The capacity to formulate sector planning and strategic budget allocations in line Ministries needs to be strengthened.

- Legal alignment: Such a system would be needed to be enshrined in the law together with strict rules on movement of funds between outputs/programmes.

**Q6: Efficiency of project cycle has deteriorated overtime with its adverse consequences for growth. Project preparation is weak, monitoring is lax and evaluation is nonexistent. Do you agree?**

Intrinsically, project life cycle is dependent on many factors, such as capacity of the sponsoring agency, urgency of the matter, political considerations, workload vis-à-vis quality of appraisement, geographic spread of PSDP vis-à-vis capacity of the M&E team, loose or no timelines and above all thinly spread financing due to resource constraints etc., which determines the quality and efficiency of projects at different stages.

However, concerted efforts are being made for continuous reforms and improvement. The initiatives, inter-alai includes; complete review of the Planning Manual 2010, addressing the evolving needs, formulation of critical reforms in consultation with Prime Minister's Performance Delivery Unit, targeting the causes of delays at different stages of project cycle, simplification of the funds transfer mechanism and opening of assignment accounts policy, harmonization of the funds transfer policy for GB, close coordination with Provinces /special areas and enhanced frequency of progress reviews. Moreover, a number of initiatives are being taken or augmented for ICT supported informed decision making. These initiatives include upgradation of the Project Monitoring & Evaluation System (PMES), automation of PC-I&II or IPAS, launching of monitoring Dashboard, introduction of Primavera for effective project management and use of satellite /GPS imageries for supplementing the field monitoring. M&E Framework has been revised, Monitoring Templates have been developed and the Provincial M&E Wings are being associated for building synergies and uniformity in the M&E systems.

Monitoring plays key role in addressing the issues causing delays, course correction, identification of deviations, duplications, variations and risk mitigation of time and cost overrun. The focus of monitoring is on Mega Projects, special initiatives of the Government, projects under revision, slow moving projects and projects assigned by any Competent Forum. Due attention is being given to include projects from all regions and Ministries/ Divisions. A special Monitoring Camp Office has been created for exclusive monitoring of Projects in Baluchistan.

Despite Covid situation, record number of projects have been monitored during the CFY-2020-21 surpassing the combined targets of the past 5 years. Quarterly stocktaking meetings are being conducted at Provincial headquarters /clusters for forewarning the executing agencies, for timely addressing the issues causing delay.
Alongside monitoring, projects' Profiles, Cash Plan, Work Plan and monthly progress are regularly updated. As a result of the multipronged strategy, record number of projects are expected to be completed by the end of current fiscal year coupled with significant time and cost saving.

**Q7: We are under IMF program with the pressures to restrain non-essential expenditures; how will it happen? How the increased intervention through Kamyab Jawan, Naya Pakistan Housing Scheme, Ehsaas Programme, BISP, Sehat Sahulat Programme and expenditure on vaccine will affect expenditure rationalization for the coming year?**

Addressing the socio-economic issues by no means is a non-essential expenditure. The abovementioned programs are essential for socio-economic uplift of the masses. The programs like Kamyab Jawan provided skill development and entrepreneurship to the youth in the country thus contributing to tap the potential demographic dividend. The programs like Naya Pakistan Housing Scheme and BISP and other programs are not only meant for social protection but also generate employment and may boost demand in the economy respectively. As regards the


pandemic situation, it has not only caused damage to the human lives but has also severely impacted the economic activity. The economic impact of the COVID-19 has been accounted for in the growth projections by the IMF during 2020 where global economy contracted by around 3 percent. The policy measures to mitigate the economic impact of COVID-19 have and will impact the fiscal balances globally and Pakistan is not an exception. Covid-19 has put huge pressure on health infrastructure in Pakistan, hospitals are already working in full capacity. Government's fiscal stimulus package and monetary policy response by lowering the interest rates and improved provision of liquidity, particularly for small businesses have been very instrumental in this situation. Such measures may exert pressure on fiscal space; however, this cost may be outweighed by the long-term impact of pandemic.

Specifically, I would like to point that the IMF has not categorized social sector spending as non-essential, rather it encourages enhanced spending to improve social indicators and even development expenditures are also not part of the targeted primary surplus/deficit calculations which is the main performance criteria for the Fund program. IMF Program Objectives state that, "Protecting the most vulnerable from the impact of adjustment policies will be an important priority. This will be achieved by a **significant increase in resources allocated to key social assistance programs**, supporting measures for the economic empowerment of women, and investment in areas where poverty is high" (IMF Country Report No. 19/212; July, 2019). IMF has also explained program focus in recent IMF report as "It builds on sustaining fiscal discipline while protecting critical social spending, safeguarding monetary and financial stability". So vaccination and other expenditures on livelihood are not a cause of concern as far as IMF program is concerned.

**Q8: The PIDE working paper No. 26 by Nadeem et al states that "Government's foo print on the economy in Pakistan is more than what annual general government spening (22 percent of GDP) suggests. In addition to spending, about 200 State owned Entities, SROs culture and cumbersome business regulations combine towards footprint of the government amounting to approximately 67 percent on Pakistan's Economy." What is your opinion on it? Any suggestions for the forthcoming budget?**

There is no denial of the fact that the role of the government should be that of a 'facilit tor' and a 'regulator'. And structural reforms are being introduced to gradually creating more space for the private sector. The GoP is cognizant of the huge losses which SOEs are inflicting on public exchequer. Recently a comprehensive triage exercise has been carried out in this regard. The primary objective of the triage exercise was to compr hensively review GOP's existing SOE portfolio to identify the SOEs which need to be r tained by the government and those which should be privatized or liquidated. Although this exercise was limited to commercial SOEs due to the fact that more than 98% of the government's assets and almost 100% of the losses in the SOEs portfolio are related to commercial SOEs.

As an outcome of triage exercise, a Central Monitoring Unit (CMU) has been established in Finance Division. The progress against timelines shall be monitored by the Cabinet Committee on State Owned Enterprises (CCoSOEs) regularly through Central Monitoring Unit (CMU) being established in Finance Division. Progress reporting regarding triage outcomes shall be a regular function of the CMU. While it is important that the Government takes appropriate steps towards downsizing the existing portfolio of SOEs through clearly defined ownership criteria, it is equally important that the SOEs, whether these are retained in the long run or are retained till these are liquidated, divested, or privatized, are managed through introducing appropriate governance framework and oversight mechanisms.

As part of Government's efforts to improve Pakistan's ranking in 'ease of doing business' indicators, the Government is aiming to improve the quality of regulatory environment and promote private investment across the country. As a result of recent business climate reforms, Pakistan's ranking in the World Bank Group's Doing Business Report 2020 has improved by 28 points from 136 to 108 out of 190 economies. Various steps have been taken by the BoI regarding facilitation for starting a business. The Government's commitment to improving the business environment is further manifested in the introduction of Pakistan Regulatory Modernization Initiative, a second-generation regulatory reform effort, which builds on the progress of doing business reforms in the entire country and not just Lahore and Karachi. Key features of this initiative include:

- Legal framework for developing a Federal Regulatory 'Guillotine Act' that eliminates unnecessary business regulations, and adoption of Regulatory Impact Assessment (RIA) to improve regulatory quality.

- Establish a National Regulatory Delivery Office (NRDO) for regulatory oversight to address business grievances and manage flow of regulations.

- A major deliverable of this project is the establishment of an online "One Stop Shop" by the name of "Pakistan Business Portal". This will enable businesses to find regulatory requirements, in respect of different sectors, submit their applications electronically and also pay the fees/charges online to obtain required licenses/permits.

In addition to the deregulations of existing PSEs, Government has always remained keen to involve the private sector in the development pursuits of the country. The Government has taken the Initiative of PSDP-plus, where basic intention is to reduce the pressure on the regular PSDP with the involvement of the private sector. In order to facilitate the involvement of the private sector, an Infrastructure Project Development Facility was established in 2006 which was converted to Public Private Partnership Authority (P3A) in 2017. The primary objective of P3A is to provide an enabling legal and regulatory framework for developing, executing, and implementing P3 transactions, thereby promoting private sector investment towards building public infrastructure and the provision of related services.