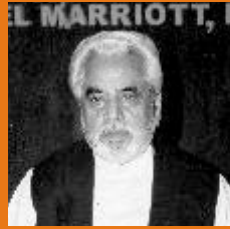




Proceedings



PILDAT Legislative Capability Building Programme



Workshop for Parliamentarians on

Federal Budget Process
How can parliamentarians make effective contribution?



Supported by

DFID
Department for
International
Development (UK)



The World Bank

May 26-27, 2003
Hotel Marriott, Islamabad

PILDAT
Pakistan Institute of
Legislative Development
and Transparency



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Acknowledgments

PILDAT acknowledges the partial support provided by the World Bank and the Department For International Development - DFID, UK, for holding this workshop .

We also acknowledge the active and zealous participation of the parliamentarians in the workshop. Their interest in the subject and their active interaction during the workshop speaks for the success of PILDAT endeavour.

PILDAT especially acknowledges the invaluable time, support and cooperation of the distinguished speakers, session chairs and resource persons at the workshop. Their learned presentations inspired an active discourse which is intrinsic to PILDAT's drive of legislative capability building. We also thank the Ministry of Finance and the Secretariat of the National Assembly for their support in making the workshop possible.

In the end, it is the commitment, zeal and hard work of the PILDAT team that ensured another successful workshop and compilation of this report. We hope that the readers of this report find it useful.

Disclaimer

PILDAT has made every effort to ensure the accuracy of views, discussions and presentations in compiling and editing of this report. PILDAT, however, does not take any responsibility of any omission or an error since it is not deliberate. The views expressed at the workshop and presented in this report are those of the resource persons and participants and do not necessarily represent the views of PILDAT.



Executive Summary

PILDAT Workshop for parliamentarians on the topic of FEDERAL BUDGET PROCESS: How can parliamentarians make effective contribution? was held so as to raise the awareness of elected legislators about the budget process and their role in it.

The workshop enjoyed intense interaction by parliamentarians on various issues covered in each session. Participants' eagerness to learn about the budget process and ways and means to apply that knowledge towards their own review of the budget was reflected through their questions and comments during the Q&A/Comments. Due to the interest of participants, each Q&A/Comments section during all sessions had to be extended to accommodate views/questions of participants, who were willing to forego or delay their tea/coffee and meal breaks for the purpose of discussion.

One of the major issues discussed by the participants, upon learning about the budget process in Pakistan through its introduction at the workshop, was that the current process only involved parliamentarians into the formulation, review and the analysis of budget as a formality, while the main role remained that of the executive. Parliamentarians belonging to all parties were unanimous in their views that parliament's role in the budget process must be increased for a meaningful participation of Parliament into the crucial area of the federal budget. A strong emphasis was placed on the role of the parliamentary committee on Finance and Revenue and that it should hold pre-budget hearings and the recommendations based on those hearings should form a part of the budget.

Participants, through their detailed feedback, also expressed their gratitude for the opportunity of learning about the crucial issue of budget process. They felt that the timely organization of the workshop provided them with the opportunity to learn about the process before the budget session. They felt that the useful material provided to them through the Workshop Dossier and in the shape of the Briefing Paper would be especially useful to them during the session.



Background

PILDAT Legislative Capability-building Programme

The PILDAT Legislative Capability-building Programme focuses on building the capability of elected legislators so as to better equip them towards an effective discharge of their duties. The Programme has been formulated in consultation with present and veteran legislators, opinion leaders, analysts and academicians to cater to the specific policy-making and analytical needs of Pakistani legislators at all levels.

Workshop on Federal Budget Process:

PILDAT, under its Legislative Capability-building Programme, held a Workshop for parliamentarians on the topic of FEDERAL BUDGET PROCESS: How can parliamentarians make effective contribution? on May 26-27, 2003 at Hotel Marriott, Islamabad. The workshop was partly supported by the World Bank.

Due to a general lack of complete and up to date information of the budget process, orientation and technical skills on the part of the elected house, a budget does not undergo a sufficient review and systematic analysis by the elected public representatives before its approval. PILDAT workshop was held so as to raise the awareness of legislators about the budget process in Pakistan, the role of legislators in the review and analysis of budget and to enhance their knowledge towards analysis and review of the budget so as to enable them to represent citizen's interests.

The workshop had nine (9) Speakers/Resource Persons assigned to six (6) sessions including the Federal Minister of Finance, Governor State Bank of Pakistan, Economic Advisor of the Government, former federal secretary of finance, former federal and provincial finance ministers and international experts. Complete programme of the workshop is attached as **Appendix A**. A special folder was prepared for parliamentarians as an information kit containing a briefing paper on the federal budget process as well as other relevant background information.

The workshop had sixty-six (66) parliamentarians, both Senators and Members of the National Assembly (MNAs) who participated throughout the two-day duration while a number of parliamentarians only attended 1 day proceedings of the workshop. Participating parliamentarians belonged to various political parties represented in the parliament. Complete list of participants and a profile; complete with their party, gender and provincial break up is attached as **Appendix B**.





Welcome Remarks and Introduction

Mr. Ahmed Bilal Mehboob
Executive Director, PILDAT



material which will be useful for legislators. He emphasised that the workshop was to be conducted bilingually for the benefit of the legislators.

One of the most important functions of the parliament is to pass budget, he said, and this provides parliamentarians with an opportunity to carry out one of their basic functions of oversight of the executive. The participants, he said, should be discussing during the two-day proceedings of the workshop that how best their role as legislators could be enhanced in influencing the budget; should the parliamentary committees on finance hold pre-budget meetings and hearings to give their specific recommendations for the budget as is customary in other developed democracies.

Introducing PILDAT to participants, he said that PILDAT is an independent and completely non-partisan research and training institute dedicated to strengthen democracy and democratic institutions. One of the primary areas of PILDAT is to build the capability of legislators for a strengthened democracy. He said that PILDAT severely guards its non-partisan stature so as to maintain the trust of all political parties. Thanking the World Bank for its partial support for holding this workshop, he emphasised that PILDAT sought support from not one but many donor organizations on the basis of PILDAT's own programmes and projects. His complete presentation is attached as **Appendix C**.

Welcoming the participating parliamentarians, observers and the speakers at the workshop, Mr. Ahmed Bilal Mehboob, Executive Director PILDAT, highlighted the need for creating awareness amongst legislators about the budget process and their role in it. Mr. Mehboob explained that the workshop, contrary to the general understanding of the people, was not a pre-budget seminar but a workshop introducing the federal budget process to the parliamentarians so as to prepare them to play an active role in it.

He explained the programme of the workshop and briefed participants that the workshop dossiers, provided to each participating legislator, contained a briefing paper on the federal budget process, both in Urdu and English languages, which carried step-by-step details of the budget process. The dossier, he explained, also carried copies of different presentations to be presented at the workshop and some of the background



Special Remarks

Senator S.M. Zafar,
Chairman PILDAT Board of Advisors



Lauding the role of PILDAT for holding capacity building workshop for parliamentarians on a crucial issue of the budget process, Senator S.M. Zafar said that passing the budget is one of the most important functions of the parliament. He explained that with the introduction of the Legal Framework Order (LFO) in the constitution, for the first time in the parliamentary history of Pakistan, the federal budget would also be presented in the Senate. The senate's recommendations on the budget, however, will have to be approved by the national assembly before these can be included in the budget.

Speaking of the independent stature and non-partisan role of PILDAT as a research and training organization dedicated to strengthening democracy and democratic institutions, Senator Zafar said that PILDAT was rendering a great service to the country and its democracy through building the capacity of elected legislators towards a better discharge of their duties as public representatives.



Session 1

Present State of the Economy and Future Prospects

Dr. Ashfaq H. Khan
Economic Advisor, Ministry
of Finance



situation which has resulted in reduction in economic growth and rise in poverty and unemployment. He presented statistics showing the gulf between Pakistan's internal and external accounts in the last two decades which was twice the amount maintained by successful economies in Asia. Debt servicing, he added, has risen from 12 per cent of the GDP to 66 per cent of the GDP, leaving little to spend on development in the country. The two options available to the country were to either pump money into economy, which was not possible due to the constraint the amount of debt servicing imposed, or reduce the deficit.

Dr. Khan explained that Pakistan's economy had experienced an uplift during the last few years owing to the policies of the present government. He said that the external balance of payment has never been better. The foreign exchange reserves of Pakistan stand at an unprecedented US \$10 billion while the exports have seen a 22 per cent increase. The stabilization of economy, he added, can be the result of a sustained policy. The current policies have only just started to bear fruit and a continuation of the right policies will prove useful.

He emphasised that consistency and transparency in economic policies and fiscal responsibility were mandatory in the process of budget making. His complete presentation is attached as **Appendix D**.

Dr. Ashfaq H. Khan said that the budget was not the name of income and expenditure alone but it reflected the economic policy of the country and was an instrument to influence the level of economic activity. He explained that the government published a state of the economy report before budget on the economic state which explained the pre-budget improvement in various sectors and the policy measures required to improve various sectors. Dr. Khan emphasised that it was the responsibility of parliamentarians to oversee the direction of the budget for a robust economy.

Dr. Khan said that the gap between revenue and expenditure is the chief cause for our debt



Q&A / Comments

Question by:

Mr. Fareed Paracha, MNA

What is the role of a parliamentarian in the pre-budget process? There is absence of parliamentary committees on finance, which are supposed to submit recommendations before the budget and review it as is the practice in other democracies of the world. In Pakistan only the IMF, the ADB and the World Bank seem to be monitoring our budget and pushing their recommendations into it. Another thing is that our debt being 4.3 billion is mostly due to the 9/11 situation. You've also referred to the improvements that are to be brought about in the tax culture: may I ask what revolutionary changes do you have in mind in this regard?

Answer by:

Dr. Ashfaq H. Khan

The revolutionary change in the tax culture promotion is the Taxes Ordinance 2001. This year people are filing returns and the communication gap between the tax payer and tax collector has been broken. A system has been implemented which selects 20 per cent of the sample randomly

who will be audited and brought to the book. Sir, no doubt 9/11 accelerated the debt payment process, but I would like to mention that a lot of things happened prior to 9/11; our reserves were US \$ 3.1 billion on July 3, 2001 hence this process had started before 9/11. About the budget, I would like to clarify that a budget is not just related to income and expenditures in the economy but serves as a source of direction for it as well.

Question by:

Senator Nighat Agha

A rosy view of the present state of economy has been presented yet in reality the country witnesses a growing rise in unemployment as well as poverty. The official statistics provided on poverty here differ from the independent statistics.

Answer by:

Dr. Ashfaq H. Khan

The statistics, you refer to, are similar to the phrase 'beauty lies in the eyes of the beholder. These depend on the number line you compare it with: a shift in this line could greatly affect the figures. But figures aside, it is a fact that there has been a rise in



poverty during the mid 90s. But how is it possible to control the increase in poverty when growth and investments are decreasing? Poverty, unlike growth or inflation, can not be measured annually but requires time to be eliminated.

Question by:
Dr. Donya Aziz, MNA

In your discussion of the long term plans, there has been no mention of a major issue, i.e. the WTO. What will be its impact on Pakistan's economy especially with regard to imports and exports?

Answer by:
Dr. Ashfaq H. Khan

The WTO has been a challenge not for Pakistan alone but for all developing countries alike; everyone is trying their best to prepare for it. I would particularly mention our textile industry which is preparing itself for open trade. Our textile mills are undergoing modernisation and expansion to come at par with the world. You must raise this issue before our commerce minister as well. I think the textile industry is in a very comfortable position.

Question by:
Mrs. Riffat Javaid Kahlon, MNA

You have mentioned the implementation of a new tax culture. How can it be possible unless the government provides services to the people. Generations have passed paying toll taxes at the Ravi bridge: the question arises can this toll ever be waived? Can Ravi bridge's expenses ever be met? Or these innumerable taxes people pay have been used for construction of new roads in the under-developed areas?

Answer by:
Dr. Ashfaq H. Khan

This is a chicken and egg question. The problem is that the government cannot spend unless it has money so this is no excuse for not paying taxes. Another reason for such dearth of services is debt-servicing which consumes 66 per cent of the national income while the remaining 34 per cent prove insufficient in fulfilling the requirements.

Question by:
Senator Mohim Khan Baloch

A huge portion of our budget is being spent on debt servicing, unless our birth rate is higher than our production rate, we cannot reduce poverty. What are the possibilities of improving production? Our US \$ 10.5 billion reserve is not representative of our income, US \$ 4 billion have been bought from private market. What are your comments on this?

Answer by:
Dr. Ashfaq H. Khan

This is a misconception that the reserve comprises only a country's income; every country creates its reserves through a number of sources which include export, private flows, grants, etc. I would also like to clarify that our exchange rate is determined by the market. In order to avoid excess of currency and to stabilise the exchange rate, the State Bank of Pakistan is responsible for removing a portion of the dollars at the end of each day. The production rate, I agree, should be higher than the birth rate. We have faced lower production rates in the past due to debt servicing and droughts in the country.

Question by:
Mr. Asadullah Bhutto
MNA

You have only stressed on the role of external investments in your presentation but no country can prosper solely on external investments. The role of internal investments cannot be ignored in the development of a country. Can you highlight its role in Pakistan?

Answer by:
Dr. Ashfaq H. Khan

I did not mention any country which is drastically indebted and yet experiencing an increase in internal investments. As long as debt servicing remains a huge issue, the government can not spend the adequate amount on development to hold attraction for private investments.

**Question by:****Mr. Kanwar Khalid Younus, MNA**

Dr. Ashfaq Khan gave a wonderful presentation on our economic situation and the major irritants faced by the economy but ignored the biggest irritant of defense expenditure. Do you agree that it is one of the biggest irritants?

Answer by:**Dr. Ashfaq H. Khan**

Defense spending is now a declining item in terms of the GDP expenditure and the total Expenditure. Our defense expenditures have declined from 7.5 per cent to 4 per cent. Its total expenditure has faced 9 per cent and the current expenditure has faced 15 per cent decline. The biggest drain on our economy is not defense but interest payments.

Question by:**Ms. Samia Raheel Qazi, MNA**

What is the authenticity of the facts and figures that have been presented?

Answer by:**Dr. Ashfaq H. Khan**

The fact that our economy has improved is noticeable not only in the government statements but also being stated by the international financial institutions like IMF and the World Bank.

Question by:**Senator Razina Alam**

I want to ask why education has never been allotted 2.2 per cent of the GDP in our budgets. Also, what happened to the Iqra surcharge which was implemented? Secondly, the rate of inflation you mentioned at 3 - 3.3 per cent differs from the rate of inflation quoted otherwise.

Answer by:**Dr. Ashfaq H. Khan**

The Iqra surcharge was removed long time ago.

a result of debt servicing, our resources are limited and fiscal discipline is very crucial in our expenditures. Inflation has decreased but it should be pointed out that low inflation did not mean a decrease in prices but the slowdown in price hike. Inflation works as grease in the economic engine of a country. Around the world the inflation rate stands roughly at 3 - 3.3 per cent due to which interest rate has collapsed.

Question by:**Senator Akbar Khawaja**

I suggest it would be fair if you could show some link between these reserves you talked about and the economic growth. Your statistic of US \$ 37 billion to US \$ 26 billion debt reduction is a bit of an overstatement.

Answer by:**Dr. Ashfaq H. Khan**

What are reserves? These are the foreign grants, remittances and project loans. Reserves encourage investments and provide security to the country.



Session 2

An Overview of the Budget Process

Senator Shaukat Aziz
Federal Minister of Finance



parties the common denominator would be the stabilisation of Pakistan's economy.

Thanking PILDAT for holding the workshop to orient parliamentarians with the crucial issue of the federal budget process, Mr. Shaukat Aziz said that the country's economy was stable due to the continuation of national interest-based policies; however, wrong policies could derail the progress. He said that he would welcome the views of representative of all political parties represented at the workshop but expected that despite different approaches of the political

Presenting a broad outline of the budget process, he explained that the process starts with the estimation of expenditure of each department and the Annual Plan Coordination Committee (APCC) which decides the size of federal budget. This year, he said, the development spending was less than the target, which was not exceptional and a 30 per cent increase was planned for the next year. The National Economic Council (NEC), a constitutional body presided by the prime minister, finalises the macroeconomic framework and other development programmes. The economic survey of the year is published after that which contains a comprehensive report of all sectors of the



economy. Mr. Shaukat Aziz strongly advised parliamentarians to read it from cover to cover to learn about the situation of economy.

This year macro-economic indicators show positive trends, he said. The GDP growth rate target is 4.5 per cent but we will exceed it, he hoped. Poverty, he said, is a huge problem but if steps are continued to be taken in the right direction, it will be reduced by 25 per cent. Poverty reduction is not possible through gimmicks but by an increase in the GDP, development programmes of the government and private sector investments accompanied by good governance.

Speaking of transparency in economic policies, he said that five years ago the letter of intent signed between the government and the IMF used to be a secret but today it is put on the website. He advised parliamentarians not to let the government take debt for consumption but for development. Great care and foresight needs to be displayed for setting government's economic policy, he said. The policies adopted by the country today are its own and donors cannot be blamed for those.

Mr. Shaukat Aziz said that a "Fiscal Responsibility Law" was being planned to discourage procurement of limitless loans and the parliament will override the government. This will be your gift to Pakistan, he added.

The budget, he said should be based firmly on ground realities. He explained the budget allocation for development sector which included the provincial funds, funds for social sector, transportation, agriculture, physical planning and housing planning. Housing sector was being encouraged as it increased construction activities which influenced many other industries. Car and motorcycle production had been a great source of employment, he observed. In order to check smuggling, cost of business was to be reduced. There was an increase in machinery imports which he considered a positive sign for the industry. Referring to the growing reserves, he explained that even though it apparently had no effects on the poverty and unemployment conditions in the country, it had stabilized the economy and curbed inflation.



Q&A / Comments

Question by:

Ms. Mehnaz Rafi, MNA

I would like to point out that there is no participation of parliamentarians in the pre-budget phase and parliamentarians are never asked to give their input. After the finalisation of the budget, the ministry imposes a new tax or takes a loan on its own and the parliament becomes useless. Secondly, as of your tax culture promotion, if you introduce a 20-page tax form and change it everyday, is it friendly?

Answer by:

Senator Shaukat Aziz

You have not seen the new form as it has not been released. The form which was created two years ago is still the same. On the one hand you want discretion and on the other hand you have to give information. The form is 100 per cent based on self assessment and interaction with the tax department has been finished to avoid avenues of corruption. As for the pre-budget dialogue, I have met many of your colleagues who have given their input. If you have any individual item to discuss, you are welcome to visit me in my office.

The parliament's opinion is taken when the budget is presented. There used to be mini-budgets with the increase of oil prices. The tax on it now is fixed and transparent and we are not touching it.

Question by:

Ch. Qamar Zaman Kaira, MNA

In Pakistan, 1.2 million people are being added to the unemployment pool every year. How many people are being unemployed through the various downsizing, upsizing, privatisation and golden handshakes? Instead why are the retired defense personnel filling up every lucrative post in the country usurping the rights of the youth?

You talked about decreased profits but the rate of profit in "Khushali Bank", a government bank providing loans to small investors, is up to 18 per cent as opposed to the steep decline in the profit rate of banks throughout the country.

Answer by:

Senator Shaukat Aziz

You talked about unemployment. The government had to help banks by restructuring. Rs



14 billion were given to banks with the help of the Asian Development Bank. The government cooperated for golden handshaking in banks because it added Rs. 24 billion to restructure these banks to prevent these from defaulting. Agricultural Bank is also restructured.

I seriously want to remark on the interest rates. The weighted average lending rate is 8 per cent and the biggest profit is for the government as it is the biggest borrower. Khushali bank has a small income stream. We are reviewing this. They have no revenue powers and their collection rates, I agree, are pretty high Private micro finance institution and NGOs are micro financing as well due to the high demand.

Question by:

Mr. Abdul Rauf Mengal, MNA

You are just using IMF's facts and figures which are removed from the reality in Pakistan. With regard to growth, 2 lakh tons of onions have been produced in Balochistan but these are given a market and in protest the farmers want to burn those. Balochistan has been suffering through a drought for the past eight years and while making budget, this should be considered. In Makran, Iran's border area, wheat sacks cost Rs.1500 to 2000, but when we import it from Iran, it is called smuggling.

What about the people who have been fired in rightsizing and replaced by army general, colonels and brigadiers? We raised this issue on the floor of the national assembly as well that where did the corruption start, with the military or with the civilians? And still civilians are removed to give lucrative posts to the retired military officers.

Answer by:

Senator Shaukat Aziz

Balochistan, agreeably, has the highest potential with the largest land and yet it is the most underdeveloped. I visited Gawader and the fish there would get a better price if there are better transportation network which is being built to Karachi while the Gawadar Port and the airport are also being built. We are trying to introduce development schemes. Onion is not a federal

issue. If the provincial government is told beforehand about how the crop is coming, it can properly arrange for its export.

You talked about IMF. I want to tell you that this is Pakistan's last IMF programme. We will not need this program in the future and you will be happy to know that we are returning the debt of IMF and the World Bank before the due date. We met the Managing Director of IMF and told him we will prepay him and he was delighted. The choice is entirely ours to be beggars or to be a fiscally responsible nation. We have a chance to choose the path we need. I will request you to move in a way which is beneficial to the country.



The Federal Budget Process

Mr. Ghafoor Mirza,
Former Federal Secretary Finance



Mr. Ghafoor Mirza explained various steps in the Federal Budget process, presenting and explaining the articles in the Constitution related to the money bill.

The budget making process starts with the issuance of a budget circular and different ministries present a detailed expenditure estimate for the scrutiny of the Planning Division, he explained. After the scrutiny of the Annual Plan Coordination Committee, these recommendations are forwarded to the National Economic Counsel (NEC) chaired by the Prime Minister.

After approval from the NEC, these are sent to the ministry of finance for incorporation in the budgetary proposals. The budget is presented along with its documentation in the assembly which contains the Finance Minister's speech, demands for grants, demands grant and appropriation summary, budget in brief, medium term budgetary framework, and projections for the next two to three years, he said. His complete presentation is attached as **Appendix E**.



Session 3

Responsibilities of the Parliament and Parliamentarians Relating to the Budget Process

Salim Saifullah,
Secretary General
Pakistan Muslim League (Quaid-e-Azam)



resources, distribution of wealth and incomes and the stabilisation of the economy.

The role of the parliament, he said, was one of authorisation, oversight and supervision which ensured transparency and accountability. He stressed upon the need for pre-budget dialogues, and praised PILDAT for holding this workshop to familiarize parliamentarians with the budget process.

Mr. Saifullah said that budget in the USA is presented 10 months beforehand to the congress for scrutiny. The budget speech is the strongest tool available to parliamentarians in the budget. Parliamentarians should represent public's interest while reviewing budget. National consensus building and building linkages at the community level can be achieved through active dialogue between parliamentarians and the civil society.

He stressed that the role of the finance committee should be strengthened to hold pre-budget hearings to be able to offer policy guidelines for the coming budget. His complete presentation is attached as **Appendix F**.

Mr. Salim Saifullah believed that the budget was the most important statement any government could make as it was a blueprint of its socio-economic policies for each fiscal year. He highlighted the various functions of the budget which include the allocation of



Senator Prof. Khurshid Ahmed Chairman, Institute of Policy Studies



and has to be approved by the country's parliament. Parliament, said, adds authenticity to the budget.

Parliament is not only the authorizing institution but also the accountability institution, and has to carry out its functions of oversight and check on the executive. He said that while reviewing budget, parliamentarians should see if the revenues and expenditure depict that it is a balanced budget or a deficit budget. Secondly it should be clear in the budget where is the income coming from so that its analysis is possible. The social and economic impact of the budget can be gauged from the tax and expenditure. Parliamentarians should scrutinize if the socio-economic objectives are being fulfilled or not and poverty and unemployment are rising or falling.

Explaining the historic background of the powers of the parliament on budget, he said that parliament got this power after a lot of struggle. The only sovereignty available in kingship or dictatorship was that was all the treasure was for the ruler only. Islam presented a new tradition when Quran gave the framework of the major responsibilities to be disposed off morally and those which will be carried out with masalihah. The concept of budget came later on. Budget is

Senator Prof. Khurshid Ahmed said that according to the popular concept of budget, the aspects of the budget include statement of the account explaining government spending and an overview of the government's economic policy. The budget is a constitutional document



presented in a red pouch in England. The budget was first made in England in 1822 and in France in 1831. People struggled as to how the parliament could take the right from the executive that the authority is not merely of the ruler. In 1815, there was a dispute in England when one of the powers taken from the king was taxes which were decided to be imposed through the advice of the common council. This authority of the parliament has been marginalised. The executive has taken back these powers in its own hands and merely decorative part of the budget has been left for the parliament. Parliament should establish its sovereignty in financial matters and should have a positive role in the budget making.

The current budget process is a counter-coup by the executive which has taken away the powers of the parliament which were gained after 800 years of struggle, he said. The parliament has no role in the budget making and it is given even less than a month to review and pass the budget. Mr. Salim Saifullah was wrong as the budget in the US comes twice a year while England takes 4 months; Italy and Sweden take 6 months and Japan takes 3 months in budget making while in Pakistan budget is presented as ready made, he explained.

He believed that the parliament in Pakistan also faces disempowerment in the annual development plan as it is given no part in its formulation. Parliamentarians have to reassert their authority. Parliament has no right to propose taxes but can only propose a cut in grant. India follows the same procedures with a slight practical difference. The authority parliamentarians already have needs to be utilized to the maximum. Parliamentarians can gather useful information through questions throughout the year and authorization without information is entirely fruitless. The economic survey shows half the things and hides the other half. The US Congress has 850 scholars as parliamentary support staff full time involved in research on over 6000 subjects. He advised that parliamentarians should ask for information and research facilities as it is their right. They should not waste time and work on analyses and effects of the budget policies, he said. For instance, macro stabilisation is very important and World Bank and IMF emphasize it but it cannot be achieved by ignoring micro issues. Foreign crease

exchange does not depict success of the country's production, asset creation, increase in investments and poverty elimination, but foreign remittances, debt rescheduling and curb buying.

He held that the framework and rules of procedure and conduct of business should be reviewed as 95 per cent of these are those of the British assembly. For the first time the Senate in 1986 tried to gain some powers by changing the rules of the committee system to have elected chair of the committees instead of the departmental ministers. The Public Accounts Committee should work for 12 months in a year and it keeps government on its toes in most of the countries in the world. The chair of the PAC should always be held by the opposition MP, he commented.

He said that Supplementary grants in the budget are an index of the failure of the government which should work within the framework. Similarly SROs are an encroachment on the sovereignty of the Parliament, he concluded.



Syed Naveed Qamar, MNA; Former Federal Minister for Finance

Syed Naveed Qamar said that the current budget process did not have a meaningful input of elected legislators other than the later part of the finance bill. Praising PILDAT for holding the workshop to acquaint parliamentarians with the budget process, he said that it was a misfortune that such workshops were not held in the past.

Explaining various stages of the budget process, he said that the finance minister makes a budget speech in the house highlighting the budget which is followed by general debate on budget and demands for grants. The finance bill follows that, followed by the supplementary budget and finally the laying of schedule.

Syed Naveed Qamar said that it has become a tradition that the budget speech by the Finance minister would be live. The budget speech is accompanied by the related budget documents. During the general debate, parliamentarians should be prepared for issues such as duration of the speech, division of time, subject of debate and rules of the debate. The contents of their speeches should not be repetitive and insignificant. Since voting is done on each and every item, this is the time for parliamentarians to show their loyalties to their parties, especially those belonging to the treasury benches, to be present to vote on each item, he advised. The demand for grants, he added, is given in the pink book which includes charged expenditure. No voting is done on this but it includes important information such as the performance of the President's secretariat and the Election Commission, etc. Reading through this, members can find out how much each ministry spent and use it during the ensuing debate, he suggested.

In the first reading, general opposition is presented to the overall bill. In the second reading, members that oppose speak and individual amendments proposed by members are discussed. In the third reading amendments, if any, alongside taxes and duties are added. This is concluded by the presentation of the supplementary budget. After this final step, the completed budget is laid out, he concluded. His presentation is attached as **Appendix G**.



Q&A / Comments

Question by:

Ms. Fauzia Habib, MNA

Prof. Khurshid's talk was very informative. True that our budget is made in a rush and passed in a rush but please suggest what law need to be brought in the parliament to ensure that the budget is a public budget and effective input of parliamentarians is ensured in the budget?

Answer by:

Senator Prof. Khurshid Ahmad

For a change in the constitution or in the business rule a task force has to be formed. The change in the constitution will have to remove the supplementary budget and the SROs, by removing the ordinance 89 which is found in India, Bangladesh and Pakistan. Today, 90 per cent of the legislation is based on ordinances which are stamped by the parliament. The difficulty we face is due to the despotic system which is not quite parliamentary but the prime ministerial system. Prime Minister also needs to be accountable to the parliament. The budget should come to the parliamentary committee as happens in happens

in Sweden, Canada and a number of other countries. These committees work on the budget after it comes. Parliamentarians will have to work on this bringing this change if they are interesting in exercising a better role on the budget. An inter-parliamentary task force should be created to properly formulate these amendments.

Question by:

Mr. Omar Ayub Khan, MNA

What is the authenticity of the indicators on which our budget is created? For example, when we talk about the unemployment, we talk of the survey figure of 7.7 per cent which is a wrong figure. The surveyors ask children above 10 years who earn Rs. 12 a day and call them employed. We are being hoodwinked. Parliamentarians should have some input in the productivity growth of country, income distribution, unemployment rate and inflation. When we are not even sure of the indicators, what can we say of other procedures?



Answer by:
Mr. Ghafoor Mirza

Figures should be presented with their definitions of how these are calculated. These analyses are published in the newspapers. There are tools by which these figures can be gauged.

Answer by:
Senator Prof. Khurshid Ahmad

Both of your points are valid. Our statistics are unreliable and are altered in such a way that the true picture cannot appear which is unfair. We cannot plan properly without the right statistics. Definitions also keep changing. Economists know that there is low margin of error on the figures of poverty. There is a famous book on economics which says that there are chances of GDP variation of 5 per cent and we argue that we have gained 2.6 to 2.7 per cent. GDP hides a lot and it should be a disaggregated thing. In a study, 38 indicators have to be used to determine and then one can tell which way we are headed.

Question by:
Ms. Mahnaz Rafi, MNA

From Mr. Ghafoor Mirza, I would like to know if the budget contains details of some institutions like WAPDA, PIA Railways and Defense etc., which can be debated upon? What are the secret funds of the government and how much money is allocated to it? Secondly, in the 1973c constitution, and not the LFO, can the parliament question the discretionary expenses?

From Prof. Khurshid Ahmad, I would like to know what is the tradition and if the cut motions can come from the treasury benches as well and can they express their views on the budget and its likely effects?

Answer by:
Mr. Ghafoor Mirza

You have mentioned PIA and WAPDA and these two make their own budget and from what I know, allowance has to be taken from the parliament

and it has to be presented in the form of grants, otherwise supplementary grants are issued. Defense allocation is debated upon and voted and it is presented as a one line budget. The State Bank is the custodian of the federal consolidated fund but for the withdrawal of money before the budget, the authority has to be sought from the parliament and after the budget it is taken through a supplementary grant.

Answer by:
Senator Prof. Khurshid Ahmad

Your question is correct. The institutions which are being supported by the budget, the information about them is insufficient. At one time details were provided about these institutions but these were discontinued. Parliament has no power on president's charged expenditures. If the parliamentary party uses its right, it can learn the details of the discretionary fund and can also abolish it. Technically, every parliamentarian has the right to use cut motion, but traditionally, treasury benches do not pass cut motions as it is done by the opposition and the independent parties.

Question by:
Mr. Qamar Zaman Kaira, MNA

What is the proportion of cut motions in the budget? What is the proportion or percentage of changes in the budget in practice? I want to ask Prof. Khurshid Ahmed that Mr. Salim Saifullah said that budget is created for the distribution of wealth. In the capitalist system we have, is the budget a means of collection of wealth or that of distribution?

Answer by:
Syed Naveed Qamar, MNA

Opposition usually has no cut motions, because if these are passed, the government will fall. It is not used as a tool for reducing the taxation as taxation can only be reduced if a consensus develops on it. It is the issue of the manifestoe of the ruling party whether they want to reduce or increase poverty, how much taxation should be imposed on the



overall system, etc.

Answer by:
Senator Prof Khurshid Ahmed

There was only one case in 1987 Bhutto era when the whole budget was slashed. There has been distribution of wealth but it is inequitable. Every tax and expenditure affects income, but sadly a correct income policy has never been implemented. Unless it is there, there is no deliberate way to reduce the disparities which are increasing.

Question by:
Mr. Baees Siddiqui, MNA

In Pakistan, electricity is so expensive. We have huge recourses of water in Chitral, Dir and Swat etc and experts say that if we use these to produce electricity, we can have it for 3 paisas per unit. The finance minister said that there is a US \$ 10.5 billion reserve but the conditions of roads, schools, hospitals and other facilities is so bleak in the NWFP. Also, we can develop our tourists areas in NWFP to get foreign exchange, but we don't have our priorities right.

Answer by:
Mr. Ghafoor Mirza

A lot of work was done by the German GTZ company on hydro project. The government is working on it.

Answer by:
Senator Prof. Khurshid Ahmed

The question is related to the finance minister. In my judgment, foreign exchange reserves do not guarantee solutions for internal problems and there is no significant link between them.

Question by:
Kanwar Khalid Younis, MNA

You mentioned that committees play a significant and powerful role in the budget in the US. What are

our constraints that such a committee has not been formed in Pakistan?

Answer by:
Syed Naveed Qamar, MNA

Firstly, in our rules of procedure, there is no provision for such a committee. Normally over there, the legislation first goes to the committee and then it goes to the assembly floors to be discussed. The finance bill does not go to any committee but it goes to the assembly and is passed. Prof. Khurshid Ahmed spoke of the change in the constitution to bring this about. I think even if the rules have to be changed, a chance to debate on the budget should be obtained. There is nothing in the Constitution which says it should not go to the committee. It should be presented after being approved.

Answer by:
Senator Prof. Khurshid Ahmad

Syed Naveed Qamar is right that we do not have such a committee. It is most successful in Britain, Canada, Austria and the US. The bill comes to committee whose report is discussed. Why we do not do it is because our executive does not want that the Parliament should play a role. They want to present a ready-made bill and get it passed. Parliamentarians have to raise their voice to create such a committee. I spoke of the change in the Constitution for closing the door for supplementary grants and law making through ordinances. Apart from this, the issue of budget making and oversight can be revised through revising the rules of procedure of the parliament.

Question by:
Mr. Fareed Paracha, MNA

Is there a performance audit of the past year's project grants? This is highly essential; especially when the incomplete projects are not completed by the new government due to different priorities.



Answer by:
Mr. Ghafoor Mirza

Audit is carried out and its reports go to the public accounts committee. Audit is regular but the performance audit is not across the board and is only carried out for the project that is identified. The auditor general gets its performance audit and takes its report to the public accounts committee. If the project is incomplete, it will come in the audit. Numerous such projects have been discussed in the public accounts committee and I have heard such debates.

At this time, there is an incremental budgeting. Work is definitely being done on the programme budgeting. There are two areas: medium term budgetary framework and medium term expenditure framework. There are experts working on it that medium term framework is introduced. A rough draft in the last year budget is also there. But its only just the beginning.

Answer by:
Senator Prof. Khurshid Ahmad

Our problem is that we kill these innovative ideas. With regard to the performance budgeting, a committee was formed in late 1950s or early 1960s. Now it has been over 40 years. In the rest of the world, the terms of incremental budgeting, performance budgeting, programme budgeting are used. Similarly the time horizon is such that they tell you within three up to ten years in advance.

Question by:
Sardar Bahadur Khan, MNA

The budget is not only a financial statement but a mandate of the political government for its tenure. But in Pakistan, it is left in the hands of the technocrats and not given a political orientation.

As for the proposals, I have been a member of the finance advisory committee and we had given some beautiful proposals which were not reflected in the budget. I believe that these proposals should be printed and the government should answer why these are not included or

followed in the budget. Pre-budget participation and input by parliamentarians has to be ensured.

Answer by:
Syed Naveed Qamar, MNA

I agree that parliament's role should be created for the pre-budget stage.

Answer by:
Mr. Ahmed Bilal Mehboob

Pre-budget hearings by the parliamentary committee in Canada are held, and based on those recommendations are sent to the ministry. Finance committee in Pakistan should also follow that practice.

Answer by:
Mr. Ghafoor Mirza

About the booklet to be published, my experience is that most recommendation in committees are based on reductions in taxes and duties whereas the government needs resources. Otherwise good proposals are always discussed at all levels. Pre-budget parliamentary meeting took place once in April 1997 in the State Bank building where all parliamentarians and the prime minister were present. A 4-hour presentation was given. I was there. They got a wonderful feedback from parliamentarians.

Question by:
Mr. Asadullah Bhutto, MNA

I think the problem is of the role of autonomous bodies. They keep increasing their products' prices etc and the public suffers. These are not even in the budget. Things that are not in the control of the government, that is the cost of electricity, etc., are not even under the parliament? How can this be controlled?

Answer by:
Syed Naveed Qamar, MNA

I agree that step-by-step we are removing many



significant things. One reason was that they were corporations and it was said that they will run on commercial basis and privatized. You can bring this in debate. Information can be obtained beforehand. They cannot stop you although they will not bring facts to light voluntarily.

Question by:

Ms. Maimoona Hashmi, MNA

Are the performance audit reports, whether discussed or not, made public? Are these department wise reports available to the public if we want to these?

Answer by:

Syed Naveed Qamar, MNA

These reports are not part of the budget process. They are presented to the national assembly which sends them to the PAC which looks at each report one by one in detail. These are kept in the national assembly library but the latest has not come out yet.



Session 4

Continuity of Reforms

Dr. Ishrat Husain,
Governor, State Bank of Pakistan



privatization strategy was crucial for the country, he said.

Dr. Ishrat Husain began by saying that it was unfortunate that the country did not enjoy a stable democracy. He believed that the elected representatives need to be made aware by the technocrats about the economic policies that the country should follow towards economic prosperity. Each province has a different issue and only when provinces think seek solutions as a part of the whole that they will benefit, he said.

Parliamentarians, he believed, have an oversight function of the executive and should keep a check on the executive. Every government since 1991 has almost adopted the same policy of economic growth, poverty reduction and employment increase but the question is of the strategy adopted in following that policy, he said. The role of the government in Pakistan has been very oppressive. The public sector corporations, which were created for the benefit of the common man, have been a source of harm and a loss of Rs.100 billion each year in the budget. If only 50 billion could have been spent on free education, water or free health during these years, the development situation would have been better. The country had to borrow hugely to cover the losses of public corporations, hence the

Dr. Ishrat Husain emphasized that continuity of the economic reform strategy is essential for the country. He was of the view that certain reforms were necessary to continue in the country for better economic management and growth which include restructuring reforms in WAPDA, KESC and CBR, financial sector reforms, privatisation, fiscal discipline, good governance, agriculture sector reforms, Social sector reforms, civil service, police and judicial reforms.

Dr. Husain said that before September 11, 2001, foreign exchange reserves had reached from US \$ 1 billion to 3.2 billion. After that we got the approval from PRGF for the first time, which gave us relief in debt payment and increased our reserves. Other positive outcomes included transfer of remittances from bank channel, lessening of debt servicing burden and the US \$ 1 billion aid from the USA. Admittedly, he said, our exports, faced losses. The country saw stability in prices, and improvement in the food sector.

Decentralisation, he believed, is they key to get rid of the elitist model of economy. The centre cannot know the needs of the people of Shikarpur, Sindh, for instance, and power has to be devolved to the local level. There are many ministries in the centre which are not required. Education and Health need to be dealt with at the local level. Complete Paper of Dr. Ishrat Husain is attached as **Appendix H.**



Q&A / Comments

Question by:

Mr. Akbar Chiterali, MNA

After 9/11, we received financial aid from the U.S. and US also said that Pakistan faced a loss of US \$10 billion. I want to ask why could not we prepare ourselves for this situation? You also talked about the low rate of production despite the country's abundance of resources. Why is that?

Answer by:

Dr. Ishrat Husain

In Pakistan, the land is fertile but farmers not instructed; water is abundant but the rivers directly fall to the sea and the construction of dams is disputed and electricity is not produced by that system; minerals are there but no extraction policy and mechanism is in place. We had an increased

Of wheat in the past few years but since it could not be stored properly, farmers faced disappointment. We have now allowed the food department to be procured by the private sector. We can not prosper without positive thinking.

Question by:

Ms. Mehnaz Rafi, MNA

I thank Dr. Ishrat Husain for the information provided to us. We increased the borrowing till 1999 and also witnessed an increase in poverty. I want to know that why we borrowed such amounts and where was that spent. We all talk about Parliament's sovereignty but parliament is not in the picture about borrowing. Another thing that is said is that Parliament is not powerful but the military has all the power. What is your view?



Answer by:
Dr. Ishrat Husain

It would not benefit our country to keep looking at the past. Nelson Mandela established a Truth and Reconciliation Commission and revolutionised the fate of South Africa. He was sent to jail but he said he was ready to forget that and look ahead instead of carrying out a vendetta against those who convicted him. In the last 3 years, we have reduced the debt from US \$ 38 billion to US \$ 35 billion and we will further reduce it in the future. We should be accountable to the parliament. I am thankful to PILDAT for providing this opportunity to us as well as parliamentarians to interact on such an important issue. Parliament has the right to point out the weaknesses in the budget and review it as public's representatives.

Question by:
Senator Dr. Akbar Khawaja

You said that you have given so much material to the parliament but they do not read or prepare for it. I disagree with this. The Poverty Reduction Strategy Paper is an important document. The draft and interim PRSP has not yet been received by the Parliament. It contains many issues that may raise objections but once it is brought as a complete document, what suggestions will Parliamentarians be able to give for that?

Secondly, what are the bases on which you estimate poverty? WAPDA is given both subsidies and medals. Is this fair for an organisation which does not show efficiency? Then the Khushhali Bank was praised. You have decreased the interest rates of big investors but the interest rate of the Khushhali Bank, for the poor, still remain between 16-18 per cent. Also, good governance, as you know, starts at the top and if top institutions don't follow rules, how can this be translated for the entire country?

Answer by:
Dr. Ishrat Husain

I totally agree with your comments. As regards the PRSP, consultations are being done at the civil society and the district level. It will be presented to

the parliament after a consensus has been reached.

PRSP, consultations are being done at the civil society and the district level. It will be presented to the parliament after a consensus has been reached.

As a neutral entity, I was asked by the President to analyse WAPDA's situation. Four aspects that came to light were that IPPs were the biggest source of WAPDA losses. At the start of agreement, they were given 5000 tons of fuel oil, which now stands at 13000 tons; FATA billing was not being paid; thermal and hydal mix was 50-50: hydal power generation cost was low and thermal very high. For the past three years due to drought 70 per cent has become thermal and 30 per cent hydal and hence the cost of generation has increased. So WAPDA is not as much the cause as external factors are. Then there are line loses, embezzlement and pilferage, nonpayment by not only FATA but also many of the central and provincial government departments.

Question by
Senator Razina Alam

What role did the state bank play when huge loans were written off by banks on the basis of political collections? As for your stress on the continuity of your government's policies, it has become a culture that the policies of one government are criticized by the other. You've started out by criticizing the policies of your predecessors.

Answer by:
Dr. Ishrat Husain

There is a major difference between cynicism and constructive criticism: countries, which are given to cynicism, lose. We only concentrate on the bad points. 60 per cent of the population lives in rural areas and is self-sufficient and not affected by rise in petrol prices.

As for banks loans, you will be surprised that until late, the State Bank had no authority checks on loans. It was the Pakistan Banking Counsel created by late Prime Minister Zulfikar Ali Bhutto created



after nationalization which loaned. The Nawaz government played a major part in bringing y 5 per cent of those have been non-performing, autonomy to the central bank and it strengthened professionalised banks. Since then 95 per cent of bank loans are returned on time and only 5 per cent of those have been non-performing.

Question by:

Dr. Kausar Firdous, MNA

It is unfair that projects in construction for the good of the people are cancelled by the next government. Secondly, the tax collection assessment formula is a good thing but there is no tax culture in our country. What steps are taken to prepare people for the tax culture? And thirdly, privatisation is a good thing but its after-effects have to be faced by the common man, so a formula needs to be devised to ensure that privatisation would not hurt the man on the street.

Answer by:

Dr. Ishrat Husain

It is a very good question and you have voiced my feelings on the issue. Projects need to be completed keeping in view the good to the country and the people. As for the tax culture, if we are not honest, no culture can be evolved. Only 2.3 million Pakistanis pay taxes.

The State Bank has just been granted regulatory powers on privatisation that if a customer is wronged or deceived; state bank can take action against the company. For WAPDA there is NEPRA and such regulatory agencies have been made. Privatisation is worse than public monopoly if no regulatory check is placed on it.

Question by:

Mr. Asadullah Bhutto, MNA

I want to ask about the verdict of the Supreme Court on interest-free banking system. What measures have been taken by the State Bank to promote interest-free banking in the country?

Answer by:

Dr. Ishrat Husain

We have issued the first license to the Mezan bank while the Muslim commercial bank has also been authorised to open windows and branches of Islamic banking. A restriction has been imposed that new licenses will only be given to Islamic banks. A seven country supervisory board of Islamic countries has been created to learn from other Islamic countries. I am a member of that board and the new thing that has come out of it is that we have created an Islamic banking department and a Shariah board of Ulema.

Question by:

Ms. Samina Khalid Ghurki, MNA

You said that the local government could represent their area better than the central government. I would say, that the MNAs and MPAs elected by the people are representatives of their constituents and the problems of their areas.

Answer by:

Dr. Ishrat Husain

I am not talking about individuals and institutions but of councils, union council and district councils and their direct role with the people of the area. Parliament's job is to legislate and keep an oversight over the executive. The country's fate will change if true decentralization takes power down to the local level where it should be exercised according to the needs of the people.

Question by:

Prof. Khalid Wahab, MNA

Your speech, your newspaper articles and your paper present a beautiful picture of the country's changing fate, but what you are saying is far removed from reality. Maybe the rich have benefited from your policies but there has been no benefit to the poor. You said inflation has decreased yet every-day life has become far more expensive than before. You have reduced the interest rate not aware that how many pensioners and widows have been affected by



that. The scheme for retired people may be beneficial if you reduce the withholding tax. more expensive than before. You have reduced the interest rate not aware that how many pensioners and widows have been affected by that. The scheme for retired people may be beneficial if you reduce the withholding tax.

Answer by:
Dr. Ishrat Husain

I have not said that the life of common man has improved. What is national savings? It is a debt, which a man is giving to the government. Government's debts are increasing. If the government is taking loans from banks at 2 per cent, it is taken from the national savings at 11 per cent and it is facing a loss of 9 per cent. We want the saving of debt servicing to be aimed at the common man. For pensioners, we have made another savings of 11 per cent so they get it as a form of subsidiary.

Question by:
Mr. Ghulam Sarwar, MNA

You said there is an improvement in the life of the village poor as compared to the urban poor. As for food production, Pakistan has become self sufficient yet no incentives are being given to the growers. The prices of fertilizers, diesel, pesticides and tractors have increased and subsidy is being withdrawn while most other countries give subsidy in this sector. At the end of this misery, all farmers will migrate to urban centers.

Answer by:
Dr. Ishrat Husain

I just said petrol price affect the urban population more due to transport. The agricultural subsidies around the world are decreasing except in the UK and the US. According to the WTO, the subsidies will have to be finished.

Question by:
Mr. Farid Ahmed Paracha, MNA

I am happy to know about the merit system being

introduced in the country. The State Bank of Pakistan and many other banks employ advisers, which are paid over Rs. 3 lakhs. Are these posts advertised and is merit followed in such cases?

It is simplistic to think that increase in petrol prices does not affect farmers because it does. Also wrong is your statement that there is no corruption under the present regime. Only recently, railway bogeys were imported from China even though the carriage factories and locomotive workshops exist in Pakistan. All the officers in railways opposed the imports but only the minister for his own commission, made them sign by force.

Answer by:
Dr. Ishrat Husain

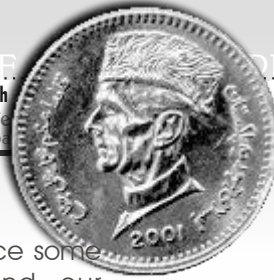
The ministers do not make all the decisions of Pakistan; there is an economic commission and a committee is coordinated in which 25 people sit and decide. A summary comes from the ministry based on pros and cons of an issue. I can tell that there has been no corruption. China gave bogeys to us on very soft term credit at the time when no one wanted to come to Pakistan. We cannot produce the same quality and if you sit there saying that we would not bring in new technology and good things and Pakistani advisors who have a market value, then I will say that this country will never succeed.

As for advisors, these posts are advertised and a selection procedure is followed where an interviewing board selects them.

Question by:
Makhdum Khusro Bakhtyar, MNA

There is a degree of autonomy generated in the last few years. Initially the historical pattern was that the GDP to tax ratio has been constant throughout the years. Luckily, this year we have fiscal space. The funds been diverted to development side. As currently we have a lot of liquidity in Pakistan, is there a move whereby we can introduce some long term finance instruments and our international debt commitments?

The funds been diverted to development side. As currently we have a lot of liquidity in Pakistan, is



there a move whereby we can introduce some long term finance instruments and our international debt commitments?

Agri-credit is mandated by the SBP manuals, but most of the commercial and consumer banks would rather payoff your penalty.

Answer by:
Dr. Ishrat Husain

This used to happen some time back. Now the commercial banks are the most aggressive provider of agriculture credit from Rs. 5 billion in 1999-2000 to Rs. 15 billion this year. We changed the incentives and now they have the incentive to go and market their agricultural loans.

For development, the GDP is not satisfactory. There is a 0.3 per cent increase but to me this is insignificant. This will take some time, as one cannot throw good money for bad money. Institutional capacity also has to be increased.



Concluding Remarks

Senator Prof. Khurshid Ahmad
Chairman, Institute of Policy Studies

Dr. Ishrat Husain said that the economic policy needs continuity. Its basis should not be made on the party or individual benefits but the national benefit. Parliament can play an important role as a national institution rising above party lines and focusing on national interest.

He also said that nothing could be done unless correct information is available. That is why independent research departments should be there apart from the government research institutions so that all the important economic and social variables can be compared.



Session 5

Budgets and the International Financial Institutions

Mr. Abid Hasan
Operations Advisor,
The World Bank, Pakistan



the government's fundamental values and its priorities.

IFIs have limited influence over the budget, contrary to the generally held belief, he said, unless if there IFIs provide budgetary support and there they get involved in budget policy, tax policy and expenditure policy. The World Bank, differs from the IMF on the issues of budget analysis and assessment and the World Bank, hence, does not get involved in the broader issues of the budget policy except where it has lent budgetary support loans. The World Bank, he explained, gives two kinds of loans: one is where it finances projects such as roads, health centres, education, irrigation systems etc., and second where it supports overall budget expenditure. He said that in the last two years, close to US \$ 1 billion was lent to Pakistan on either terms in support of policy reforms.

Mr. Abid Hasan expressed his delight at the interest generated by the budget in the participants. Budget in his view, was clearly a major instrument of the government for the social and economic uplift. IFIs, he said, are a major source of development finance and have a keen interest in the budget, as it is a reflection of

He stressed that parliamentarians needed to consider certain issues while reviewing broad economic issues, the budget and the role of IFIs. There is a link between development goals and public expenditures. The budget should focus on long-term development and should be growth-



oriented. But when government talks about growth orientation, they try to invest in public enterprises assuming that they propel growth, but Pakistan's history shows that public enterprises subtract from growth. The issues of employment cannot be solved by financing the few thousand jobs from the budget, but that budget needs to be growth-oriented to take care of unemployment, he added.

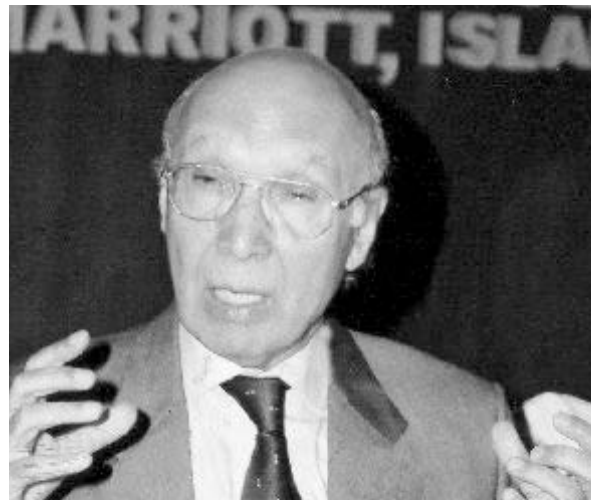
The other area is of fiscal deficit and is it sustainable? Twenty years history of Pakistan shows that higher deficits led to higher debts. One argument is that one has to expand fiscal deficit for economic growth, which means higher debts. The question is where is it raised? The most expensive debt is domestic debt, in the form of the national saving schemes that the country has been raising at the rate of 18-15 per cent, which is a really expensive issue. Legislators, he believed, should look at how is fiscal deficit financed?

Another area to focus on is revenue assumptions and if they are realistic. Year after year tax collection falls short at the end of each year. Parliamentarians need to see if the new measures are progressive or regressive and is the new tax hurting on the poor or the rich?

Expenditure priorities also need to be seen and whether expenditures are productive or non-productive.

He said that when new projects are created, the money to maintain those has to be envisioned. The country has a graveyard of projects without completion and that the budget should not be overloaded with public development projects. Parliamentarians have to see if the expenditure are pro-poor and spent on health, education, water and sanitation etc and if adequate money is spent on gender development projects.

Mr. Abid pointed out tax policies have been distorted over the years to protect inefficient state enterprises. The effect of the debts taken to reduce the deficit would eventually affect the taxpayers. He concluded that the parliamentarians should consider amount of allocations in the budget and ask for its accountability.



Mr. Sartaj Aziz
Former Federal Minister for Finance

Mr. Sartaj Aziz explained that the budget could be analysed from three different perspectives: the regional perspective, the policy perspective and the affect of international policies.

He explained that in the middle of 1960s, the definition of development was simply the increase in investment. The World Bank and the IMF rose in response to the OPEC's financial crises. A Washington consensus later dubbed it as the Free

Market Economy. Washington Consensus had the philosophy that budget deficit and monetary expansion is the root of all problems. It is this consensus, which is currently being used by the IFIs.

He pointed out that the IFIs, however, should not be held responsible for our faults as they have helped us in some very good projects. Referring to the past 12 years, Mr. Sartaj Aziz said that the IFI policies were influenced by political elements of its benefactor countries. Pakistan's biggest problems was the decrease in growth rate, which amongst many other factors was due to the slow industrial growth. Therefore, it was necessary not to further decrease the development budget. Pakistan, he said, had paid a price for its macro economic stability in the shape of lack in growth and investment and increase in poverty. The Washington Consensus should relax its emphasis on stabilisation and increase its allocation of resources. As growth increases, the deficit will consequently be reduced. Increase in investment was also an essential feature, to encourage investment and a more competitive cost of production was required.



Q&A/ Comments

Question by:
Mr. Ali Asjad, MNA

You mentioned a tradeoff for the consolidation of macroeconomic stability. What would you have proposed? You pointed out comparatively high industrial growth before the military regime. Would you relate the current decrease to debt accumulation? Also, do we have an option of not relying on the IMF and the World Bank? If yes how?

Answer by:
Mr. Sartaj Aziz

Our objective is the promotion of stability and increase in the growth rate. During the second term of my government, we had a deficit of 6.5 to 7 per cent. I suggested a three-year period to the then Managing Director of IMF to reduce it to 5 percent. But before it could be completed, the IMF derailed it due to the nuclear programme.

In order to increase growth, there is a need to strengthen industrial sector along with the agricultural sector. Nationalisation of value-added industries has made our industry inefficient. The

Defense expenditures as a percentage of its GDP of Pakistan are twice as those of India. Without the military aid and imposition of sanctions, our economy was burdened. But this burden has been reduced after 9/11. Lastly, the more dependent we are on IFIs, the more restrictions we will have to face.

Question by:
Senator Mohim Khan Baloch

What do you suggest is the root of our problems? Why is the result of all our budgets unsatisfactory? In my opinion, we lack a proper system in the country. We have read reports stating staggering amounts of loans taken from the World Bank and the IMF. Where has this money been spent?

In my opinion, we lack a proper system in the country. We have read reports stating staggering amounts of loans taken from the World Bank and the IMF. Where has this money been spent?

**Question by:****Ms. Gul-e-Farkhanda, MNA**

Many agreements have been signed by our governments in the past, which have resulted in great loss to the country. Our participation in the World Trade Organisation (WTO) will ruin our industries. The decision to import train bogeys from China, which could be made within the country, at a substantially high cost and the high costs incurred on the production of electricity are all the consequence of agreements made by our government. Why is there a lack of beneficial agreements?

Answer by:**Mr. Sartaj Aziz**

We have to make agreements because if the investment decreases to a certain point, the growth stops. Few countries can maintain investments through their own savings. Communist countries increase their investment by restricting consumption. These loans help us sustain debt-servicing and maintain our growth rate.

Question by:**Mr. Asadullah Bhutto, MNA**

The question is that all the IFIs give dictations and force us to obey them. The sovereignty of the country and parliament is compromised. They should perform advisory functions. Instead of acting as independent institution, they act as US pawns.

Answer by:**Mr. Sartaj Aziz**

I would say, the destiny of a country lies in its own hands and it has nothing to do with the IFIs. I am not so sure if the conditions of a country are the fault of lenders.

what troubles are the people facing which leads them to such actions?

Question by:**Senator Rehmat ullah Khalil**

Due to the incidents of 9/11, Pakistan faced the loss of billions of dollars, yet it supported the US. What are the gains for Pakistan in it?

Question by:**Mr. Farid Paracha, MNA**

You have said beautiful things but when you were finance minister, many things wrong policies were adopted such as yellow cab scheme, the IPPs issue, the motorway, the freezing of foreign currency accounts etc. Rs. 17 billion were collected for the debt-retirement scheme, where was that money spent?

Question by:**Ms. Kaneez Ayesha Munawar, MNA**

If imports are cheaper, then people will buy them. Why don't we stop importing so that people buy local products?

Question by:**Kanwar Khalid Younis, MNA**

My question is to Mr. Abid Hasan. About 50 per cent of people's salaries are used towards paying electricity and gas bills etc. Yet the World Bank pressurises to increase the rates. The stealing of electricity has increased by 50 per cent, but the World Bank never asked the government to stop it. If a person does not pay Rs. 5000, he is imprisoned, and on the other hand, no one in FATA pays. Also, has the World Bank never pressurised the governments to decrease defense budget?

Question by:**Mr. Omar Ayub Khan, MNA**

Mr. Sartaj Aziz and Mr. Abid Hasan talked about comparative advantage. There is no agriculture sector, no industry due to location, no sources of employment in the NWFP. When you say that industry has comparative advantage, which industry is that? soap stone, lime stone? Cement plans are not surviving. Or the responsibility of



comparative advantages should lie with the provincial government so that the subsidy for comparative advantage could be decided by it. Then there is the question of net hydel profits of Tarbela which should be Rs. 6.8 billion to be paid to NWFP. What are the IFIs doing about it? If the buzzword is comparative advantage, then compensate for the people.

Answer by:
Mr. Sartaj Aziz

Questions were put that the government says one thing and the papers say something else. There has been an improvement in the stability but not in poverty. A seminar took place in Lahore where Ishaq Dar's observations were published where he has given facts and figures of October 1999. In it Mr. Shaukat Aziz and Dr. Ishrat Husain also gave their views and it seems that the conditions were not as bad as the military government propagated to be. As parliamentarians, you should rise above party affiliations and examine reality. The economic survey will be printed soon and it will have the figures of the past 20 years. The position of poverty-alleviation and education was best during the 1990 - 93 era. Investments also increased but after that sanctions pushed us back again. The present government is following the same reforms other than the district government reforms.

You asked that has our condition improved? The financial conditions are good and the reserves have seen an increase, the deficit has reduced. It is 50-50 due to the 9/11 and due to the policies, as the military government can make and pursue any policies due to no political responsibilities. Question is if it is towards the correct direction. Policy is a continuity of reforms.

The last question was that what should we do. Our draw back is there is an institutional decline and inefficiency in service delivery and no one does anything without bribery. During the 1990s, we tried to raise productivity levels and increase efficiency levels. We need people in information technology, textile industry and education. On the whole, we need to improve. I agree that imports need to be reduced but we can not ban them.

We got US \$ 300 million through the debt-retirement scheme and our yearly debt is US \$ 30 billion, so that year we got a 10 per cent relief on that. Those accounts were not absorbed or freed. At the time of nuclear tests, we had US \$1 billion and the accounts were US \$ 11 billion. System of banks is that if its 30 per cent, you can stop it, otherwise there will be a run on the banks and they will be totally empty. The impression that it was wasted is not correct.

As for the NWFP, when the trade between Afghanistan and Central Asia opens, it will benefit the province. Cement from frontier still goes from there more than any other area and the industrialists from frontier should study how they can benefit.

Answer by:
Mr. Abid Hasan

Growth takes place when the industry invests. Deregulation has to be a major policy of the government. Mr. Omar Ayub raised an important issue as it deals with the enabling environment in the country. The society should decide the issue of subsidy as resources are also limited. If the industries in the NWFP require to be competitive, they should decide for them.



Session 6

Concluding Session



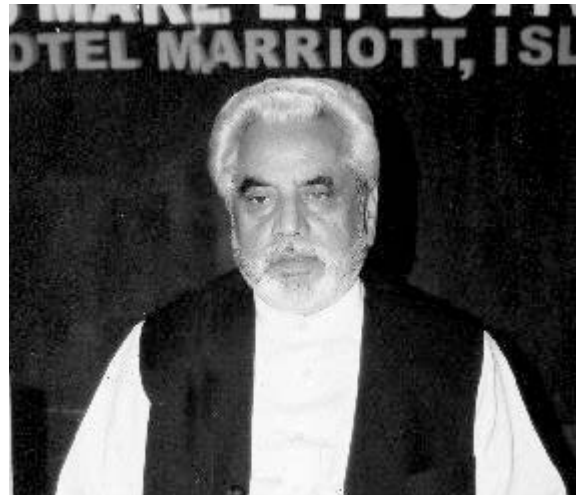
The concluding session was chaired by Deputy Speaker of the National Assembly, Mr. Sardar Mohammad Yaqub. The participants, one by one, presented their feedback on the workshop and praised PILDAT for holding an informative and timely workshop. Parliamentarians were of the view that such an exercise was really essential in preparing them for the upcoming budget.

They believed that the quality and variety of speakers and session chairs, as well as the interactive sessions helped them learn about the federal budget process and the role of parliamentarians. They expressed the hope that PILDAT would continue to aid them in the performance of their duties as legislators.



Address by the Chief Guest

Sardar Mohammad Yaqub Deputy Speaker National Assembly



the workshop was useful not only for the first-time elected legislators but many seasoned parliamentarians as well for its quality of content, speakers' dialogue and the opportunities of interaction. I offer my sincere thanks to PILDAT for shouldering our responsibilities and request them to continue their excellent work towards legislative capability building.

To make a system successful, democracy and its implementation is required. Most of our parliamentarians are first-time elected and hence require capacity building and support to carry out their duties.

I believe we needed a high-quality workshop like the one arranged by PILDAT to introduce them to the federal budget process, just before they are to review the budget as parliamentarians. I believe the workshop was useful not only for the first-time elected legislators but many seasoned parliamentarians as well for its quality of content, speakers' dialogue and the opportunities of interaction. I offer my sincere thanks to PILDAT for shouldering our responsibilities and request them to continue their excellent work towards legislative capability building.

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Vote of Thanks

Mr. Ahmed Bilal Mehboob
Executive Director PILDAT

At the end, I once again thank all the participants and the speakers and session chairs for their invaluable time and participation to make this workshop a success. I am very pleased at the active interaction of the parliamentarians at the workshop. The coming budget will hopefully witness a very knowledgeable discussion by the parliamentarians. An important point that has been stressed throughout the workshop is that the parliamentarians and their committees should have the power to not only make recommendations to the budget but also be able to affect budget in the public's interest.

I also thank the entire PILDAT team, the members who have contributed towards shaping it into a success both present here and back at PILDAT offices. The workshop would not have been possible without the enthusiastic and untiring efforts of the PILDAT team.

APPENDIX A
Programme of the Workshop



WEDNESDAY, AUGUST 27, 2003

| ITEM | Subject/ Topic/Activity | TIME | SPEAKER |
|------|---|--|--|
| 1 | Registration of participants | 10:00 to 10:30 am | |
| 2 | Welcome remarks and Introduction | 10:30 to 10:45 am | Mr. Ahmed Bilal Mehboob Executive Director PILDAT |
| 3 | Session 1 Present State of Economy and Future Prospects | | Dr. Ashfaq H. Khan Economic Advisor Ministry of Finance |
| | Presentation Q & A/ Discussion | 10:45 to 11:15 am 11:15 to 12:15 pm | |
| 4 | Tea Break | 12:15 to 12:45 pm | |
| 5 | Session 2 An Overview of the Budget Process | | Chief Guest & Speaker: Senator Shaukat Aziz Federal Minister of Finance |
| | The Federal Budget Process | | Mr. Ghafoor Mirza Former Secretary to the Government of Pakistan Finance Division |
| | Presentation Q & A/ Discussion | 12:45 to 01:25 pm 01:25 to 02:15 pm | |
| 6 | Lunch and Zohr Prayer Break | 02:15 to 03:00 pm | |
| 7 | Session 3: Responsibilities of the Parliament and Parliamentarians relating to the Budget Process | | Mr. Salim Saifullah Secretary General, PML-Q |
| | | | Senator Prof. Khurshid Ahmed Chairman Institute of Policy Studies |
| | | | Mr. Syed Naveed Qamar MNA, Former Chairman Privatisation Commission |
| | Presentations Q & A/ Comments | 03:00 to 04:00 pm 04:00 to 04:45 pm | |
| 8 | Tea End of Day1 | 04:45 to 05:15 pm | |



WEDNESDAY, AUGUST 27, 2003

| ITEM | Subject/ Topic/Activity | TIME | SPEAKER |
|------|---|---|--|
| 9 | Session 4 Continuity of Reforms and the Budget | | Dr. Ishrat Husain Governor, State Bank of Pakistan |
| | Presentation Q & A/ Discussion | 10:00 to 10:30 am 10:30 to 11:30 am | |
| 10 | Tea Break | 11:30 to 12:00 pm | |
| 11 | Session 5 Budgets and the International Financial Institutions | | Mr. Abid Hasan Operations Advisor The World Bank Mr. Sartaj Aziz Former Federal Minister of Finance |
| | Presentations (20 Minutes each): Q&A/Discussion | 12:00 to 12:40 pm 12:40 to 01:40 pm | |
| 12 | Lunch and Zohar Prayer Break | 01:40 to 03:00 pm | |
| 13 | Session 6 Concluding Session Participants' Feedback Address by the Chief Guest | 03:00 to 03:30 pm 03:30 to 04:30 pm 04:30 to 05:00 pm | Mr. Sardar Mohammad Yaqub Deputy Speaker, National Assembly |
| 14 | Tea & End of the Workshop | 05:00 to 05:30 pm | |

APPENDIX B
**List and Profile
of Participating MNAs**



List Of Participating MNAs

| | | |
|----|-------------------------------|---------|
| 1 | Aasia Azeem | PML (Q) |
| 2 | Abdul Ghaffar Khan Jatoi, Dr. | NA |
| 3 | Abdul Rauf Mengal | BNP |
| 4 | Afsar Begum | MQM |
| 5 | Ali Asjid Malhi | PML (Q) |
| 6 | Ambreen Naeem | MMAP |
| 7 | Amjid Ali Warriach, Ch. | PML (J) |
| 8 | Asadullah Bhutto | MMAP |
| 9 | Asiya Nasir | MMAP |
| 10 | Begum Tehmina Dasti | PML (Q) |
| 11 | Belum Hasnain, Mrs. | PPPP |
| 12 | Dr. Donya Aziz | PML (Q) |
| 13 | Farid Ahmad Paracha | MMAP |
| 14 | Farzeen Ahmed Sarfaraz | PML (Q) |
| 15 | Fauzia Habib | PPPP |
| 16 | Fazal-e-Subhan | MMAP |
| 17 | Fehmida Mirza, Dr. | PPPP |
| 18 | Firdous Ashiq Awan, Dr. | PML(Q) |
| 19 | Ghulam Sarwar Khan | PML (Q) |
| 20 | Gul-e-Farkhanda | NA |
| 21 | Jamila Ahmed | MMAP |
| 22 | Kaniz Ayesha Munawar | MMAP |
| 23 | Khalida Mohsin Ali Qureshi | PPPP |
| 24 | Khurshed Afghan | PML (F) |
| 25 | Kunwar Khalid Yunus | MQM |
| 26 | Maimona Hashmi | PML (N) |
| 27 | Makhdum Khusro Bakhtiar | PML (Q) |
| 28 | Maulana Abdul Akbar Chitrali | MMAP |
| 29 | Maulana Attaur Rehman, Dr. | MMAP |
| 30 | Maulana Miraj-ud-Din | IND |
| 31 | Maulana Rehmat Ullah Khalil | MMAP |
| 32 | Mehnaz Rafi | PML(Q) |
| 33 | Mehreen Anwar Raja | PPPP |
| 34 | Mian Muhammad Aslam | MMAP |
| 35 | Mohammad Laeeque Khan | MMAP |



List Of Participating MNAs

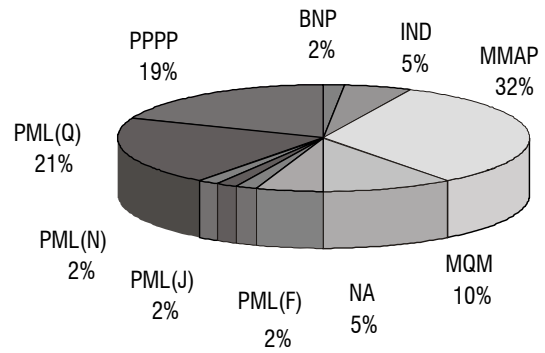
| | | |
|----|--------------------------------|---------|
| 26 | Shakila Khanam Rashid, Mrs. | PPPP |
| 37 | Muhammad Farooq Azam Malik | NA |
| 38 | Nayyer Sultana | MMAP |
| 39 | Noor-ul-Haq Qadri | IND |
| 40 | Onaza Ehsan | PML (Q) |
| 41 | Prof. Khalid Wahab | MQM |
| 42 | Qamar Zaman Kaira, Ch. | PPPP |
| 43 | Qari Abdul Baees Siddiqui | MMAP |
| 44 | Razia Aziz, Mrs. | MMAP |
| 45 | Riaz Khan Fatyana | IND |
| 46 | Riffat Javed Kahlon, Mrs. | PML (Q) |
| 47 | Rukhsana Bangish | PPPP |
| 48 | Samia Raheel Qazi | MMAP |
| 49 | Samina Khalid Ghurki, Mrs. | PPPP |
| 50 | Sayyeda Farhana Khalid Banoori | MMAP |
| 51 | Shabina Talat | MQM |
| 52 | Shabir Ahmed Khan, Mr. | MMAP |
| 53 | Shahida Akhtar Ali | MMAP |
| 54 | Shamim Akhtar | MQM |
| 55 | Sultan Ahmed Khan | MQM |
| 56 | Tasneem Ahmed Qureshi | PPPP |
| 57 | Umer Ayub Khan | PML (Q) |
| 58 | Zulfiqar Ali Gondal, Major(R) | PPPP |



Profile of Participating MNAs

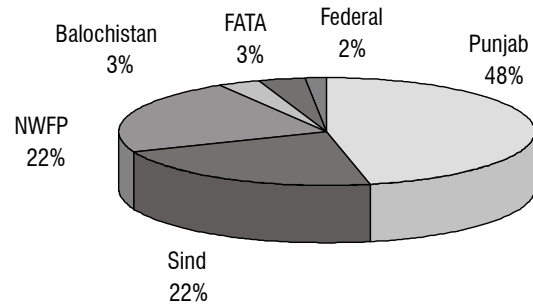
Party Wise Representation

| Party | Attendance in Briefing Session | | Percentage in Assembly |
|--------------|--------------------------------|------------|------------------------|
| | Number | Percentage | |
| BNP | 1 | 2 | 1 |
| IND | 3 | 5 | 5 |
| MMAP | 19 | 32 | 19 |
| MQM | 6 | 10 | 5 |
| NA | 3 | 5 | 5 |
| PML(F) | 1 | 2 | 2 |
| PML(J) | 1 | 2 | 1 |
| PML(N) | 1 | 2 | 6 |
| PML(Q) | 12 | 21 | 35 |
| PPPP | 11 | 19 | 19 |
| Total | 58 | 100 | |



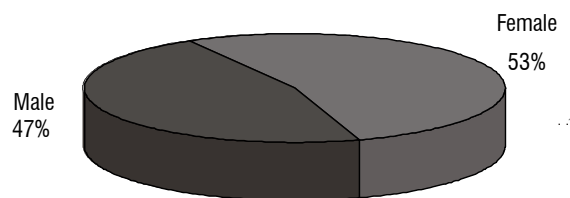
Province Wise Representation

| Province | Attendance in Briefing Session | | Percentage in Assembly |
|--------------|--------------------------------|------------|------------------------|
| | Number | Percentage | |
| Punjab | 27 | 48 | 55 |
| Sind | 13 | 22 | 23 |
| NWFP | 13 | 22 | 13 |
| Balochistan | 2 | 3 | 5 |
| FATA | 2 | 3 | 3 |
| Federal | 1 | 2 | 1 |
| Total | 58 | 100 | 100 |



Gender Wise Representation

| Gender | Attendance in Briefing Session | | Percentage in Assembly |
|--------------|--------------------------------|------------|------------------------|
| | Number | Percentage | |
| Female | 31 | 53 | 21 |
| Male | 27 | 47 | 79 |
| Total | 58 | 100 | 100 |



APPENDIX C
**List and Profile
of Participating Senators**



List of Participating Senators

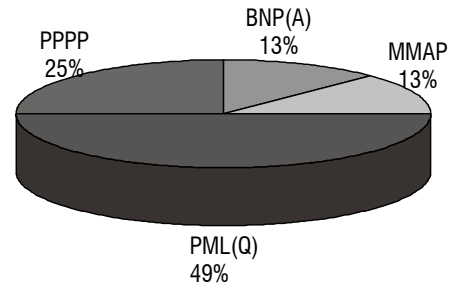
| | | |
|---|-----------------------------|---------|
| 1 | Dr. Akbar Khawaja | PPPP |
| 2 | Dr. Kausar Firdaus | MMAP |
| 3 | Dr. Nighat Agha | PML (Q) |
| 4 | Mir Muhammad Naseer Mengal | PML (Q) |
| 5 | Mouhim Khan Baloch | BNP (A) |
| 6 | Rukhsana Zubairi (Advocate) | PPPP |
| 7 | Razina Alam Khan | PML(Q) |
| 8 | Tariq Azeem Khan | PML(Q) |



Profile of participating Senators

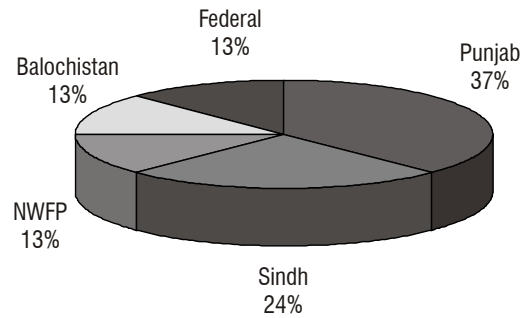
Party Wise Representation

| Party | Attendance in Briefing Session | | Percentage in Assembly |
|--------------|--------------------------------|------------|------------------------|
| | Number | Percentage | |
| BNP(A) | 1 | 13 | 1 |
| MMAP | 1 | 13 | 18 |
| PML(Q) | 4 | 49 | 34 |
| PPPP | 2 | 25 | 11 |
| Total | 8 | 100 | |



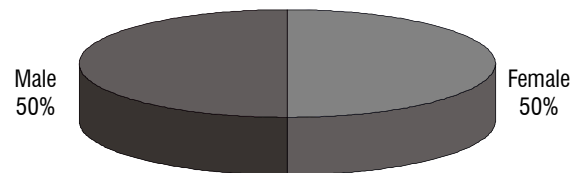
Province Wise Representation

| Province | Attendance in Briefing Session | | Percentage in Assembly |
|--------------|--------------------------------|------------|------------------------|
| | Number | Percentage | |
| Punjab | 3 | 37 | 26 |
| Sindh | 2 | 24 | 23 |
| NWFP | 1 | 13 | 21 |
| Balochistan | 1 | 13 | 21 |
| Federal | 1 | 13 | 2 |
| Total | 8 | 100 | |



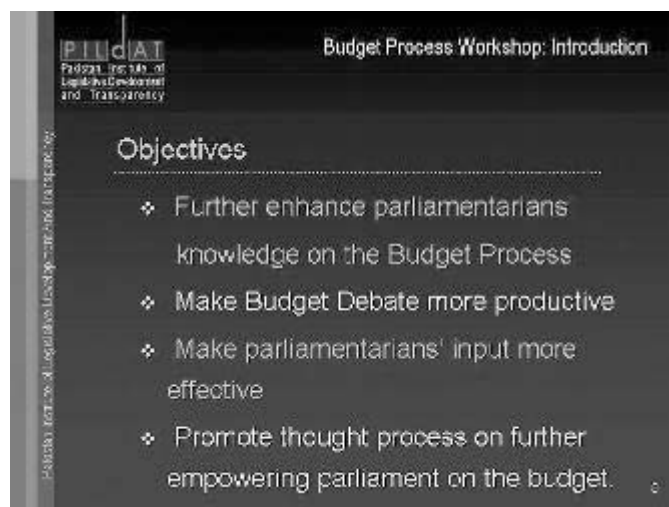
Gender Wise Representation

| Gender | Attendance in Briefing Session | | Percentage in Assembly |
|--------------|--------------------------------|------------|------------------------|
| | Number | Percentage | |
| Female | 4 | 50 | 18 |
| Male | 4 | 50 | 82 |
| Total | 8 | 100 | 100 |



APPENDIX D

Presentation by
Mr. Ahmed Bilal Mehboob
Executive Director PILDAT





PILDAT
 Pakistan Institute of Legislative Development and Transparency

Budget Process Workshop: Introduction

Why Budget Debate is important ?

- ❖ Best opportunity of legislative oversight
- ❖ Can influence Annual Development Plan
- ❖ Can influence everyday life of people: e.g. poverty, jobs, inflation etc.
- ❖ Can influence the course of economy
- ❖ Can send a strong message to investors
- ❖ Can send a message to Int. community
- ❖ Can reflect people's aspirations

4

PILDAT
 Pakistan Institute of Legislative Development and Transparency

Budget Process Workshop: Introduction

How can a parliamentarian contribute the best to the Budget process?

- ❖ Knowledge of the Budget Process
- ❖ Knowledge of the Budget Documents
- ❖ Knowledge of Constitutional provisions
- ❖ Knowledge of Rules & Procedures
- ❖ Knowledge of economic climate surrounding the budget proposals

5

PILDAT
 Pakistan Institute of Legislative Development and Transparency

Budget Process Workshop: Introduction

This Workshop is designed to give you that **Knowledge!**

6



PILDAT
 Project for the
 Improvement of
 Legislative Development
 and Transparency

Budget Process Workshop: Introduction

What is PILDAT?

- ❖ Independent, Non-profit, Research & /Study institute
- ❖ Indigenous entity well-versed in local conditions
- ❖ Strictly Non-partisan Values trust of all parties
- ❖ Dedicated to Parliamentary Strengthening
- ❖ Mission: Strengthening Democracy & Democratic Institutions for a better Pakistan

7

PILDAT
 Project for the
 Improvement of
 Legislative Development
 and Transparency

Parliamentary Strengthening

Recent Activities

- ❖ Legislative Cap Building Pilot Project-UNDP
- ❖ Workshop for MNAs on Devolution
- ❖ State of Democracy Report
- ❖ 3-part Election Study
- ❖ Young Parliamentarians Forum
- ❖ Parliamentary Internship Programme - NRB

6

PILDAT
 Project for the
 Improvement of
 Legislative Development
 and Transparency

Budget Process Workshop: Introduction

Near-future Activities

- ❖ Briefing for Parliamentarians on PRSP
- ❖ Workshop for NWFP-MPAs on Devolution
- ❖ Workshop for MPAs: Provincial Autonomy
- ❖ Briefing on Pak-India Relations
- ❖ Workshop on Public Policy Analysis
- ❖ Briefing on Issues of Water Resources
- ❖ Workshop on effective committee system

5



PILDAT
PILDAT Institute of
Legislative Development
and Transparency

Budget Process Workshop: Introduction

PILDAT Research & Needs Assessment

- ❖ 1.5 Year-long Consultation with
 - Former & Current parliamentarians (238)
 - Political parties
 - National & International Political Institutions
 - opinion leaders
 - CSOs
- ❖ Questionnaire, Legislators Data Forms
- ❖ Needs Assessment Session, Dec. 2002
- ❖ Scientific Sample Survey of New MNAs
- ❖ Legislative Strengthening Conference

10

PILDAT
PILDAT Institute of
Legislative Development
and Transparency

Budget Process Workshop: Introduction

PILDAT parliamentary Strengthening Plan:

LONG TERM – 2006 & BEYOND

- ❖ National Institute of Parliamentary Research & Training (NIPRT)
 - Research -Briefings -Orientation
 - Capacity Building -Budget Analysis
 - Policy Analysis -Etc.
- ❖ Examples: BIPS (Bangladesh), BPST (India), KPI (Thailand)

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PILDAT
PILDAT Institute of
Legislative Development
and Transparency

Budget Process Workshop: Introduction

.....The Plan

MEDIUM & SHORT TERM – 2003 to 2006

- ❖ Legislative Capacity Building Project
 1. Plan NIPRT
 2. Sensitize Parliamentarians, CSOs, Voters
 3. Strengthen Committee System
 4. Capacity-building of Legislative Support Staff
 5. Capacity-building of CSOs

12



PIIDAT
Programme of
Legislative Development
and Transparency

Budget Process Workshop: Introduction

.....The Plan

- 6. Overseas Pakistani Legislators Network
- 7. Institutional Networking (Regional, International)
- 8. Strengthen Parliamentary Parties
- 9. Capacity-building of Parliamentarians
 - Issue-based Workshops
 - Briefing Papers & Sessions
 - Policy Analysis Sessions
 - Multi-party Caucuses - Etc.

10

APPENDIX E
Presentation by
Dr. Ahfaque.H.Husain
Economic Advisor Ministry of Finance



**PRESENT STATE OF THE
ECONOMY AND FUTURE
PROSPECTS**

By
Dr. Ashfaq H. Khan
Director General
(Debt Office)
Ministry of Finance

May 26, 2003

OUTLINE OF THE PRESENTATION

- **IMMEDIATE PAST**
- **MAJOR ECONOMIC CHALLENGES**
- **PRESENT STATE OF THE ECONOMY**
- **FUTURE PROSPECTS OF PAKISTAN'S
ECONOMY**

IMMEDIATE PAST



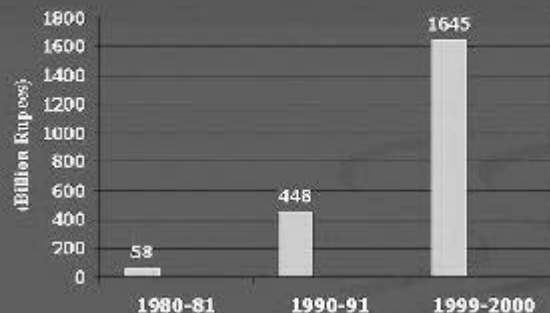
PAKISTAN'S MAJOR ECONOMIC CHALLENGES

- How to achieve debt sustainability?
- How to revive investment and economic growth?
- How to prevent people falling below the poverty line?
- How to improve governance?

WHY WE LANDED INTO SUCH DIFFICULTIES?

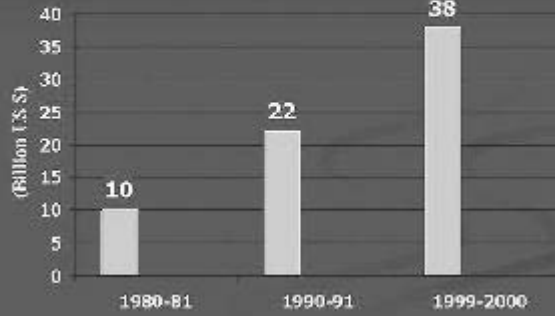
- PAKISTAN SUSTAINED A VERY LARGE (7.0 % OF GDP) FISCAL DEFICIT FOR A VERY LONG PERIOD OF TIME (TWO DECADES).
- PAKISTAN ALSO SUSTAINED A LARGE CURRENT ACCOUNT DEFICIT (5% OF GDP) FOR ABOUT ONE DECADE (1990s)

DOMESTIC DEBT CONTINUED TO RISE AT AN ASTRONOMICAL RATE



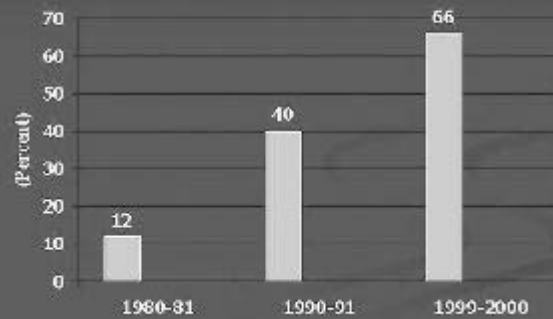


EXTERNAL DEBT AND FOREIGN EXCHANGE LIABILITIES INCREASED

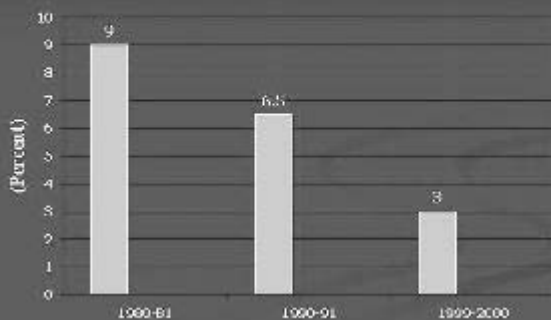


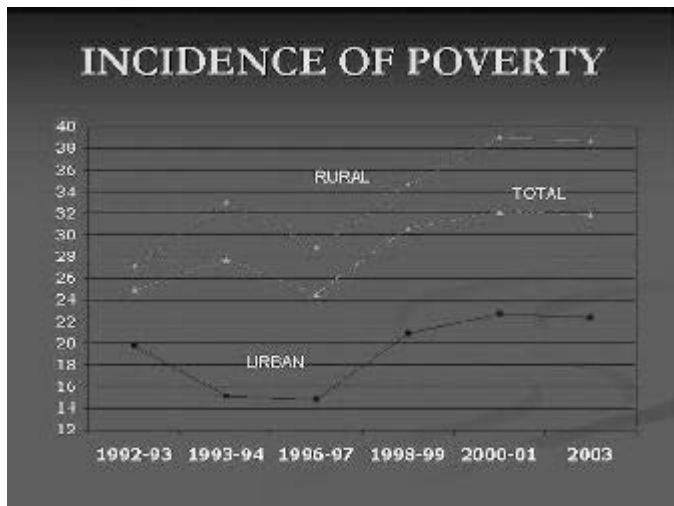
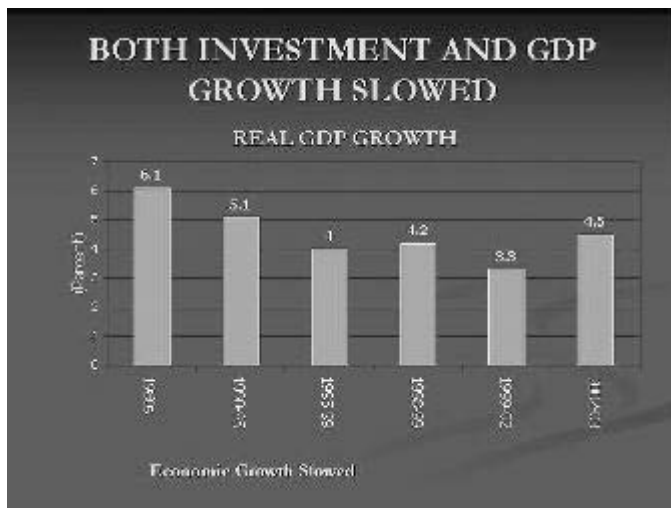
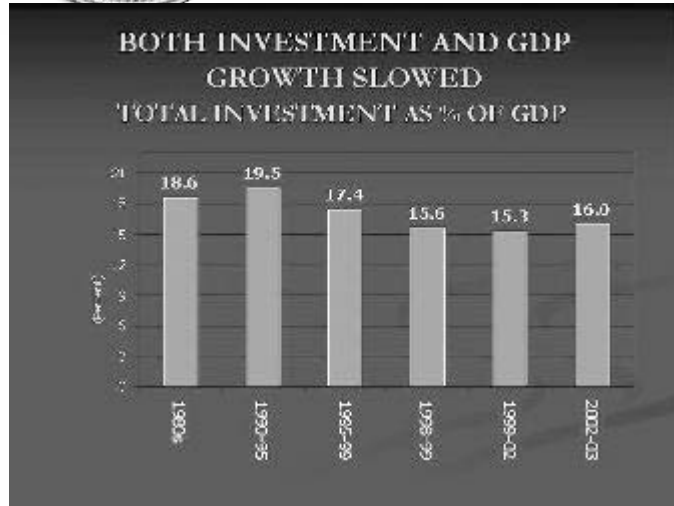
WHAT HAVE BEEN THE IMPLICATIONS?

Debt Servicing as % of total revenue surged



DEVELOPMENT EXPENDITURE CONTINUED TO DECLINE AS % OF GDP







WHAT POLICIES WE PURSUED?

- ◇ Stabilization policy to reduce twin deficits (budget and current account deficits) with a view to attaining debt sustainability.
- ◇ Wide ranging Structural Reform to remove impediments for private sector development, raising investment and growth.
- ◇ Launched a credible and monitor able program for poverty alleviation.
- ◇ Transparency and consistency in policy and civil service reforms to improve governance.

PRESENT STATE OF THE ECONOMY

Despite series of domestic and external shocks such as:

- unprecedented drought,
- the events of September 11,
- the military build up of India



Pakistan's economy has made significant progress during the last three years.

- The economy is now more stable
- economic policies are transparent and predictable
- confidence of the private sector is restored to a larger extent;

- expatriate Pakistanis are bringing their capital back;
- stock market is buoyant;
- external balance of payments are in comfortable position;

- foreign exchange reserves have crossed \$ 10 billion and are sufficient to finance 11 months of imports;
- exchange rate is stable;
- inflation is low and interest rates are declining;
- domestic and external debt have declined;

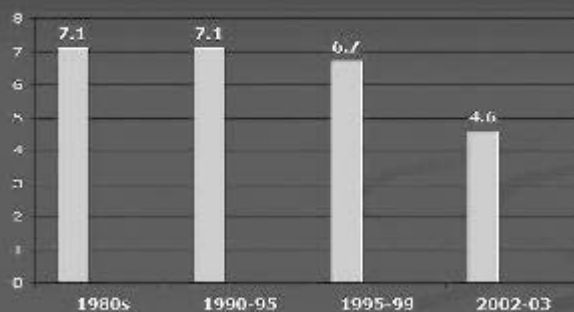


- fiscal deficit has been lowered and current account balance is in surplus;
- tax collection is growing;
- exports have picked up,
- and lastly, Pakistan's credit rating in international capital markets has improved.

Let me add some statistics:

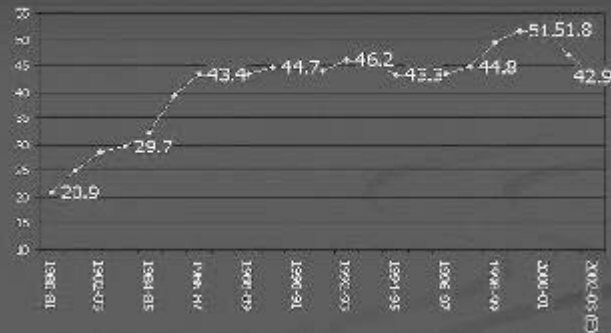
- ◇ Fiscal Side:
 - ◇ CBR Tax collection is Above Target. Rs. 310.3 billion as against the target of Rs. 309 billion.
 - ◇ Tax collection is up by 15 percent during the July-March, 2002-03.
 - ◇ Fiscal Deficit down to 4.6 percent of GDP from an average of 7.0 percent.

FISCAL DEFICIT (As % of GDP)



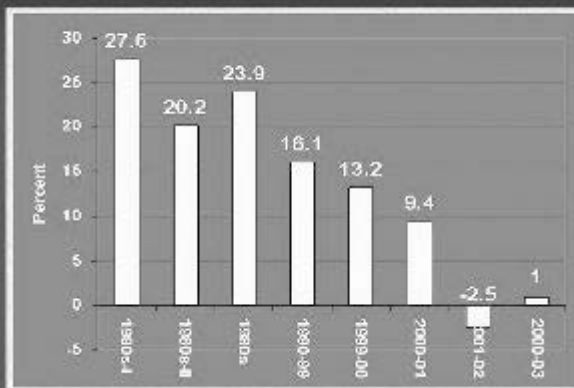


Domestic Debt Declines from 52% to 43% of GDP)



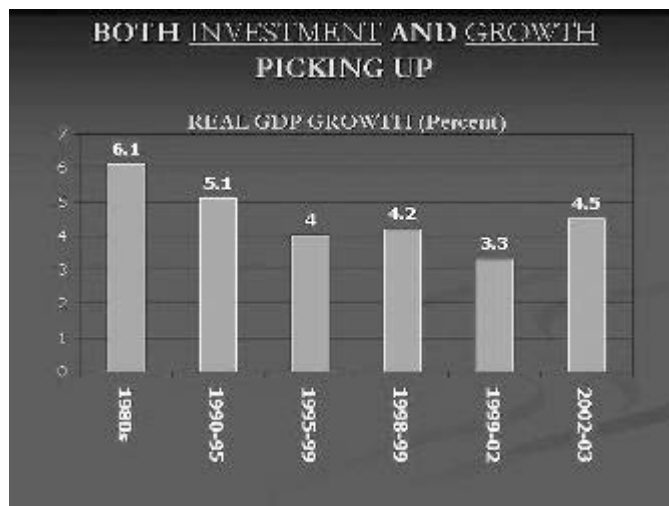
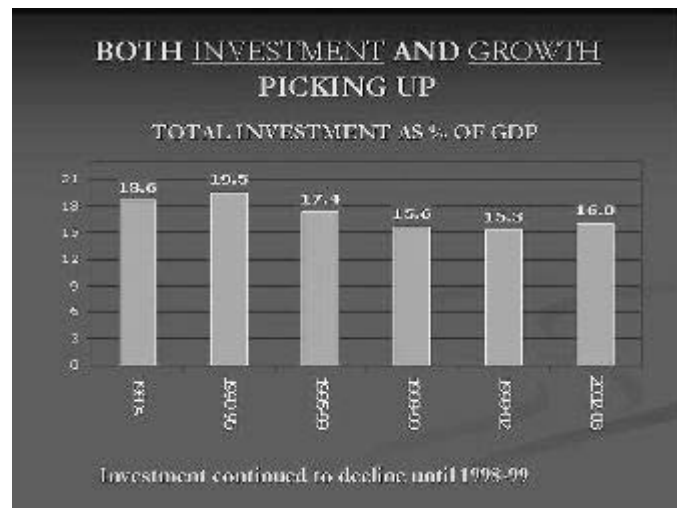
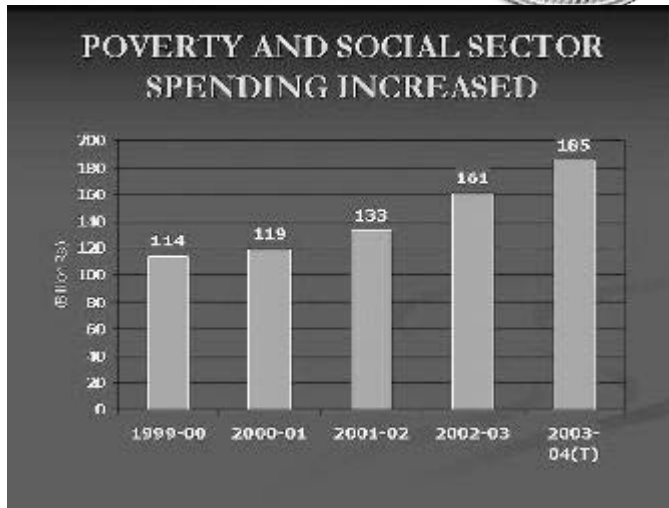
Domestic Debt as % of GDP continued to rise during the 1980s and most part of the 1990s.

Growth in Domestic Debt slowed



Domestic Debt grew almost twice the size of annual growth until 1998-99

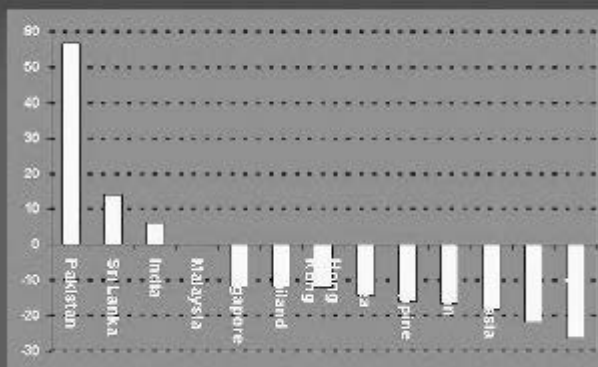
- ❖ Cost of financing domestic debt has also declined from 12.5% in end-June 1999 to 7.5% in end-December 2002.
- ❖ Debt servicing as percent of total revenue has declined from 66 percent to 44 percent in 2002-03.
- ❖ Declining trend in development spending has been arrested. As opposed to 3.0 percent, development spending is 3.3 percent to GDP in 2002-03.
- ❖ Inflation at 3.5 percent during July-March 2002-03 is below the target of 4.0 percent. It is much lower than the average of 10 percent during the 1990s





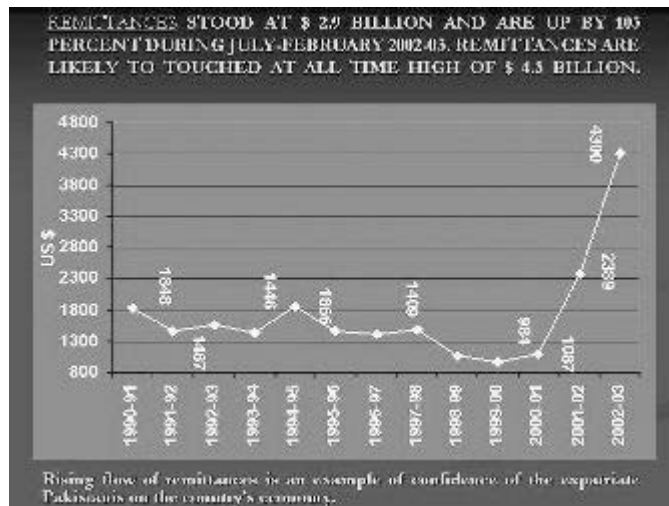
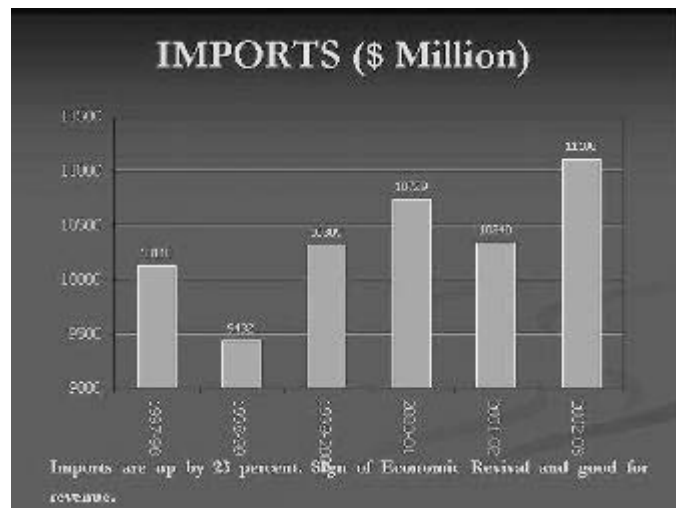
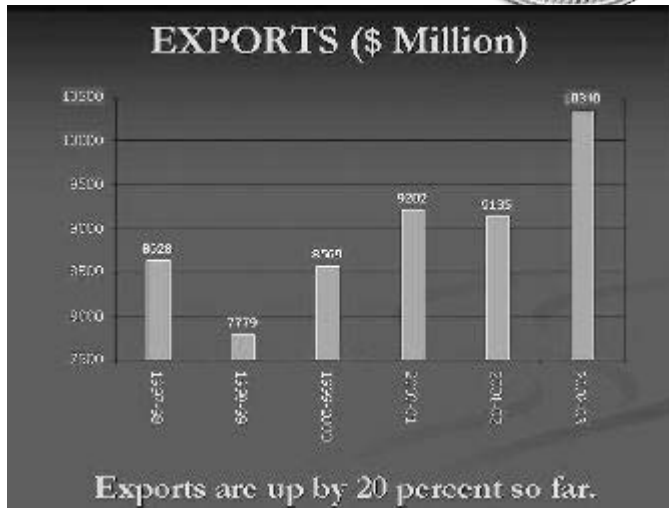
- Interest rates are falling. Weighted average lending rate down from 14 percent in June 2001 to 9.36 percent in February 2003.
- Private sector credit is up by 52.7 percent.
- Industrial production during July-February 2002-03 is up by 8.0 percent.
- Stock market has remained buoyant during July-March 2002-03. KSE-100 index has increased from 1770 points to 2716 points—up by 53.4 percent.

Pakistan has been the most profitable market in the world.



EXTERNAL SECTOR

- Both exports and imports have picked up despite uncertain global environment.
- Exports are up by 20 percent and imports by 23 percent during July-March 2002-03.



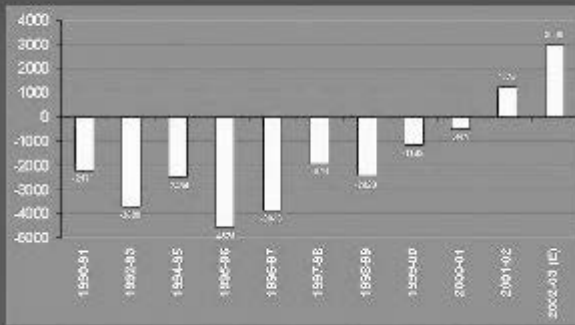


FOREIGN INVESTMENT HAS ALSO PICKED UP, AS AGAINST \$ 247 MILLION, FOREIGN INVESTMENT STOOD AT \$ 640 MILLION IN THE FIRST EIGHT MONTHS OF THE CURRENT FISCAL YEAR. IT IS EXPECTED TO TOUCH \$ 1.0 BILLION THIS YEAR.



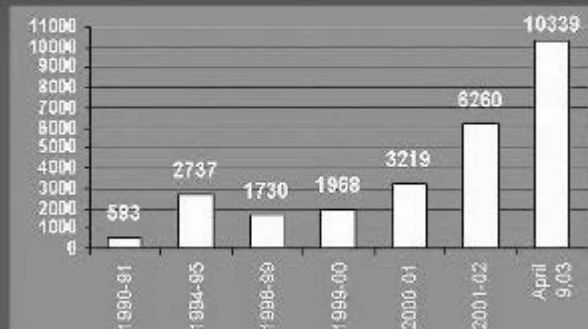
Improved Economic Indicators are encouraging Foreign Investment in the country.

CURRENT ACCOUNT HAS TURNED SURPLUS AS OPPOSED TO A DEFICIT OF 5.0 PERCENT OF GDP, DURING JULY-FEBRUARY 2002-03 CURRENT ACCOUNT SURPLUS HAS REACHED \$ 2.7 BILLION. IT IS LIKELY TO TOUCH \$ 5.0 BILLION IN THIS YEAR.



Current Account Deficit ranged between \$ 2.0 billion to \$ 4.3 billion during most part of the 1990's.

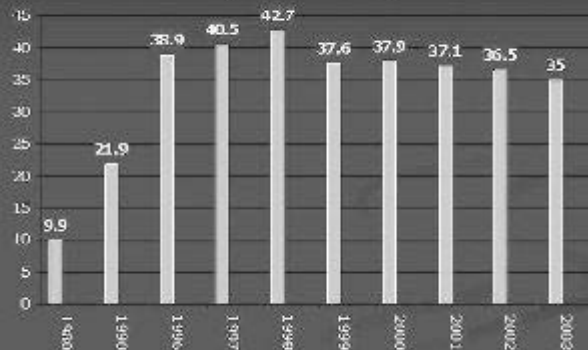
FOREIGN EXCHANGE RESERVES HAVE GROSSED \$10 BILLION AND LIKELY TO REACH \$ 11.0 BILLION BY THE END OF 2002-03. OUR RESERVES ARE SUFFICIENT TO FINANCE 11 MONTHS OF IMPORTS.





- STRONG BUILD UP IN RESERVES HAS STRENGTHEND PAKISTANI RUPEE VIZ US DOLLAR. EXCHANGE RATE HAS APPRECIATED BY 11 PERCENT SINCE JULY 3, 2001.
- PAKISTAN'S TOTAL STOCK OF EXTERNAL DEBT AND FOREIGN EXCHANGE LIABILITIES HAVE DECLINED BY \$ 3.0 BILLION.

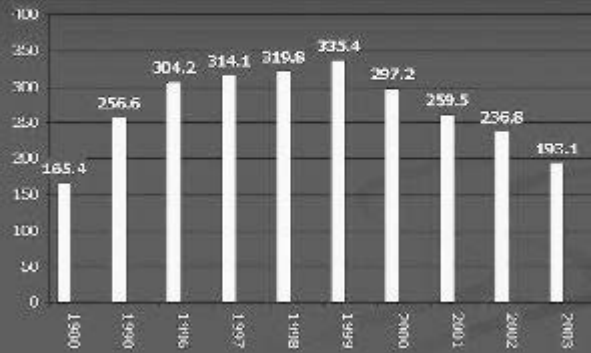
EXTERNAL DEBT LIABILITIES
(BILLION \$)



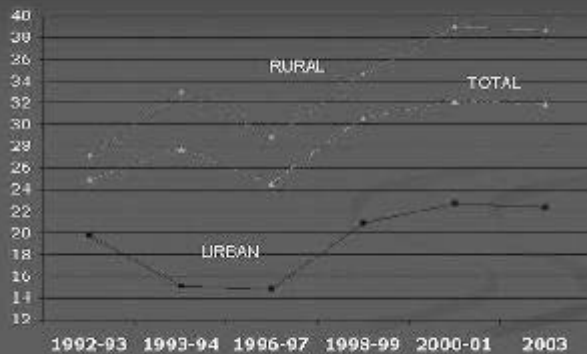
- PAKISTAN NET DEBT AND LIABILITIES STOOD AT \$ 37 BILLION IN END-JUNE 2000 AND EXPECTED TO DECLINE TO \$ 26 BILLION BY END-JUNE 2003—A REDUCTION OF \$ 11 BILLION IN 3 YEARS.
- EXTERNAL DEBT BURDEN HAS ALSO DECLINED SIGNIFICANTLY.



EXTERNAL DEBT AS PERCENT OF FOREIGN EXCHANGE EARNINGS



INCIDENCE OF POVERTY



FUTURE PROSPECTS

- Per capita income to rise by 46 percent in 5 years , i.e. from \$ 427 to \$ 623 .
- Poverty to be reduced by 25 percent from the current level of 31.8 percent to 23.8 percent.
- Taking real GDP growth to 6 percent in 5 years from the current year target of 4.5 percent.



FUTURE PROSPECTS

- Investment as percentage of GDP to rise to 18 percent from the current level of 15-16 percent.
- Saving rate rising from the current level of 15 percent to 16.5 percent.

FUTURE PROSPECTS

- Inflation to remain below 5 percent.
- Fiscal deficit declining to less than 3 percent of GDP in 5 years.
- Development spending rising to 4.1 percent of GDP from the current level of 3.3 percent.
- Public debt as % of GDP is targeted to decline to 76 percent in 5 years from the current level of 90 percent.

RISKS/DANGER

- Tax culture not gaining grounds.
- We may become fiscally irresponsible.
- We may use gimmicks to resolve economic problems.



PRE-REQUISITE TO ACHIEVE TARGETS

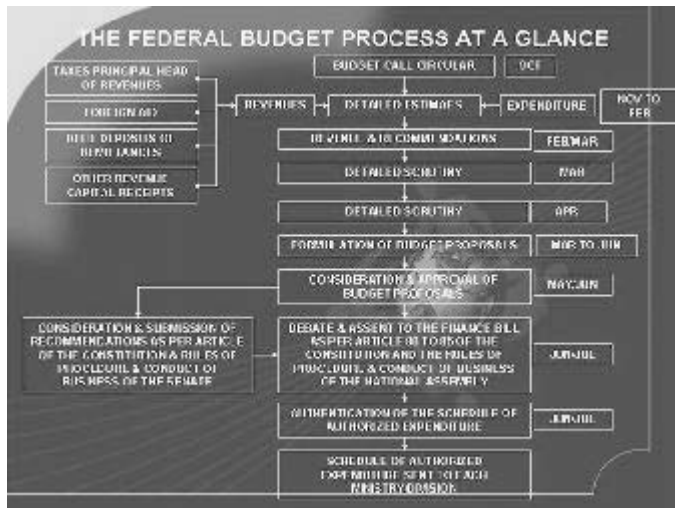
- We must continue to pursue consistent and transparent economic policies.
- Complete the On Going Structural Reform Program.
- Continue to work to reduce social gap.
- We must continue to remain fiscally responsible.
- We must Avoid Being the Victim of Lobbies.

APPENDIX F
Presentation by
Mr. Ghafoor Mirza
Former Federal Secretary Finance



The Federal Budget Process In Pakistan

- ARTICLES OF THE CONSTITUTION OF THE ISLAMIC REPUBLIC OF PAKISTAN RELATING TO THE BUDGET
- ARTICLE 73: PROCEDURES WITH RESPECT TO MONEY BILLS
 - ARTICLE 77: TAX TO BE LEVIED BY LAW ONLY.
 - ARTICLE 80: ANNUAL BUDGET STATEMENT
 - ARTICLE 81: EXPENDITURE CHARGED UPON FEDERAL CONSOLIDATED FUND
 - ARTICLE 82: PROCEDURE RELATING TO ANNUAL BUDGET STATEMENT
 - ARTICLE 83. VOTES ON ACCOUNT
 - ARTICLE 84. SUPPLEMENTARY AND EXCESS GRANTS





Annual Development Programme Formulation Process at a Glance

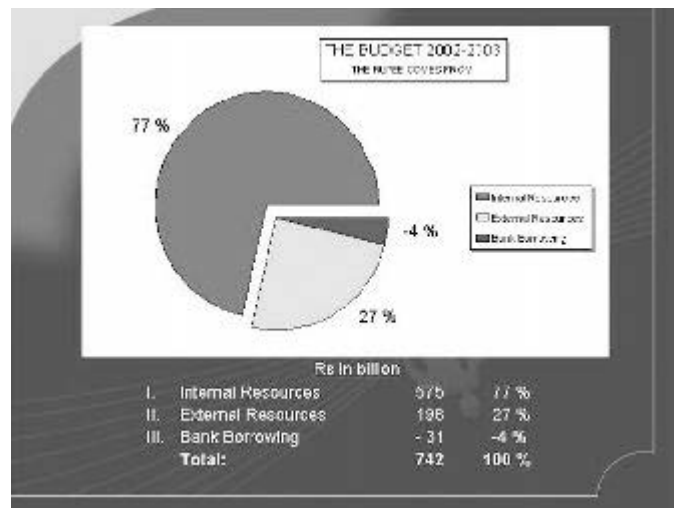
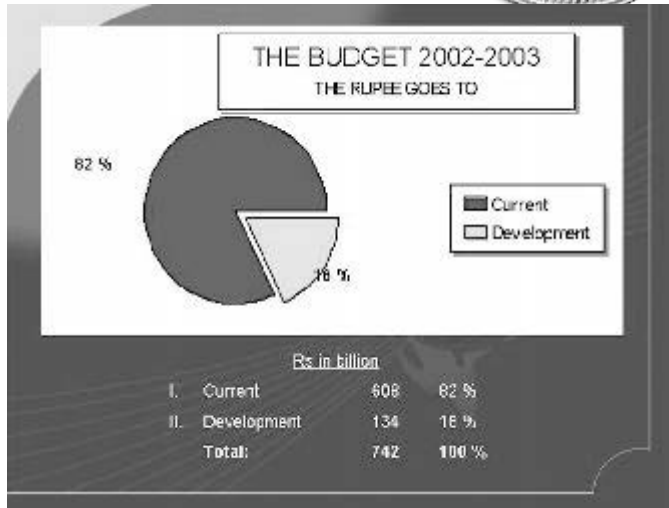
| | |
|---|----------|
| Ministry of Finance - Ministry of Planning & Dev. | OCT |
| BUDGET CALL CIRCULAR | |
| Directorates/Divisions/Depts/Instits | NOV |
| DEVELOPMENT REQUIREMENTS | to FEB |
| Planning & Development Division | MAR |
| SECRETARY | |
| House Committee on Fiscal Finance | APR |
| SCRUTINY & FORMULATION OF RECOMM. | |
| Annual Plan Coordination Committee | APR/MAY |
| CONSIDERATION | |
| Mineral Economic Council | MAY/JUNE |
| CONSIDERATION & APPROVAL | |
| Ministry of Finance | JUNE |
| INCLUSION IN BUDGETARY PROPOSALS | |

BUDGET AT A GLANCE

| Receipts | | Rs. in Billion |
|----------------------------|---|----------------|
| | | 2002-2003 |
| | | Actual |
| a) | Tax Revenue (CBB) | 466.6 |
| b) | Surcharges / Levies (Natural Gas and Petroleum) | 61.5 |
| c) | Non-Tax Revenue | 153.8 |
| d) | Gross Revenue Receipts (a+b+c) | 679.9 |
| e) | Less Provincial Shares In Taxes | 193.5 |
| I. | Net Revenue Receipts (d - e) | 486.4 |
| II. | Net Capital Receipts | 35.9 |
| III. | External Receipts | 198.1 |
| IV. | Self Financing of PNDP by Divisions | 29.7 |
| V. | Change in Provincial Cash Reserves | 13.8 |
| VI. | Privatization Proceeds | 32.8 |
| VII. | Bank Borrowing | -21.1 |
| Total Resources (I to VII) | | 742.0 |

BUDGET AT A GLANCE

| Expenditures | | Rs. in Billions |
|-----------------------------|-------------------------|-----------------|
| | | 2002-2003 |
| | | Target |
| A. | Current Expenditure | 608.0 |
| B. | Development Expenditure | 134.0 |
| Total Expenditures (A + B): | | 742.0 |



- THE BUDGET DOCUMENTS**
- BUDGET SPEECH OF THE FINANCE MINISTER (Without Tax Proposals)
 - BUDGET SPEECH OF THE FINANCE MINISTER (With Tax Proposals)
 - DETAILS OF DEMANDS FOR GRANTS AND APPROPRIATIONS (Pink Book)
 - DEMANDS FOR GRANTS AND APPROPRIATIONS
 - BUDGET IN BRIEF



THE BUDGET DOCUMENTS

- ANNUAL BUDGET STATEMENT
- EXPLANATORY MEMORANDUM OF THE BUDGET
- SCHEDULE OF AUTHORISED EXPENDITURE
- SUPPLEMENTARY DEMANDS FOR GRANTS AND APPROPRIATIONS
- ESTIMATES OF FOREIGN ASSISTANCE
- BUDGET AT A GLANCE

RULES OF PROCEDURE AND CONDUCT OF BUSINESS IN THE NATIONAL ASSEMBLY ON FINANCIAL MATTERS (EXCERPTS FROM THE "RULES OF PROCEDURE AND CONDUCT OF BUSINESS IN THE NATIONAL ASSEMBLY - 1992") 163.

BUDGET

- PRESENTATION OF THE BUDGET
- NO DISCUSSION ON THE DAY OF PRESENTATION
- STAGES OF DISCUSSION OF THE BUDGET
- ALLOTMENT OF DAYS
- GENERAL DISCUSSION ON THE BUDGET
- CUT MOTIONS

- CONDITIONS FOR ADMISSIBILITY OF CUT-MOTION
- SPEAKER TO DECIDE ADMISSIBILITY OF CUT MOTION
- NOTICE OF CUT-MOTIONS
- AMENDMENT TO CUT-MOTION
- VOTING ON DEMANDS FOR GRANTS
- SCHEDULE OF AUTHORIZED EXPENDITURE
- PROCEDURE FOR DEALING WITH SUPPLEMENTARY AND EXCESS DEMANDS

APPENDIX G

Presentation by
Mr. Salim Saifullah
Secretary General PML - Q



INTRODUCTION

The national budget is the most important statement that any government has to make. It is the blueprint for a nation's socio-economic policies for each fiscal year and is the fundamental indicator of what government is doing and what objectives it is pursuing. The budget, therefore, defines the direction of national policy, the plan of action, and the cost implications of government programs and projects during the fiscal year and identifies the resources required to implement them. The budget identifies who will be the direct and indirect beneficiaries of public services.

FUNCTIONS OF THE BUDGET

- allocation of resources (public goods and government services) to priority sectors
- distribution of wealth and incomes (reducing inequalities between and within socio-economic groups) through development
- stabilization of economy – achieving growth rates, reducing deficits, stabilizing prices, aiming to fulfill macro economic targets)

Other functions of the budget include

- it is a tool for ensuring social order and harmony by providing a sense of discipline in government action
- It is a measure of government performance and accountability and serves as a benchmark against which accountabilities and performances can be measured.



ROLE OF PARLIAMENT AND ITS MEMBERS IN THE BUDGET PROCESS

- In Pakistan, budget is focused towards the nation's debt services, development, and defense.
- Use of the budget as a political tool becomes counter effective as squabbling at the parliament level does not bear fruits at grassroots.
- It imperative that our economic policy be continued from one government to another.)
- The role of parliament is one of authorization, oversight, and supervision.
- The parliament's watchful eye ensures transparency and accountability and the correct use of the nation's money.

AUTHORIZATION

- The executive branch of government prepares the national budget in light of its policy goals and presents it to the parliament.
- The parliament has the opportunity to review and debate on the budget in accordance with the parliamentary rules of procedure. The parliament does not, however, have the privilege of amending the budget as a whole. Parliamentary rules allow for 3 types of cut motions

- Disapproval of policy cut- which allows for a member to represent his disapproval for a specified policy and gives opportunity to members to advocate an alternative policy
- Economy cut- allows for the reduction in the demand or the omission or reduction of an item in the demand
- Token cut- allows for the reduction by Rs 100 in light of a specific grievance within the sphere of responsibility of the Government.



- Through debate on various aspects of the budget, the parliament puts forth its views, which are taken into consideration by the Minister of Finance when the budget is finalized and presented for authorization at the end of parliament's budget session.

- Debate is the strongest tool available to parliamentarians in the budget process
- They need to assess the views and needs of the citizens of Pakistan.
- National consensus building and building linkages at the community level can be achieved through the active dialogue between MNAs and civil society
- NGOs play a big role in this regard as they are natural liaisons between MNAs and areas of society which are in dire need of public services and government spending.

- As representatives of the people, parliamentarians should regularly consult civil society and relay its concerns to the government for inclusion in the debate on the formulation of the budget.
- Members of parliament should set up roundtable discussions, at national and local level, wherein civil society can be consulted extensively on priorities to be addressed within the budget.



- Parliamentarians need to be accessible to the public and thus counter traditional practices of privileged access.
- Parliamentarians and political parties need to be open to the lobbying efforts of civil society.
- Civil society also plays a large watchdog role in the effective use of allocated budget money at a grassroots level.

OVERSIGHT

- Parliamentary oversight is the mechanism that ensures the transparent and accountable use of national funds by the government.

- A new shift in political attitudes towards the working of the parliament with more demand for the need to be informed through capacity building.
- Imperative to promote and enhance the economic literacy of parliament
- Well-informed and competent legislatures provide countries with coherent policy and legislation, and provide the legitimate democratic check on executive policies and actions.



- Accountability and transparency prerequisites for a democratic budgetary process.
- Queries from the parliament hold government accountable for its budget spending and expenditure.
- Parliament confers responsibility on the executive, and, at the same time, requires accountability reporting from the executive.
- Watchdog agencies, principally national audit offices (auditor general), examine the performance of the Executive and in turn report to parliament.

- Improvement in the relationship between parliament and independent accountability mechanisms will broaden the scope of transparency.

Specific tools available to parliament for oversight

- The means available to parliaments to ensure accountability and transparency are generally enshrined in the constitution, in laws and in the rules (standing orders, rules of procedure) under which the parliament operates.



- Parliamentary committees (especially finance/budget committees)
 - public accounts committees
 - Committees important for coordinating the parliament's response to proposed government priorities.
 - Committee and plenary sessions of parliament provide a useful and effective forum for holding government to account through questions to the government and other public officials on their performance
-
- In many countries, committees are open to the public and parliament encourages public inputs through public hearings, outreach to civil society and other groups, strategic partnerships with non-governmental advocacy and think-tank organizations, etc.
 - In some countries parliamentary budget offices (staffed by economists and financial experts) have the task of collecting information and research material on the budget to impart to parliamentarians. The institution of the Congressional Budget Office some 25 years ago has proved to be an indispensable tool for US congressmen and senators in the US budget process.

APPENDIX H

Presentation by

Syed Naveed Qamar

MNA, Former Federal Minister for Finance



BUDGET PROCEDURES IN THE NATIONAL ASSEMBLY

SYED NAVEED QAMAR , MNA

VARIOUS STAGES OF THE BUDGET

- 1. BUDGET SPEECH
- GENERAL DEBATE ON THE BUDGET
- DEMANDS FOR GRANTS
- FINANCE BILL
- SUPPLEMENTRY BUDGET
- LAYING OF SCHEDULE ETC.

BUDGET SPEECH

- FINANCE MINISTER - LIVE
- DOCUMENTS LAYED ON THE TABLE
- *COMMENTS AFTER THE SPEECH*



GENERAL DEBATE

- DURATION
- DIVISION OF TIME
- SUBJECTS
- RULES OF DEBATE

DEMANDS FOR GRANTS

- CHARGED EXPENDITURE
- OTHER THAN CHARGED EXPENDITURE
- CUT MOTIONS
 - MOTION THAT GRANT BE CUT BY ONE RUPEE
 - MOTION THAT GRANT BE CUT TO ONE RUPEE
 - MOTION THAT GRANT BE REDUCED BY A CERTAIN AMOUNT
- GULLIOTINE

FINANCE BILL

- Amendments to various tax laws
- Income tax
- Sales tax
- Excise Duties
- Customs duties
- FIRST READING
- SECOND READING
- THIRD READING
- AMENDMENTS



SUPPLEMENTARY BUDGET

- DEFINITION
- DEBATE
- ALL RULES TO APPLY

LAYING OF SCHEDULES ETC.

- LAYING OF PAPERS

APPENDIX I
Paper by
Dr. Ishrat Husain
Governor State Bank of Pakistan



Continuity of Reforms

by Dr. Ishrat Husain

Several leading newspaper editorials, informed commentators and political analysts have taken umbrage to the State Bank's constant pleading to continue economic reforms in the country. A group of leftist oriented writers identify these reforms with the conditionalities prescribed by the international financial institutions (IFIs) have serious ideological aversion to these institutions and find them as convenient scapegoat for ventilating their anti-capitalist and anti-globalization sentiments. This group can be ignored as no amount of argumentation, evidence or persuasion that these reforms are not spurred by the IFIs but are driven by the larger interests of Pakistan will change their closed minds. To them, everything supported by IFIs is black, conspiratorial, self serving (to pay themselves back) and against the poor and downtrodden masses of developing countries. There are no grey areas or nuances or shifting paradigms as far as they are concerned. If we tell them that Pakistan intends to pay these institutions ahead of schedule they will find some other excuse to blame. I will therefore leave their rhetoric, fulminations and outbursts aside.

There is second group of serious minded nationalistic oriented writers who believe that the reforms implemented during the last three years were harsh, onerous and adversely affected the poor and the middle class. To them, continuation of reforms is synonymous with the continuation of past hardships and erosion of purchasing power faced by the ordinary Pakistani during the last three years. Their criticism is more valid and needs to be addressed adequately.

First, a country faces different phases of economic transformation through which it passes through and chooses a different set of economic policies for each phase. Between 1999-2002 Pakistan had to stabilize its economy, get out of the ever impending payment crisis situation, turn the fundamentals around and lay down the foundations for sustainable growth and poverty reduction. Those who believe that we could have succeeded in reducing poverty or accelerating growth in absence of first achieving stability, getting out of debt trap and assuring good economic governance are sadly mistaken. Prime-pumping by the government and opening the doors of government departments and corporations to large scale employment or providing subsidies on petroleum, electricity, food etc. would have been a short-lived blip in the economy but was not simply sustainable. This approach would have certainly accentuated inflationary pressures in the economy, depreciated rupee to over 70 per dollar, increased the debt burden and accelerated flight capital. Short-term gimmickry for gaining political kudos has been tried in the country before but was not successful either in maintaining political support or improving the economy. The reforms which were required during the phase 1999-2002 were no doubt harsh on general public but they were necessary. Had the previous governments taken the right decisions on the right time to set things on the course this severity could have been avoided. But the Military Government had to take all the tough decisions which were avoided in the past and the cumulative impact was necessarily quite unpalatable.

Second, the current phase (2003-2005) whereby the real economy is beginning to pick up as revealed by the various indicators does not require that the same set of reforms which were pursued in the past three years have to be continued. This phase requires a completely different set of structural, sectoral and micro reforms rather than the price reforms, fiscal squeezing and monetary tightening observed during first phase.

As there is a great deal of ambiguity about the nature and contents of the reforms I will first like to elaborate as to what kind of reforms need to be continued in this current phase and the consequences they are discontinued.



(A) Institutional reforms of WAPDA and KESC: As both these entities are creating problems for fiscal discipline, burdening the consumers and affecting the competitiveness of industry, they need to be restructured, unbundled and made more cost efficient. Thus discontinuation of ongoing reforms in these two organizations will pose a major macroeconomic risk and vitiate some of the gains made during the last three years. The purchasing power of the middle class will be eroded and the industrial cost of production will remain high.

(b) Restructuring and reform of CBR: The ultimate aim of a fair, efficient and equitable tax administration is to widen tax base, reduce tax rates, eliminate multiplicity of taxes and minimize physical interaction between tax payers and tax collectors. The reforms initiated in last one year for restructuring of CBR are still in infancy and need to be nurtured. If these reforms are aborted none of the aims of the desired tax administration will be achieved. We will be stuck with an inefficient, inequitable system with a narrow tax base and the usual complaints of extortion, harassment.

(c) Financial sector reforms: The banking system in the country has begun to show some signs of vitality and strength. Intermediation costs are on a downward path; portfolio of non-performing loans is shrinking; asset diversification has started to show some healthy trend; professionalism rather than connections is taking hold in management. But still the reforms have a long way to go. Mortgage and consumer financing to middle income classes, assistance to SMEs and agriculture are at very low levels and have to be stepped up. If these reforms are no longer pursued the benefits will remain confined to a small class of corporate and trade businesses and thus opportunities for expansion of economic activity, credit to middle class and new job creation will be missed.

(d) Privatization: A number of public sector enterprises (PSEs) have been haemorrhaging the country's finances. Three years ago their annual losses funded out of budget were Rs 100 billion. These losses have come down but they still amount to 1 percent of GDP. These enterprises produce goods and services and can be run efficiently only by those who know how to operate businesses and not by bureaucrats. If this budgetary allocation to meet the losses of PSEs is diverted towards education and health the benefits to the poor of this country will be enormous. In case we have cold feet and decide to abandon privatization it is quite certain that the budgetary subsidies to public enterprises will keep rising and leave little resources for social services and infrastructure.

(e) Fiscal discipline: One of the main problems faced by the economy which made us highly vulnerable was the rising gap between our income and expenditure. We kept on borrowing internally and from international financial institutions to bridge this gap until the burden became unbearable and our economic sovereignty was compromised. In the last few years strict fiscal discipline has allowed us to reduce our external debt burden. If we once again begin to indulge in bad practices of the past we will soon be faced with financial crises and will have to run to international financial institutions to bail us out. Fiscal discipline does not mean squeezing of government expenditure but a reallocation towards development expenditure and social sectors along with higher tax collection. The subservience of our economic decision making to external agencies is something every patriotic Pakistani should avoid. The only viable way out is to maintain fiscal discipline.

(f) Good governance: Pakistan had earned the distinction of being ranked as the second most corrupt country in the world. The waste, leakages, favoritism and nepotism have cost the country a huge fortune. Some semblance of good governance was established during the previous government. If



merit, transparency and level playing field are given up in the name of expediency the country will be faced with widespread disaffection and social instability.

(g) Agriculture sector reforms: Productivity in agriculture sector is still low and the use of water resources and other inputs is inefficient. Farmers were not paid international prices for their output and small farmers were denied credit. Subsidies in agriculture were misutilized by the influential and well-to-do farmers. The reforms introduced to boost incentives, invest in rural infrastructure and expand credit to agriculture need to be further strengthened. If for some reasons these reforms are not implemented there is a serious danger that the country may once again become a net importer of food.

(h) Reforms in social sector: The devolution of powers to local governments is aimed at empowering the people at the grass roots level to make choices about essential services such as education, health, water supply, farm to market roads, land leveling, water course improvement. The demand-driven projects responsive to the needs of the local people will produce better outcomes as far as social sector development is concerned. Any move inspired by power grabbing considerations, to dilute the devolution will have very negative repercussions for poverty reduction and provision of social services. Of course, the flaws and deficiencies in the existing system should be rectified but no attempt should be made to bring about status-quo ante.

(i) Civil Service, Police and Judicial reforms: Although some initiatives have been taken to reform the main executive and judicial organs of the state not much progress has been made. Merit based recruitment, performance linked promotions, adequate compensation, continuous upgradation of skills and knowledge are some of the essential ingredients of these reforms. No doubt they will be met with fierce resistance but involvement of all the stakeholders in the design and implementation process will neutralize this opposition. But if we decide to abandon this path and do not bring about the required changes our institutional capacity to deliver justice, services and protection to the ordinary citizens of Pakistan will be severely impaired.

In the end, I would therefore ask the following question? What is wrong with continuing the above set of reforms in the next 3 years? They will relieve us of the burden of excessive pricing of our utilities; ease the harassment and extortion of tax collectors; make our banks more accessible to the middle class, farmers and small businesses; get rid of unprofitable public sector enterprises; minimize corruption and nepotism; improve the productivity of agriculture; transfer powers of providing essential social services to the local governments; increase our education and health availability while improving their quality and make our civil service, police and judiciary more efficient and responsive to the needs of the common man. I doubt if any one will disagree with the thrust of these reforms. They may differ on the modalities, instrumentalities and sequencing, phasing and timing. But a three year period is too short for such an ambitious and comprehensive set of reforms to take hold. At least next 10 years should be devoted to get them implemented in the right way.



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