**PFM Act: a missed opportunity**

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In a recurring tale of mismanagement, governments at various tiers in Pakistan have frittered away trillions of rupees on fruitless endeavours, leaving the populace bereft of desired socio-economic outcomes.

Continuing my articles on the theme of ‘creative destruction’, aimed at fundamental structural changes and improvements required to reverse the drift to self-destruction, this article delves into the ramifications of the poor state of Public Financial Management (PFM) in Pakistan, which is considered a cornerstone of effective public sector governance.

Astonishingly, despite serious resource constraints, the critical issue of PFM has remained conspicuously unaddressed by successive governments at both the federal and provincial levels, resulting in enormous waste of taxpayers’ money and causing huge unsustainable fiscal deficits for decades. Further, such deficits are also not accurately measured and reported to the nation.

Recognizing its critical need, Pakistan’s quest for a credible PFM started in the 1990s with counsel and financial assistance from prominent donors like the World Bank. Over decades, the country’s governments, both federal and provincial, have been purportedly working to revamp public financial management systems and practices.

Programmes like the ‘Project for the Improvement of Financial Reporting and Auditing’ (PIFRA), aimed to modernize accounting, budgeting, and auditing systems. After completion of three phases of the PIFRA, the federal government established the Financial Accounting and Budgeting System (FASB) under the department of the controller general of Pakistan. As per its website, it claims “FABS represents one of the largest SAP-based public-sector implementation of an integrated MIS in the world. The budgets and financial reports of federal, provincial and district tiers of government are processed through FABS. Monthly salaries, GP Fund payments and pensions of nearly [three] million public sector employees and thousands of contingent payments and receipts of government entities are also processed.”

However, notwithstanding the above claims, the level of automation and implementation of SAP, despite over a billion dollars in investment in such programmes, remains largely restricted to a few modules, as a significant proportion of accounting, budgeting, and auditing functions continues to be operated manually. Most alarmingly, the adoption of a basic double-entry accrual-based accounting system, essential for comprehensive transaction recognition, classification and reporting, tracking, recognition and reporting of public’s assets and liabilities, has been disregarded by all governments.

As a consequence, the governments do not prepare and report reliable financial statements that report accurate results of its policies and actions in terms of fiscal deficits, assets and liabilities. For instance, in the most recent budget approved by the National Assembly last June, the government reported the fiscal deficit for FY23 (outgoing year) as Rs5.94 trillion, but as I reported in my budget article, the increase in public debt in just nine months reported in the Economic Survey was Rs10 trillion. By adding the estimated expenditure of the last quarter, the expected increase in public debt was around Rs13 trillion.

A recent publication of the State Bank of Pakistan has now corroborated that the increase in public debt during FY23 was Rs12.9 trillion, while the Ministry of Finance has recently reported a further revised figure of overall fiscal deficit of Rs7.2 trillion. There is no reconciliation or explanation of how the overall fiscal deficit could be Rs7.2 trillion when the increase in public debt in the same period is Rs12.9 trillion reported by SBP?

Thus, despite the staggering investment of over a billion dollars through various programmes, over three decades of time spent and the passage of PFM Acts by both parliament and provincial assemblies, the state of public financial management remains desultory.

The key objectives of the PFM acts were to fortify management of public finances with the view to improve implementation of fiscal policy for better macroeconomic management, clarify institutional responsibilities related to financial management, strengthen budgetary management and oversight of finances, internal controls and cash management so as to achieve overarching objective of reducing public debt.

However, a review of the state of implementation of the above Act highlights that significant shortcomings persist in its execution, as most of its requirements remain unimplemented. Below I have discussed just some of the non-compliance of the PFM Act. A similar situation exists in the provinces, not covered in this article.

The Act underscores the preparation and approval of the Budget Strategy Paper by the federal cabinet, followed by its presentation in the two standing committees of the National Assembly and Senate by the finance minister himself. This is considered a foundational step for preparation of a well-thought-out annual budget. Yet, over the past three years, no such paper has been approved, eroding the framework’s foundation.

The Act also mandates the presentation of the actual expenditures for the previous year in addition to the revised estimates of the outgoing year, a requirement that has been consistently ignored by successive governments. Thus, under the present system of budget presentation, there is no visibility to the public of actual expenditure incurred vs what was budgeted, the extent of variations, and the reasons for significant variances from the budget.

A pivotal requirement of the Act is the implementation of the performance-based budgeting, which remains unimplemented. The Act prescribes the government to lay out a medium-term performance-based budget report before the National Assembly for improved accountability and visibility of outcomes against the money planned to be spent for the budget year, along with the outcomes achieved versus amounts spent in the outgoing and previous year. This step, if implemented effectively, will not only ensure transparency of where the money is spent, but also what benefits have been generated for the people in different sectors, thus creating a system of accountability for outcomes. This is one of the most essential requirements which has remained totally unaddressed.

The act also requires the appointment of chief financial officers and chief internal auditors to assist the principal accounting officers (secretaries) of each ministry / division in the federal government, to ensure better accounting and effective audit. However, these provisions, like many, also remain unimplemented.

Underpinning these deficiencies is the lacklustre oversight by parliament and the Public Accounts Committee, which I had discussed in my earlier articles. The confluence of these factors has bred a culture of impunity, fostering inefficient expenditure and thwarting effective governance.

In conclusion, Pakistan’s ongoing struggle to overhaul its Public Financial Management has remained superficial, largely in the hands of expensive consultancies with very little commitment from those responsible for its implementation. Despite substantial investments of both financial resources and time, the nation has yet to reap the benefits of a modernized, transparent, and efficient PFM system.

For genuine transformation to ensue, robust implementation, stringent oversight, and heightened accountability are imperative, which are not possible without genuine commitment from those charged with governance by the electorate – the political leadership responsible for executive function (the prime minister and finance minister) and the legislature that is responsible for appointment and accountability of the executive.

As the nation endeavours to recover from its insolvency, revitalizing its PFM framework is non-negotiable for a prosperous and accountable future.

For this purpose, there is a need for an independent review of the entire spectrum of the PFM framework at all tiers of government – the investments made, systems developed and outcomes being produced through budgeting, accounting, funds management, internal control and audit by a credible international professional firm.