



## CASE STUDY SERIES

May 2005

A Comparative  
Case Study of the  
Parliamentary Budget  
Process in Pakistan,  
India and Canada

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**FOREWORD**

**A**t the heart of a Parliament's work is the mandate to oversee and regulate financial and economic management. It is therefore imperative for parliamentarians to play a proactive role in the budget process. In Pakistan, unfortunately, the Parliament's role in budgetary development and oversight is rather limited.

This paper compares the budget processes of India, Canada and Pakistan in order to highlight the differences and provide insight into the reforms needed to enhance parliamentary involvement in Pakistan. India was selected because we not only share extensive commonalities with Indian social and cultural norms but also with its political infrastructure. Since both nations exist as post-colonial developing polities that inherited the British parliamentary system of governance, we feel that a study of their budgetary practices can provide valuable basis for comparison. Canada, on the other hand, allows us to study the budgetary practices of an established democracy with developed political infrastructure and processes. In addition, Canada is also a parliamentary democracy and a federation like Pakistan.

We at PILDAT hope that Pakistani parliamentarians will find this comparison useful and they will strive even more vigorously for making the role of the Parliament in the Budget process more effective and meaningful. They can count on PILDAT as their allies in the efforts to strengthen democracy and the Parliament.

PILDAT and its team of researchers have made every effort to ensure the accuracy of the contents of this paper and do not accept responsibility for any omission and error, as it is not deliberate.

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## 1 Introduction

The Budget is an important policy document through which the Government establishes its economic and social priorities and sets the direction of the economy. It reflects the fundamental values underlying the Government's economic policies and objectives. How government policies affect the livelihood of a country's people depends on tax levels, spending priorities, and the impact of policies on investment, employment, and consequently national income. The Parliament is the most appropriate place to examine the Government's budget proposals and to ensure that these best match the nation's needs and people's aspirations. It is therefore imperative for parliamentarians to play a proactive role in the budget process.

The preparation of the budget draft is the task of the Government (i.e. the executive). However, budgets are best formulated when approved through a consultative process with parliamentarians (i.e. the legislature) and members of civil society. In order to ensure transparency, accountability and participation in the budget process, Parliaments can:

- Ensure that pre-budget consultations take place and provide input in the early stage of budget preparation
- Scrutinize spending and revenue details in the budget draft to see if they are consistent with stated government goals and needs of the people
- Exercise their constitutional rights optimally to review and amend the budget in accordance with national priorities
- Review financial reporting to see if the Government is pursuing budget promises
- Oversee government activity to see if results are being achieved that are consistent with budgetary policies.

In order to contribute fully to the budget process, Parliaments should have adequate time to debate government spending plans in House and in committees; they must be able to amend government spending and priorities, and they must have full access to ministers and their civil servants who are required to provide detailed explanations of the budget proposals.

The ability of the Parliament to change budgets depends largely on two sets of necessary conditions: the extent of conferred powers, and the effectiveness with which a parliament can use these powers.<sup>1</sup> Conferred powers refer to the powers vested in a Parliament to make amendments in the Budget. Logically, these powers are positively correlated with the ability to affect change; however the way in which these powers are exercised varies from country to country. Hence, the mere existence of powers to approve, disapprove or amend does not necessarily ensure that they will be used effectively. An effective budget process within a parliament must be combined with a strong committee system as it is an increasing global trend to accomplish serious in-depth review and scrutiny within the parliamentary committees rather than in the plenary. In systems where the Parliament is granted power of amendment without an effective role for committees in the process, the ability of the Parliament to effectively study, scrutinize and, if required, change the budget is limited, whereas in a system where the Parliament enjoys powers of amendment and has a strong committee system, its ability to change the budget is significantly enhanced.<sup>2</sup>

Therefore, the most important instrument of effective parliamentary participation in the budget cycle is the committee system. Finance committees are important with respect to budget planning and reviewing budget allocation details. Public Accounts Committees are crucial in evaluating the effectiveness of programmes, ensuring financial integrity and checks and balances against suboptimal practices.

It is in the aforementioned background that this paper briefly examines the effectiveness of the current Parliamentary Budget Process in Pakistan comparing it with the processes in two other countries i.e. India and Canada.

The following sections outline the budget processes in India, Canada and Pakistan in order to highlight the differences in parliamentary participation and oversight of the budget cycle.

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## 2 Budget Process in India<sup>3</sup>

Parliamentary control over public finances is operative mostly through the approval of the Annual Budget. This enormous responsibility of spending public funds falls upon the Government as well as the Parliament. And if the Government is responsible for planning how public money should be spent, the Parliament's duty as the people's representative body is, to observe and scrutinize the Government's proposals and policies. For such Legislative control over the financial procedures, *Articles 265, 266 and 112 of the Indian Constitution* clearly vested "the power over the purse in the hands of chosen representatives" by providing that "no tax shall be levied or collected except by authority of law, no expenditure can be incurred except with the authorization of the Legislature; and President shall, in respect of every financial year, cause to be laid before Parliament, Annual Financial Statement"<sup>4</sup>. Thus, the Indian government is accountable to the Parliament in its financial management.

In India, the Budget process follows the British pattern.<sup>5</sup> With the constitutional supremacy of the bicameral Parliament, especially of Lok Sabha (House of People), every single financial act is processed and passed by the representatives of the people. However, proposals for the formulation of budget levying taxes, determining government accounts and expenditures, are entirely prepared by the Government's ministries, especially by the Ministry of Finance.<sup>6</sup>

### 2.1 Presentation of the Budget

The Annual Financial Statement, presented before both the Houses of Indian Parliament, constitutes the Budget of the Union Government. This statement takes into account a period of one financial year, which generally commences on April 1st each year. The statement embodies the estimated receipts and expenditure of the Government of India for the financial year. The Budget is conceptually divided into two sections budget for current expenditures, known as the budget on revenue account, and a capital budget for economic and social development.

The estimates of expenditure included in the Budget and required to be voted by Lok Sabha are in the form of

Demands for Grants. These Demands are arranged Ministry-wise and a separate Demand for each of the major services is presented. Each Demand contains first a statement for the total grant and then a statement of the detailed estimate divided into items. The Budget of the Indian Railways is presented separately to the Parliament and dealt with separately, although the receipts and expenditure of the Railways form part of the Consolidated Fund of India and the figures relating to them are included in the 'Annual Financial Statement'.

According to Article 204(1) of Rules of Procedure and Conduct of Business in Lok Sabha, the Budget is presented to the Parliament on such date as is fixed by the President. According to parliamentary custom, the Budget is usually presented at 5.00 pm. on the last working day of February i.e. about a month before the commencement of the financial year except in the year when General Elections to Lok Sabha are held. In an election year, the Budget may be presented twice, first to secure a Vote on Account for a few months and later in full.

The General Budget is presented in Lok Sabha by the Minister of Finance. He makes a speech introducing the Budget and it is only in the concluding part of his speech that the proposals for fresh taxation or for variations in the existing taxes are disclosed by him. The 'Annual Financial Statement' is laid on the table of Rajya Sabha at the conclusion of the speech of the Finance Minister in Lok Sabha. Rule 205 of Rules of Procedure and Conduct of Business in Lok Sabha specifies that "there shall be no discussion of the Budget on the day on which it is presented to the House". A subsequent day is usually allotted "by the Speaker for the House to discuss the Budget as a whole or any question of principle involved therein", and the rules state that "no motion shall be moved nor shall the Budget be submitted to the vote of the House". The Finance Minister has the right to reply at the end of the discussion (Rule 207 - 1, 2).

### 2.2 Discussion of the Budget

Budgets are discussed in two stages the General Discussion followed by the voting on the demands for grants. During the General Discussion, the House is at liberty to discuss the budget as a whole but no motion can

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be moved. This lasts for about 4 to 5 days.<sup>7</sup> The scope of discussion is confined to an examination of the general "scheme and structure of the Budget, whether the items of expenditure ought to be increased or decreased, and the policy of taxation"<sup>8</sup>.

The whole process of discussion and voting on demands for grants and the passage of the Appropriation and Finance Bills is to be completed within 75 days after introduction.<sup>9</sup> Since the demands for grants relating to all ministries/departments cannot be discussed, some demands get guillotined i.e. voted without discussion. After the presentation of the budget, the Minister for Parliamentary Affairs holds a meeting with the leaders of all parties/groups in Lok Sabha for the selection of Ministries/departments whose demands for grants should be discussed in the House. On the basis of the decisions reached at the meeting, the Government forwards the proposals for the consideration of the Business Advisory Committee. The Business Advisory Committee, after considering the proposals, allots time and the order in which the Demands may be discussed. A time table showing the dates and order in which the Demands for Grants of various Ministries would be taken up in the House is published for the information of members.

### *2.3 Vote on Account*

Since the Parliament is not able to vote the entire budget before the commencement of the new financial year, the necessity to keep enough finance at the disposal of the Government in order to allow it to run the administration of the country remains. A special provision is, therefore, made for "Vote on Account" by which the Government obtains the vote of the Parliament for a sum sufficient to incur expenditure on various items for a part of the year. Normally, the Vote on Account is taken for two months only. But during election year or when it is anticipated that the main Demands and Appropriation Bill will take more than two months, the Vote on Account may be for a period exceeding two months. Vote on Account is passed by the Lok Sabha after the General Discussion is over.

### *2.4 Consideration of the Demands for Grants by Departmentally Related Standing Committees*

Once the General Discussion on the Budget is over, the House is adjourned for a fixed period. During this period, the Demands for Grants of all the Ministries/Departments are considered by the relevant standing committees. The committees are required to make their reports to the House within a specified period.

### *2.5 Discussion on Demands for Grants*

Once the House is resumed, the Demands for Grants are presented along with the reports of the standing committees. The House proceeds to discuss and vote on the grants. At this stage cut motions can be moved to reduce the amounts of the grants.

### *2.6 Appropriation Bill*

After the Demands for Grants are passed, a bill to provide for appropriation out of the Consolidated Fund of India is introduced, considered and passed.

### *2.7 Finance Bill*

The Finance Bill, seeking to give effect to the Government's taxation proposal, which is introduced in Lok Sabha immediately after the presentation of the General Budget, is taken up for consideration and passage after the Appropriation Bill is passed. The Parliament has to pass the Finance Bill within 75 days of its introduction.

### *2.8 Role of Committees in observing and scrutinizing the Budget*

The Committee system serves as an important tool for ensuring parliamentary control over financial oversight and management. Although in many countries the budget drafting phase is "an intrinsically closed process",<sup>10</sup> the committee stage provides an opportunity for the Parliament to observe in detail, the Government's financial proposals and their possible impact on future financial management.

*The Public Accounts Committee:* The Public Accounts Committee, on the basis of the reports of the Comptroller

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and Auditor General of India (CAG) examines the financial administration of the Government. CAG audits and provides comprehensive reports on the financial and fiscal management of the Government and of development programs. These reports are examined by the Public Accounts Committee to assess the performance of the Government. This process ensures accountability of the Government's financial management. PAC submits its recommendations to the Parliament and also reports on the action taken on these recommendations. The Committee also examines the excesses over the budgetary grants, which come up for ex-post facto approval of the Parliament. Based on the Committee's recommendation, the Parliament regularises such excesses.<sup>11</sup>

### 2.9 Role of the Rajya Sabha

Once passed by the Lok Sabha, the Budget is forwarded to the Rajya Sabha. (Council of States - the upper house of Parliament) for comments. The Lok Sabha, however, is not bound by the comments, and the Rajya Sabha cannot delay passage of money bills. When signed by the President, the bills become law.

## 3 Budget Process in Canada

The Budget is presented by the Minister of Finance in the House of Commons. The Minister's speech offers a comprehensive assessment of the financial standing of the Government, an overview of the economy, and outlines any proposed tax changes. There is no requirement either in law or in the Standing Orders (the written rules of the House) for there to be a Budget speech. There is no fixed date or time for the Budget presentation, however traditionally the Budget is presented in February.

### 3.1 Pre-budget Consultations

In Canada, public policy debate on budget related matters begins in October, prior to the presentation of the budget in February. In 1994, changes to the Standing Orders of the House added a provision empowering the Standing Committee on Finance to undertake an annual autumn public consultation on what should be in the next Budget.<sup>12</sup> The Finance Committee is responsible for reviewing overall government finances and budget decisions. The Finance

Ministry, in October, requests the Finance Committee of the House of Commons to consult with Canadian people and present their opinions to the Ministry of Finance. The exercise starts with a presentation by the Minister of Finance to the Committee on the state of the economy. Every year, the Committee holds pre-budget consultations, consultations that take the Finance Minister and a team of Parliamentarians across the country to solicit the views of experts, interest groups, and the general public. The committee, taking into account the results of the consultations, develops a report for the Minister. The report significantly contributes to the formulation of budget and economic policy of the Government in general.

*Consultation with the General Public:* As mentioned above, members of the public are encouraged to provide input into the Federal Budget. Groups and individuals can comment either during the pre-budget consultations with the Standing Committee on Finance or when the various standing committees review individual department spending (please see section 3.3 for details). The Government also often releases major parts of the budget to the general public prior to its official presentation in Parliament. This is meant to get a pre-budget sense of the public's reaction to proposals in the budget, and whether or not what the Government is proposing will be politically successful. This idea, of publicly 'testing' government proposals with the public, is referred to as a *trial balloon*.<sup>13</sup>

### 3.2 Debate on the Budget

After the Budget presentation, the Speaker identifies a representative of the Opposition and asks him to make a speech. He or she then moves that the debate on the Budget be adjourned, and this motion is deemed adopted. In proposing adjournment of the debate, the Member reserves the right to speak first when debate on the Budget motion resumes at a subsequent sitting. Following the adjournment of the debate, the Speaker adjourns the House until the next sitting day. The rules of the House allow four days of resumed debate on the Budget (i.e., four days in addition to the day on which the Budget was presented), and permit only one amendment and one sub-amendment to the Minister of Finance's motion.<sup>14</sup> There are no time limits for the speeches given by the Minister of Finance, the first speaker from the Official Opposition, the Prime Minister

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and the Leader of the Opposition. Other Members participating in the Budget debate are allowed up to 20 minutes each to address the House. There is a ten minute questions and comment period following each speech.

### *3.3 Presentation of the Main Estimates and Consideration by the Standing Committees*

Subsequent to the presentation of the Budget and prior to March 1st each year, the President of the Treasury Board tables the Main Estimates in the House of Commons.<sup>15</sup> These Estimates of each department are referred to the appropriate standing committees. The Committees have the authority to call the Minister of the concerned department and senior officials to defend the Estimates. A committee considers each of the budgetary items, referred to as "Votes", individually. Each Vote becomes the subject of a distinct motion, which can be agreed to (approving the expenditure), amended (reducing the amount provided) or negated (eliminating the expenditure).<sup>16</sup> A committee may not increase the amount of a Vote, as that would infringe on the financial initiative of the Crown.

Once the committees have completed their review, they report the Estimates back to the House. The reports may not contain substantive recommendations. Committees that have not reported by May 31 are deemed to have done so. An exception to the May 31 reporting deadline is provided for in Standing Order 81(4)(b), which allows the Leader of the Opposition to move a motion to extend the time for committee consideration of the Main Estimates for one department or agency.

Although the reviews of the Standing Committees are not binding on the Government, they do provide an opportunity for Members of Parliament to provide their views on government finances and spending.

### *3.4 Discussion of Estimates in the House and Concurrence*

After the standing committee reports have been tabled, all members of the House have the opportunity to review the decisions reached in the committees before motions for concurrence in the Estimates are introduced. According to the Rules, the Government must give at least 48 hours' me

written notice of a motion or motions to concur in the Estimates. If the Government wishes to restore any items that were reduced or reinstate items that were eliminated by a committee, it must provide 48 hours' written notice of these motions as well. At the same time, Members are given an opportunity to table notices of motions to oppose any item in the Estimates. Generally, the notice requirement for opposed items is 24 hours. On the last day given to consideration of Estimates, all motions of opposition and concurrence in the Main Estimates are considered by the House. Debate is permitted, but the Standing Orders provide that at no later than 10:00 PM., the Speaker must put all questions necessary to dispose of the motions.

### *3.5 Appropriation Bill*

Once the Main Estimates have been concurred in, the next step is the passage of the Appropriation Bill. The Bill authorizes the withdrawal of funds from the Consolidated Revenue Fund.

### *3.6 Ways and Means Bill*

The Ways and Means Bill is the legislation required to give effect to the taxation proposals outlined in the Budget. The Bill is tabled during the Budget presentation and is passed in order to allow the imposition of new taxes or changes in existing taxes.

### *3.7 Role of the Auditor General and the Public Accounts Committee in the Budget Cycle*

The Public Accounts Committee, on behalf of Parliament, scrutinises and assesses the financial administration of the Government. The objectives of the Committee are to encourage efficient and effective utilisation of public sector resources, ensure transparency of information, and enhance accountability of the Executive to the Parliament with regards to public spending. The Financial statements of the Government are audited by the Auditor General. When the statements with the audit report attached are tabled in the House, they are automatically referred to the Public Accounts Committee for examination. In addition, the Office of the Auditor General of Canada conducts value for money audits on programs and services delivered by the Government. He/she normally tables reports in the House

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on this activity three times a year. These reports are also automatically referred to the Public Accounts Committee. The Public Accounts Committee holds public hearings with senior departmental officials as witnesses on issues and problems identified by the Auditor General in his reports. After a hearing, the Public Accounts Committee normally tables a report in the House on its findings with recommendations for change and calls on the Government to table a response in the House to the Public Accounts Committee report within five months.

#### 4 Budget Process in Pakistan

The fiscal year in Pakistan starts from July 1st. The Budget proposals, made by the Finance Ministry and considered and approved by the Cabinet, are presented in the Parliament. There is no formal provision in the rules of procedure for a pre-budget discussion or consultation on the part of the Ministry to engage the public or the Parliament on fiscal matters and issues. When approved by the Cabinet, the Finance Minister, on behalf of the Government, delivers his Budget speech in the National Assembly. No other business is allowed in the House on that day. The stages of the discussion of the Budget are as follows:

- 1) General Discussion on the Budget
- 2) Discussion on Appropriations
- 3) Discussion and voting on Demands for Grants

According to the Rules of Procedure of the National Assembly, the Speaker allots days for the different stages of the Budget. It requires two days to lapse between the days the Budget is presented and the first day of the General Discussion. The Rules prescribe that not less than four days should be allotted for the General Discussion.

Any member can move a cut-motion to reduce the amount of demand. Each Demand for Grant is discussed and voted upon. Consequently, a Vote of Account is taken and the Finance Bill is passed.

The Budget is submitted to the Senate for recommendations. The Senate can make recommendations on the Budget to the National Assembly within seven days. These recommendations are not binding

on the National Assembly.

Some of the areas in which the Parliamentary Budget Process in Pakistan needs urgent improvement are as follows:

- a The period allowed between the presentation of Budget and its passage is too short for any meaningful debate or input by parliamentarians.
- b There is no provision and tradition of parliament-led pre-budget consultation with parliamentarians, civil-society and citizens at large.
- c Individual parliamentarians and the Parliament as an institution, lack the infrastructure to give research and analysis support for an effective Budget debate in the Parliament.
- d The Budget relating to Defence services lacks details. Even the distribution among the three services such as Army, Air Force and Navy is not provided.
- e The Standing Committees both of National Assembly and Senate, which are mostly formed in line with the Ministries and Divisions, have not been assigned any role in the Budget process. Even the Standing Committees on Finance do not play any role in the Budget process.

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Budget cycle. No such exercise is undertaken in Pakistan.

A fundamental difference between the Pakistani Budget Process and those of Canada and India is the role played by Parliamentary Committees. Both in India and Canada, committee reviews provide an opportunity for the Parliament to examine in detail, the Government's budget proposals and their possible impact on future financial management.

Another key difference is that the Canadian and Indian Parliaments review and scrutinise the entire Budget, including details of the Defence Budget, while their Committees on Defence have the authority to oversee the entire running of the Defence Department and provide proposals for defence policy areas. In the Pakistani Parliament, the Defence Budget is not presented in detail and hence no parliamentary scrutiny of defence and security sector is provided for at present.

The functions and objectives of the Public Accounts Committees in Pakistan, India and Canada are similar. An important difference is that the Office of the Auditor General of Canada conducts value for money audits on programs and services delivered by the Government in order to evaluate the performance of program delivery of individual departments. He/she normally tables reports in the House on this activity three times a year. These reports are also automatically referred to the Public Accounts Committee. The Public Accounts Committee in Canada also holds public hearings with senior departmental officials as witnesses on issues and problems identified by the Auditor General in his reports. After a hearing, the Public Accounts Committee normally tables a report in the House on its findings with recommendations for change and calls on the Government to table a response in the House to the Public Accounts Committee report within five months. Canada, therefore, provides a mechanism for transparency and public debate in the budget process through parliamentary and public involvement in the policy debate prior to the completion of the Budget document, thorough examination of the Estimates by the Committees and Value for Money Audits.

The most serious constraints regarding parliamentary involvement in the Budget process in Pakistan are lack of

## 5 Concluding Remarks

Pakistan's legislative experience shows that the Parliament's role in the Budget process is rather limited. The debate held on the national Budget is often concluded within a few days. There are some serious deficiencies in the Budget process from the perspective of good governance. It suffers from lack of adequate participation and debate by parliamentarians; there is no involvement of committees at any stage. The process, as it is at present, is more or less ritualistic, with no substantial parliamentary input. Individual parliamentarians or Parliament as a whole has almost no research and analysis support from a research department.

In Canada, pre-budget consultations provide an opportunity for civil society members to provide their input into the

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time, lack of committee involvement, and research capacity of the Parliament. The following practical steps may form the next stage in the Budget reform process:

- 1 The presentation of the Budget should be moved from June to February to allow for sufficient analysis by the Parliament.
- 2 The Rules of Procedure should be amended in order to allow for committee review.
- 3 In order to strengthen the role of parliamentarians and of committees, it is recommended that the research infrastructure of the National Assembly be up-graded.
- 4 The Standing Committee on Finance should engage itself in the budget preparation stage and conduct public hearings in order to acquire broader stake-holder involvement.
- 5 The defence-related budget should give appropriate details without, of course, compromising the confidential aspects of national security.

In order to enable the National Assembly to engage constructively with the Budget, it is necessary to introduce these changes with immediate effect. While it is self-evident that the Government party has the greatest potential capacity to implement change in parliamentary practices, very little can be achieved if other political parties are not also engaged in a mutually agreed effort to explore new initiatives. It is thus imperative for parliamentarians to recognise the importance of their role in financial oversight and regulation, and collectively undertake lobbying efforts to institutionalise the reforms listed above.

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