PUBLIC FINANCE LITERACY SERIES

A Citizen's Guide to Public Finance in Pakistan

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Public Finance in Pakistan

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1. Understanding Public Finance – Global Perspective and the Case of Pakistan

Introduction

Public finance is a cornerstone of modern governance. It involves the management of a country's revenue, expenditure, and debt load through various government and public institutions. At its core, public finance seeks to balance the needs of economic efficiency, income redistribution, and resource allocation within society. Sound public finance systems are essential for achieving macroeconomic stability, delivering public services, and promoting equitable development.

Key Components of Public Finance

Public finance comprises three primary elements: public revenue, public expenditure, and public debt management.

1. **Public Revenue:** Governments raise revenue primarily through taxes—direct (e.g., income tax) and indirect (e.g., sales tax). Other sources include non-tax revenue like fees, fines, dividends from public enterprises, and foreign aid.

2. **Public Expenditure**: This includes government spending on administration, defense, education, health, infrastructure, and social welfare. It is categorized into current (recurring) and capital (developmental) expenditure.

3. **Public Debt**: When expenditure exceeds revenue, governments borrow domestically or externally. Debt management and sustainability are crucial aspects of public finance to avoid fiscal crises.

Objectives of Public Finance

- Resource Allocation: Ensuring efficient and equitable allocation of public resources.
- Income Redistribution: Using taxation and welfare programs to reduce inequality.
- Economic Stabilization: Managing inflation, unemployment, and economic cycles.
- Public Service Delivery: Providing essential services such as security, justice, and health.

Public Finance in Pakistan – Overview

In Pakistan, public finance plays a crucial role in shaping the economy, influencing social outcomes, and sustaining public infrastructure. The fiscal structure is federal, with clear demarcation of responsibilities between federal and provincial governments, enshrined in the Constitution. The National Finance Commission (NFC) Award determines the distribution of resources between the federal and provincial levels.

Revenue Collection in Pakistan

Pakistan relies heavily on indirect taxation, including sales tax, customs duties, and excise taxes. Direct taxes, particularly income tax, are underutilized due to narrow tax base and widespread evasion. The Federal Board of Revenue (FBR) is responsible for collection at the federal level, while provinces collect taxes like agriculture income tax, property tax, and motor vehicle tax. The country's tax-to-GDP ratio remains low, posing significant challenges to revenue adequacy.

Expenditure Patterns and Challenges

Public spending in Pakistan is skewed towards current expenditure, such as debt servicing and defense, leaving limited fiscal space for development projects. Development expenditures are managed through the Public Sector Development Programme (PSDP) at the federal level and Annual Development Plans (ADPs) at the provincial level. Weak planning, underutilization of funds, and political interference have limited the impact of development finance.

Reforms and the Way Forward

To enhance fiscal governance, Pakistan has introduced reforms such as the Public Financial Management Act, Medium-Term Budgetary Framework (MTBF), and digitized tax systems. Greater transparency, decentralization, capacity building at subnational levels, and a broader tax base are critical to ensuring a more effective public finance system. Institutions like PublicFinance.pk also play a key role in promoting fiscal literacy and accountability among citizens.

2. Constitutional Basis and Institutional Framework of Public Finance in Pakistan

Introduction

A well-defined constitutional and institutional framework is essential for effective public financial management in any country. In Pakistan, public finance is guided by the Constitution of 1973, which distributes financial powers and responsibilities between the federal and provincial governments. This framework ensures clarity in roles, promotes fiscal decentralization, and lays the foundation for revenue mobilization, expenditure distribution, and debt management.

Constitutional Provisions on Public Finance

The Constitution of Pakistan provides several key articles that govern public financial operations. These include:

- Article 77: Only the Parliament may authorize the imposition of taxes.
- Article 80: The President is required to lay before the National Assembly an Annual Budget Statement of estimated receipts and expenditures.
- Article 160: Establishes the National Finance Commission (NFC), responsible for vertical and horizontal distribution of federal divisible pool taxes.
- Articles 118–121: Define the structure and operation of Provincial Consolidated Funds and procedures for provincial budgeting.
- Article 170: Mandates the Auditor General to audit the accounts of the federal and provincial governments.
- Article 73: Provides rules for Money Bills, including taxation and borrowing by the federal government.

Federal Fiscal Institutions

Pakistan's federal fiscal structure is led by the Ministry of Finance, which manages the federal budget, macroeconomic policies, and fiscal coordination. The Federal Board of Revenue (FBR) collects federal taxes, while the Planning Commission prepares development frameworks. The State Bank of Pakistan oversees monetary policy and manages government debt. The Controller General of Accounts and the Auditor General of Pakistan ensure transparent financial reporting and audit functions. These institutions work together to maintain fiscal discipline and ensure public accountability.

Provincial Fiscal Framework

Under the 18th Amendment, fiscal decentralization was strengthened by transferring several functions to the provinces, including education, health, and social welfare. Each province has its own Finance Department responsible for budget formulation, execution, and control. Provincial Planning and Development Departments prepare Annual Development Plans (ADPs) in alignment with provincial priorities. Provincial Revenue Authorities (e.g., Punjab Revenue Authority, Sindh Revenue Board) manage sales tax on services. Provinces also maintain their own Consolidated Funds, governed by Articles 118–121.

National Finance Commission (NFC)

The NFC is a constitutional body formed every five years to recommend the distribution of the divisible pool of federal taxes among provinces (vertical sharing) and among provinces themselves (horizontal sharing). The 7th NFC Award (2010) introduced population, poverty, inverse population density, and revenue generation as horizontal criteria. Delays in subsequent NFCs and lack of Provincial Finance Commission (PFC) effectiveness have created gaps in intergovernmental fiscal coordination.

Public Financial Management Laws and Systems

Pakistan has enacted several laws to modernize public financial management. The Public Finance Management Act (2019 at federal level) and its provincial equivalents set rules for fiscal responsibility, transparency, and performance-based budgeting. The Fiscal Responsibility and Debt Limitation Act (FRDLA) sets ceilings for public debt. Integrated Financial Management Information Systems (IFMIS), such as SAP-based systems under PIFRA, support budgeting, accounting, and reporting.

Challenges in Institutional Coordination

Despite a robust legal framework, institutional fragmentation, capacity constraints, and politicization hinder public finance effectiveness. Overlapping roles between federal and provincial institutions, delays in NFC implementation, and weak PFCs contribute to fiscal uncertainty. Improved coordination, data-sharing, and fiscal discipline mechanisms are essential to ensure a responsive and accountable public finance system.

3. Revenue Generation: Sources and Structure in Pakistan

Introduction

Revenue generation is the foundation of public finance, enabling governments to fund essential public services, maintain infrastructure, and pursue socio-economic development goals. In Pakistan, the government mobilizes revenue through tax and non-tax sources at both federal and provincial levels. A sustainable and equitable revenue system is crucial to reducing fiscal deficits, limiting debt dependence, and promoting development.

Tax Revenue – The Primary Source

Tax revenue is the main component of government income in Pakistan. It is broadly divided into direct and indirect taxes:

- Direct Taxes: These are levied directly on individuals or corporations. Income tax, corporate tax, and capital gains tax fall into this category. Direct taxes have a progressive nature, but in Pakistan, they constitute a smaller share of total tax revenue due to evasion and narrow coverage.

- Indirect Taxes: These are imposed on goods and services and are paid indirectly by consumers. Sales tax (especially GST), customs duties, and federal excise duties are examples. They dominate Pakistan's tax structure but are considered regressive as they disproportionately affect lower-income groups.

Federal Revenue Sources

The Federal Board of Revenue (FBR) is responsible for collecting taxes at the national level. Major sources include:

- Income Tax
- Sales Tax on Goods
- Customs Duties
- Federal Excise Duties

Additionally, the federal government earns non-tax revenue such as:

- Dividends from state-owned enterprises (SOEs)
- Profits of the State Bank of Pakistan
- Licensing fees, fines, and interest income
- Petroleum levy and royalties from oil and gas

Federal revenue contributes to national priorities such as defense, debt servicing, and transfers to provinces through the NFC.

Provincial Revenue Sources

Following the 18th Constitutional Amendment, provinces in Pakistan gained greater fiscal autonomy. They are responsible for collecting taxes on services and other provincial matters. Their main sources include:
- Sales Tax on Services (collected by provincial revenue authorities)
- Agricultural Income Tax
- Motor Vehicle Tax
- Property Tax
- Professional Tax
- Excise and Entertainment Duties

Despite these assignments, provincial Own Source Revenue (OSR) remains modest and is heavily supplemented by transfers from the federal government.

Structure and Composition of Revenue

Pakistan's tax system is characterized by a high reliance on indirect taxes, which account for approximately 60% of total tax revenue. This structure results in low progressivity, poor equity, and vulnerability to inflation. Direct taxes account for just over 30% of the total tax take, with income tax being the largest contributor. The informal economy, weak enforcement, and complex compliance procedures hamper revenue generation.

Non-tax revenue forms a smaller component but plays an important supplementary role. It varies annually depending on SOE performance, petroleum prices, and interest income.

Tax-to-GDP Ratio – A Key Indicator

Pakistan's tax-to-GDP ratio has historically remained low, hovering between 10% and 12%, far below the benchmark for developing countries. This reflects both systemic inefficiencies and structural challenges such as a narrow base, informal economic activities, and resistance to tax reforms. An improved ratio is necessary to finance development sustainably without excessive borrowing.

Challenges in Revenue Generation

- Tax Evasion: Widespread underreporting of income and weak audit mechanisms.
- Informal Economy: Large undocumented sectors escape taxation.
- Administrative Capacity: Limited resources and outdated systems.
- Political Economy: Influence of vested interests and elite capture hampers reforms.

- Low Tax Morale: Public mistrust in government's spending and accountability mechanisms.

Key Reforms

Key reforms include:
- Broadening the tax base by registering new taxpayers and documenting the economy.
- Digitizing tax systems through POS, e-filing, and real-time data sharing.
- Simplifying tax procedures to improve compliance.
- Enhancing inter-agency coordination, especially between federal and provincial authorities.
- Building public trust through transparency, service delivery, and enforcement.

Improving Pakistan's revenue generation structure is vital for fiscal independence, reduced reliance on debt, and achievement of national development goals.

4. Government Budget: Process and Documents in Pakistan

Introduction

The government budget is the most important fiscal policy instrument available to any state. It reflects a government's priorities, economic strategy, and commitment to transparency and accountability. In Pakistan, both federal and provincial governments follow a detailed budgetary process governed by legal, institutional, and administrative frameworks. The budget outlines estimated revenues, proposed expenditures, fiscal deficits, and the government's plans for financing the gap.

Budget Cycle in Pakistan

The budget preparation and execution process in Pakistan spans the entire fiscal year and can be divided into four key phases:

1. Formulation (October–April):
   - The Ministry of Finance issues the Budget Call Circular (BCC), seeking expenditure estimates from all ministries and departments.
   - Departments submit proposals, often informed by policy objectives, past expenditures, and service delivery targets.
   - The Budget Strategy Paper (BSP) is prepared to align spending with macroeconomic goals.

2. Legislative Approval (May–June):
   - The Finance Bill and Annual Budget Statement are presented in the National Assembly.
   - Parliamentary debates follow, where legislators review and vote on the budget.
   - The budget must be passed before the start of the fiscal year (July 1).

3. Execution (July–June):
   - Budget releases are made in quarterly tranches to ensure cash flow and control over fiscal targets.
   - Ministries and departments incur expenditures as per the approved allocations.

4. Auditing and Oversight:
   - The Auditor General of Pakistan reviews government spending.
   - Findings are submitted to the Public Accounts Committee (PAC) for scrutiny.

Key Budget Documents

1. Annual Budget Statement (ABS):
   - A constitutional requirement under Article 80, this document outlines estimated receipts and expenditures for the fiscal year.

2. Finance Bill:
   - Contains proposed changes in tax laws, duties, and levies. It must be passed by the legislature to implement tax policies.

3. Budget Strategy Paper (BSP):
   - Aligns budgetary allocations with strategic goals and Medium-Term Budgetary Framework (MTBF) targets.

4. Demand for Grants and Appropriations:
   - Lists ministry-wise or department-wise expenditure proposals requiring parliamentary approval.

5. Medium-Term Budgetary Framework (MTBF):
   - A three-year rolling budget that links resources to results and improves predictability in resource flows.

6. Explanatory Memorandum on Receipts and Expenditure:
   - Provides detailed justifications for budget allocations, revenue forecasts, and assumptions used.

Roles and Responsibilities

- Ministry of Finance: Leads budget preparation, allocates ceilings, ensures macro-fiscal discipline.
- Line Ministries/Departments: Prepare estimates, manage implementation, and report on performance.
- Parliament: Reviews and approves the budget, ensuring legal authority for spending.
- Auditor General and PAC: Conducts post-budget audit and accountability.

Challenges in Pakistan’s Budget Process

1. Unrealistic revenue and expenditure estimates, often leading to supplementary grants.
2. Limited use of performance information in allocation decisions.
3. Delays in releases and procurement, leading to low budget utilization.
4. Inadequate parliamentary oversight and public engagement.
5. Lack of disaggregated, timely, and transparent budget data.

Reform Directions

Ongoing reforms aim to enhance credibility, transparency, and efficiency of the budget process through:

- Full implementation of MTBF and performance budgeting.
- Integration of IT systems (e.g., SAP, IFMIS) for real-time monitoring.
- Legislative strengthening of budget oversight functions.
- Enhanced citizen participation through budget disclosures and open data portals.

5. Expenditure Management: Current vs Development in Pakistan

Introduction

Public expenditure is a vital aspect of public finance, reflecting a government's policy priorities and development ambitions. In Pakistan, expenditure management is a challenging endeavor due to limited fiscal space, high recurrent obligations, and underutilized development funds. Expenditure is broadly classified into two categories: current (recurrent) and development (capital) expenditure. Efficient management of both is crucial for sustainable development, fiscal discipline, and better service delivery.

Current Expenditure

Current expenditure refers to day-to-day operational spending by the government. It includes:
- Salaries and pensions for government employees
- Interest payments on public debt
- Subsidies and grants
- Operational and maintenance costs of government offices

This category of spending is essential for the running of state machinery but offers limited contribution to long-term economic growth. In Pakistan, current expenditure consumes over 70% of total budget outlays, driven largely by debt servicing and defense spending. This leaves limited fiscal space for development-oriented initiatives.

Development Expenditure

Development expenditure is aimed at enhancing the productive capacity of the economy and improving quality of life. It includes:
- Infrastructure projects (roads, bridges, energy)
- Social sector investments (education, health, water supply)
- Economic development programs (agriculture, industrial zones)

These expenditures are financed through the Public Sector Development Programme (PSDP) at the federal level and Annual Development Programmes (ADPs) at the provincial level. Development expenditure is crucial for poverty reduction, job creation, and long-term growth.

Budgetary Allocation Trends

In recent years, development allocations in Pakistan have hovered between 20% and 30% of total budgetary outlays. However, actual utilization often falls short due to:
- Delays in fund releases
- Weak project planning and PC-1 preparation
- Bureaucratic bottlenecks and procurement delays
- Political interference and reallocation

Consequently, many projects face cost overruns and time delays, while new schemes are announced without completing ongoing ones, leading to throw-forward liabilities.

Challenges in Expenditure Management

Pakistan's expenditure management suffers from several systemic challenges:
- Rigid structure of current spending dominated by non-discretionary components
- Inadequate monitoring and evaluation of development outcomes
- Fragmented institutional responsibilities across federal and provincial governments
- Lack of performance-based budgeting mechanisms
- Weak internal controls and audit systems

Reforms and Improvement Strategies

To address these challenges, Pakistan is undertaking several public financial management (PFM) reforms:
- Adopting Medium-Term Budgetary Frameworks (MTBFs) to link expenditure with policy objectives
- Rolling out integrated financial management systems (IFMIS/SAP)
- Institutionalizing output-based budgeting in select ministries
- Strengthening audit, procurement, and internal control systems
- Encouraging greater transparency in development budgeting via portals and public dashboards

Effective expenditure management is critical to ensuring that public funds contribute to inclusive and sustainable development. Balancing current and development spending, improving budget execution, and enhancing transparency can help build fiscal credibility and deliver better outcomes for citizens. In Pakistan, achieving this balance will require strong political will, institutional reforms, and citizen engagement.

6. Intergovernmental Fiscal Transfers in Pakistan: NFC and PFC

Intergovernmental fiscal transfers are crucial in ensuring that subnational governments have adequate resources to fulfill their responsibilities. In a federal country like Pakistan, where powers and responsibilities are constitutionally divided between the federal and provincial governments, these transfers play a critical role in maintaining fiscal balance and promoting equitable development. Two main mechanisms define Pakistan's fiscal transfer system: the National Finance Commission (NFC) and Provincial Finance Commissions (PFCs).

National Finance Commission (NFC)

The NFC is a constitutional body established under Article 160 of the Constitution of Pakistan. It is tasked with formulating the formula for vertical (federal to provincial) and horizontal (among provinces) distribution of federally collected divisible pool taxes.

The NFC consists of the federal finance minister, provincial finance ministers, and nominated members from each province. The Commission is required to be constituted every five years.

7th NFC Award – A Milestone

The 7th NFC Award, announced in 2010, was a landmark in fiscal federalism in Pakistan. Its key features include:
- Increasing the provincial share of the divisible pool from 47.5% to 57.5%.
- Introducing multiple horizontal distribution criteria: population (82%), poverty/backwardness (10.3%), revenue collection/generation (5%), and inverse population density (2.7%).
- Enhanced fiscal autonomy for provinces, allowing them to plan and finance development initiatives more independently.

Despite its achievements, the 7th Award has not been updated, and subsequent NFCs have failed to reach consensus due to political and economic complexities.

Vertical and Horizontal Transfers

- **Vertical Transfers:** These refer to the allocation of federal resources to provinces. The goal is to ensure provinces can discharge functions devolved to them post-18th Amendment.

- **Horizontal Transfers:** These are the allocations among provinces. In Pakistan, the use of multiple criteria aims to address both population size and developmental disparities.

Challenges in NFC Implementation

- Lack of data and consensus on updating the Award criteria.
- Limited focus on performance or needs-based metrics.
- Overdependence of provinces on federal transfers, with weak Own Source Revenue (OSR) generation.
- Absence of conditional or incentive-based grants linked to reforms or service delivery.

Provincial Finance Commissions (PFCs)

PFCs are the provincial-level equivalents of the NFC. They determine resource sharing between provincial governments and local governments (districts, tehsils, etc.). Under Article 140A of the Constitution and relevant provincial laws, PFCs are meant to promote fiscal decentralization and strengthen local service delivery.

Issues in PFC Functioning

- Delays in constitution and implementation of PFC Awards.
- Ad hoc transfers from provincial governments to local bodies.
- Lack of transparency in criteria and absence of performance monitoring.
- Erosion of local autonomy due to political centralization.

Recommendations for Reform

- Reactivate the NFC process with updated data and consultative dialogue.
- Introduce performance-linked transfers to incentivize good governance.
- Strengthen provincial tax administrations to enhance OSR.
- Institutionalize regular and rules-based PFCs with clear criteria and disclosure.
- Build local government capacity for financial planning and reporting.
- Improve fiscal data systems to support evidence-based allocation.

Intergovernmental fiscal transfers are the lifeblood of fiscal federalism in Pakistan. While the 7th NFC Award marked significant progress, the lack of a new award and the weak state of PFCs hinder the objectives of decentralization and equity. A well-functioning and dynamic transfer system, rooted in transparency, fairness, and accountability, is essential to ensure that all tiers of government can effectively serve their citizens.

7. Budget Execution, Oversight, and Accountability in Pakistan

Budget Execution

Once the national or provincial assembly approves the budget, the phase of budget execution begins. This phase involves releasing funds to departments, making payments, maintaining records, and monitoring financial flows. The Accountant General's office, through the Controller General of Accounts (CGA), is primarily responsible for maintaining government accounts and tracking expenditures through the Treasury Single Account (TSA) system. Releases are usually made quarterly by the Finance Division or provincial finance departments based on approved ceilings and cash availability.

The execution phase also involves procurement processes, contract awards, and service delivery. Budgeting reforms like the Medium-Term Budgetary Framework (MTBF) are gradually introducing output and performance-based execution practices in pilot sectors. However, many ministries still follow input-driven budgeting models with limited focus on results.

Oversight Mechanisms

To ensure legality, efficiency, and transparency in the use of public funds, various oversight mechanisms are employed in Pakistan. These include:

- Auditor General of Pakistan (AGP: The supreme audit institution responsible for external audits of federal and provincial accounts. AGP audits focus on financial, compliance, and performance aspects.
- Public Accounts Committees (PACs): Parliamentary bodies that review AGP's audit reports, question departments, and recommend corrective actions. PACs operate at both federal and provincial levels.
- Internal Audit Units: Established in many ministries to ensure adherence to internal controls and reduce fiduciary risks. Their effectiveness varies across institutions.
- Anti-Corruption Bodies: Agencies like the National Accountability Bureau (NAB) and provincial anti-corruption departments investigate misuse of funds and fiscal misconduct.
- Procurement Regulators: The Public Procurement Regulatory Authority (PPRA) sets rules for transparent and competitive bidding in procurement processes.

Transparency and Accountability Tools

Several tools and platforms have been introduced to promote fiscal transparency and public accountability:

- Financial Management Information Systems (FMIS): Systems like SAP, PIFRA, and CAMS enable real-time tracking of spending and limit manual errors.
- Citizen Budgets: Simplified budget summaries produced by federal and provincial governments to increase public understanding.
- Open Data Portals: Public platforms such as publicfinance.pk and PIFRA provide access to budget, expenditure, and audit data.
- Civil Society Participation: Think tanks, NGOs, and media play a growing role in independent fiscal oversight and promoting public engagement in budget discourse.
- Performance Indicators: The use of KPIs and Output-based Budgets in select ministries marks a shift toward evidence-based accountability.

Challenges and Constraints

Despite the presence of robust oversight architecture, several challenges limit the effectiveness of budget execution and accountability:
- Weak enforcement of audit recommendations by PACs.
- Inadequate technical capacity in internal audit and procurement units.
- Delays in budget releases and lapsed allocations.
- Political interference and discretionary spending.
- Limited integration between budget, accounting, and performance systems.

8. Challenges in Pakistan's Public Finance

Structural and Policy-Level Challenges

Pakistan faces deep-rooted structural issues in public finance. A low tax-to-GDP ratio, high dependency on indirect taxes, and insufficient documentation of the economy hinder revenue mobilization. Furthermore, fiscal policy decisions are often driven by political considerations rather than evidence-based planning, which affects the efficiency and equity of resource allocation.

Revenue Mobilization Deficit

Tax evasion, narrow tax base, and limited capacity of tax administration agencies such as the Federal Board of Revenue (FBR) remain major bottlenecks. Despite numerous reform initiatives, tax compliance remains low and a significant portion of the economy operates informally and remains untaxed. Provincial Own Source Revenue (OSR) is also underperforming, increasing dependency on federal transfers.

Public Debt and Fiscal Deficit

Pakistan's fiscal deficit consistently ranges between 6 and 8 percent of GDP. To bridge this gap, the country heavily relies on domestic and external borrowing. As a result, debt servicing now consumes over 40 percent of annual federal revenues, crowding out fiscal space for development and social investments. The rising public debt, both in volume and cost, raises serious concerns about long-term sustainability.

Expenditure Inefficiencies

A significant portion of public expenditure is allocated to current spending such as salaries, pensions, and interest payments, while development spending often faces underutilization. Many development projects suffer from delays, cost overruns, and weak linkages to strategic planning. The throw-forward liabilities from incomplete schemes further strain fiscal capacity.

Weak Budgetary Controls and Oversight

Budget credibility remains a major challenge due to unrealistic estimates and frequent supplementary budgets. The limited effectiveness of internal audit functions, delays in external audit reports, and poor follow-up on audit recommendations by Public Accounts

Committees (PACs) weaken the accountability cycle. Transparency mechanisms like citizen budgets and open data portals exist but are underutilized or inconsistently maintained.

Institutional and Coordination Gaps

There is a lack of coordination between federal, provincial, and local governments in financial planning, reporting, and service delivery. Delays in NFC updates, ineffective Provincial Finance Commissions, and unclear expenditure mandates at sub-national levels contribute to inefficiencies and duplication of functions. Fragmented and outdated data systems also hamper decision-making.

Political Economy Constraints

Powerful interest groups influence fiscal decisions, often blocking tax reforms and diverting public funds to politically motivated schemes. Subsidies and exemptions frequently favor elites, undermining equity and efficiency. The politicization of development projects and recurrent expenditures distorts resource allocation away from long-term growth and poverty reduction goals.

What Pakistan Needs?

To address these challenges, Pakistan needs a comprehensive approach involving tax base expansion, enhanced public investment management, institutional strengthening, fiscal decentralization, and depoliticization of budgetary processes. Continued reforms in public financial management laws, digital systems integration, and citizen engagement can foster transparency, efficiency, and accountability in the country's public finance system.

9. Public Financial Management and Fiscal Rules in Pakistan

Understanding Public Financial Management (PFM)

Public Financial Management (PFM) encompasses the laws, institutions, processes, and systems used by governments to mobilize resources, allocate them effectively, spend them efficiently, and report transparently. A sound PFM system ensures that resources are directed to policy priorities, public funds are used wisely, and government is accountable to the people. It links fiscal discipline with operational performance and public sector governance.

Components of PFM

A typical PFM system covers:
- Budget formulation and approval
- Budget execution and internal controls
- Accounting and financial reporting
- External and internal audit
- Legislative oversight and citizen engagement

These components collectively ensure that public spending is efficient, transparent, and aligned with developmental outcomes.

Legal and Regulatory Framework in Pakistan

In Pakistan, the legal framework for PFM is evolving. Key instruments at the federal and provincial levels include:

- Public Finance Management Act, 2019 (Federal): This Act provides a comprehensive structure for budgeting, fiscal responsibility, and public reporting. It mandates medium-term frameworks, fiscal targets, transparency, and annual performance reporting. It also created the Debt Policy Coordination Office.

- Fiscal Responsibility and Debt Limitation Act (FRDLA), 2005: Sets limits for fiscal deficit and public debt, requiring regular fiscal policy statements and debt reduction targets.

- Punjab PFM Act, 2020 / Sindh PFM Act, 2020 / KP PFM Act, 2022 / Balochistan PFM Rules, 2022: These provincial frameworks mirror federal laws and set standards for fiscal management, MTBF adoption, timely reporting, and internal controls. Provinces have also updated their Treasury and Budget Manuals to support these acts.

- **General Financial Rules (GFR), Budget Rules, and Procurement Rules**: These outline operational procedures for expenditure, procurement, and compliance.

Institutional Arrangements

Several institutions are tasked with enforcing PFM laws and fiscal rules:
- Ministry/Department of Finance: Leads budgeting, forecasting, and expenditure control.
- Controller General of Accounts (CGA): Maintains accounting records and financial reporting.
- Auditor General of Pakistan (AGP): Conducts external audits of public expenditure.
- Public Procurement Regulatory Authorities: Ensure competitive and transparent procurement.
- Parliamentary Committees (PACs): Review audit findings and ensure executive accountability.

Fiscal Rules and Targets

Fiscal rules are permanent constraints on budgetary policy decisions to ensure fiscal responsibility. In Pakistan, the FRDLA sets these rules by:
- Limiting total public debt to 60% of GDP
- Requiring regular Medium-Term Fiscal Frameworks (MTFFs)
- Mandating publication of Fiscal Policy Statements and Debt Policy Statements

While these rules exist, adherence has been inconsistent due to political pressures, external shocks, and institutional weaknesses.

Reform Milestones and Innovations

Notable progress in PFM reforms includes:
- Rollout of Medium-Term Budgetary Frameworks (MTBF) in federal and provincial governments
- Implementation of SAP-based Integrated Financial Management Information Systems (IFMIS)
- Development of performance-based budgeting in pilot ministries
- Online budget transparency initiatives and citizen budgets
- Cash management improvements via Treasury Single Account (TSA)

Challenges in PFM Implementation

Despite progress, challenges persist:
- Weak enforcement of fiscal rules and ceilings
- Overlapping institutional mandates and weak coordination

- Limited capacity in line departments to implement MTBF and PFM reforms
- Inconsistent internal audit and control mechanisms
- Political and administrative resistance to change

Strengthening the PFM

To strengthen PFM and uphold fiscal discipline, Pakistan must:
- Enhance integration between planning, budgeting, and reporting systems
- Build capacity at provincial and local government levels
- Ensure public access to budget and audit information
- Link budget allocations to outcomes and SDG targets

11. Public Finance and the Sustainable Development Goals (SDGs) in Pakistan

Linking Public Finance to Sustainable Development

Public finance plays a pivotal role in the achievement of the Sustainable Development Goals (SDGs). Effective mobilization, allocation, and utilization of public resources determine the extent to which governments can provide essential services, reduce poverty and inequality, ensure environmental sustainability, and build resilient institutions. In Pakistan, aligning public financial management (PFM) with the SDG framework is essential to fulfilling national and international development commitments.

SDG Framework in Pakistan

Pakistan was among the first countries to adopt the SDGs as its national development agenda in 2016. A National SDG Framework has been developed, and provinces have adopted localized strategies in alignment with their unique socio-economic contexts. Coordination is led by the Ministry of Planning, Development and Special Initiatives, with support from UN agencies and development partners. Each goal is assigned to relevant ministries and departments for implementation and reporting.

Financing the SDGs: The Role of Public Finance

Financing for SDG achievement in Pakistan is expected to come primarily from public resources, supplemented by private investment, foreign aid, and innovative financing mechanisms. Public finance contributes through:

- Budgetary allocations to SDG-relevant sectors such as education (Goal 4), health (Goal 3), clean water (Goal 6), and climate resilience (Goal 13)
- Social protection schemes like the Benazir Income Support Programme (BISP) and Ehsaas (Goal 1)
- Public investment in infrastructure, renewable energy, and urban development
- Tax reforms aimed at increasing revenue generation for development financing
- Environmental budgeting and climate finance initiatives

Despite efforts, financing gaps remain large, and resource predictability is weak, especially at the subnational level.

Budget Tagging and SDG Alignment

SDG budgeting and expenditure tracking are emerging tools to align public finance with development outcomes. Pakistan has piloted SDG Budget Tagging (SDG-BT) in collaboration with UNDP, aiming to identify and classify budget lines contributing to specific SDG targets. This helps:

- Track how much is being spent on priority goals
- Improve policy coherence and resource allocation
- Promote results-oriented budgeting
- Inform development partners and enhance aid effectiveness

Provincial Efforts and Localization

Provincial governments have integrated SDGs into their planning and budgeting processes. Punjab and Sindh, for example, have developed SDG Units and monitoring frameworks. Annual Development Programmes (ADPs) now increasingly reflect goal-based priorities, particularly in education, water, sanitation, and health. However, coordination and data availability remain areas needing further development.

Challenges and Opportunities

Major challenges in aligning public finance with the SDGs include:

- Inadequate disaggregated data to measure SDG progress
- Fragmented budget structures with limited cross-sectoral integration
- Weak institutional capacity for planning, costing, and monitoring
- Limited public engagement and intergovernmental coordination
- Fiscal pressures from debt servicing and subsidies reducing development space

Integrating Public Finance with SDGs

To better integrate public finance with SDG objectives, Pakistan should:

- Institutionalize SDG budget tagging at federal and provincial levels
- Enhance multi-year planning and performance-based budgeting practices
- Mobilize domestic revenue to finance critical SDG sectors
- Engage citizens, civil society, and youth in SDG prioritization
- Develop robust systems for monitoring, reporting, and learning

12. International Support, Donor Engagement, and Role of Civil Society and Media in Public Finance

International Support and Donor Engagement

Multilateral development partners and bilateral donors play a significant role in supporting public financial management (PFM) reform and fiscal sustainability in Pakistan. Their engagement focuses on technical assistance, policy dialogue, institutional strengthening, and financial support aimed at improving governance, transparency, and efficiency in the use of public resources.

Major international partners include the World Bank, International Monetary Fund (IMF), Asian Development Bank (ADB), United Nations Development Programme (UNDP), European Union (EU), and bilateral donors such as DFID (UK), GIZ (Germany), and USAID (USA). These organizations often collaborate with federal and provincial governments on a range of PFM and fiscal reforms.

Key areas of donor engagement include:
- Implementation of Medium-Term Budgetary Frameworks (MTBF)
- Development of Integrated Financial Management Information Systems (IFMIS)
- Capacity building of public sector institutions and audit bodies
- Support for debt management strategies and fiscal sustainability
- Assistance in transparency portals, open budget initiatives, and participatory budgeting
- Provision of concessional financing and budget support during macro-fiscal crises

In addition to financial aid, donors provide technical expertise and facilitate peer learning from global experiences. Programs such as Pakistan Raises Revenue Project (World Bank), Sub-National Governance Programme (DFID), and various IMF Extended Fund Facilities (EFFs) have had measurable impacts on tax administration, fiscal rules, procurement systems, and accountability mechanisms.

Challenges in Donor Coordination

- Fragmented interventions and overlapping project mandates
- Dependency on external advice with limited ownership
- Inconsistent follow-through by governments post-program cycle
- Capacity constraints in local institutions to absorb and sustain reforms

Role of Civil Society and Media in Public Finance

Civil society organizations (CSOs), think tanks, academia, and media outlets have emerged as important actors in promoting fiscal transparency and accountability in Pakistan. They serve as watchdogs, educators, and advocates, helping to build public understanding of complex budgetary processes and ensuring citizen voices are reflected in financial decision-making.

Civil society contributes in multiple ways:
- Analysis and dissemination of budget and audit reports
- Budget tracking and social accountability campaigns
- Capacity building of elected representatives and public officials
- Research on public expenditure effectiveness and equity
- Legal action and advocacy for transparency and access to information

Initiatives such as the Open Budget Survey (IBP), budget analysis by CPDI and PIDE, and platforms like publicfinance.pk have strengthened public engagement in fiscal matters. Community-based organizations also contribute to monitoring local development schemes and exposing irregularities in service delivery.

Media's Influence in Budget Oversight

Print, electronic, and digital media platforms play a pivotal role in shaping public opinion and demanding financial transparency. Investigative journalism, budget coverage, and policy analysis help to:
- Spotlight wasteful expenditures and corruption
- Raise awareness about citizens' entitlements and allocations
- Build pressure for legislative reforms and institutional accountability
- Inform and engage youth and marginalized groups on fiscal matters

Enabling Environment and Constraints

While the space for civil society and media engagement has expanded, key challenges remain:
- Limited access to timely and disaggregated budget data
- Threats to freedom of expression and independent analysis
- Inadequate capacity in some regions to engage with technical financial issues
- Lack of institutionalized mechanisms for public consultation in budget processes

13. Glossary of Public Finance Terms – Pakistan Context

Compiled from multiple official budget glossaries to serve as a comprehensive reference for public financial management in Pakistan.

Accountant General (AG)

Provincial-level officer responsible for maintaining and consolidating accounts, and for issuing pre-audit of payments from the Consolidated Fund.

Accrual Accounting

A system where revenues and expenditures are recognized when they are earned or incurred, rather than when cash is exchanged. Not yet fully adopted in Pakistan, but part of future reforms.

Annual Budget Statement (ABS)

The official document presented under Article 80 or 120 of the Constitution showing estimated receipts and expenditures for a fiscal year.

Annual Development Programme (ADP)

A key component of the development budget outlining planned projects and their corresponding allocations.

Appropriation

A legal authorization granted by the legislature to incur expenditure and allocate public resources under specific heads for public purposes.

Appropriation Account

An account showing the amounts authorized and the actual expenditure against them, used for post-budget monitoring.

Budget Call Circular (BCC)

An instruction issued annually by Finance Departments to line departments to prepare and submit their budget proposals, with ceilings and policy guidelines.

Budget Execution Report

A report that compares actual expenditure against budgeted amounts to assess fiscal performance.

Budget Strategy Paper (BSP)

A medium-term planning document that outlines the government's strategic fiscal objectives and priorities for the next 3-5 years.

Cash & Work Plan

Quarter-wise plan for cash requirement of departments to regulate monthly releases and prevent idle balances or delays.

Cash Management

Processes and systems to forecast, control, and manage cash flows to ensure adequate liquidity and avoid idle balances.

Charged Expenditure

Expenses charged on the Consolidated Fund and not subject to vote of the legislature (e.g., debt servicing, salaries of judges).

Chart of Accounts (CoA)

A uniform multi-dimensional budget classification and accounting system, aligning budget and accounting structures under PIFRA.

Current Budget

Also known as recurrent budget, it includes expenditures on salaries, pensions, utilities, and maintenance—needed to sustain ongoing government operations.

Demand for Grants

Proposals submitted by ministries/departments to the legislature for authorizing expenditures from the Consolidated Fund.

Development Budget

Portion of the budget devoted to financing new projects and programs, primarily related to infrastructure and social sector investments, prepared by P&D departments.

Development Expenditure

Funds allocated for long-term investments like infrastructure, health, and education projects, usually part of ADP/PSDP.

Entity Code

A classification in CoA to identify a department, autonomous body, or cost center responsible for the budget item.

Excess and Surrender

The financial year-end adjustments showing amounts overspent (excess) or unspent (surrendered) versus allocated budget. Fiscal Responsibility and Debt Limitation Act

(FRDLA) Federal law requiring responsible fiscal management and limiting public debt growth.

Fiscal Deficit

The gap between total revenue receipts and total expenditure (including development and current), often financed through borrowing.

Fiscal Transfers

Transfers from the federal government to provinces or from provinces to local governments, based on formulae like NFC or PFC awards.

Foreign Aid

Resources (loans or grants) received from foreign governments or international institutions to support development or budgetary needs.

Function Classification

Grouping of expenditures according to their functional objectives, e.g., health, education, defense.

Function Code

A code in CoA representing the function of the expenditure (e.g., health, education), used for reporting and analysis.

Fund Center

An organizational unit in SAP/FABS authorized to manage funds, e.g., a department, directorate, or DDO.

Grant-in-Aid

Financial assistance provided by one level of government to another or to a non-government organization for specific purposes.

Grants-in-Aid

Non-repayable financial support transferred by one tier of government to another or to autonomous bodies for specific purposes.

Indicative Budget Ceilings (IBCs)

Spending limits communicated to departments ahead of full budget formulation, to ensure alignment with macro-fiscal targets.

Medium Term Budgetary Framework (MTBF)

A multiyear approach to budgeting that links policy, planning and budgeting over a three-year horizon.

Medium-Term Budgetary Framework (MTBF)

A multiyear budgeting approach linking policy, planning and resources, usually spanning 3 years.

Medium-Term Fiscal Framework (MTFF)

A multi-year fiscal planning tool setting expenditure limits and revenue forecasts to maintain budget discipline.

New Accounting Model (NAM)

A modernized government accounting framework aligned with international standards, including accrual-based reports and classification harmonized with budgeting.

Non-Tax Revenue

Revenue other than taxes, including fees, dividends from SOEs, interest receipts, and fines.

Object Classification

Economic classification of expenditure such as pay, operating expenses, and assets.

Outcome-Based Budgeting

An advanced budgeting method linking funds directly to developmental results or policy objectives.

Output-Based Budgeting

Budgeting methodology linking allocated resources to measurable outputs and service delivery targets.

Own Source Revenue (OSR)

Revenues generated by provinces or local governments themselves (e.g., property tax, motor vehicle tax).

Performance Framework

A set of KPIs defined to measure the effectiveness and efficiency of public expenditures under MTBF.

Performance Indicators

Metrics used to assess progress against outputs, outcomes, and targets specified in the budget.

Performance-Based Budgeting (PBB)

A budgeting approach that links resource allocations with outcomes and performance indicators to enhance service delivery and accountability.

Provincial Consolidated Fund

Constitutionally mandated fund comprising all revenues, borrowings, and recoveries under the custody of a provincial government.

Provincial Finance Commission (PFC)

A body constituted under provincial law to determine horizontal transfers to districts and local governments.

Public Accounts

Accounts recording transactions where the government acts as a banker, such as GPF or deposits, not part of budgetary expenditure.

Public Accounts Committee (PAC)

Legislative committee responsible for reviewing Auditor General's reports and ensuring accountability of public expenditure.

Public Sector Development Programme (PSDP)

The federal government's annual development spending plan, composed of projects to be financed through domestic and foreign sources.

Re-appropriation

Transfer of funds from one approved budget line to another within a department, requiring prior authorization.

Revised Estimates

Updated forecasts of revenues or expenditures prepared mid-year based on fiscal trends or changing policy requirements.

Schedule of New Expenditures (SNE)

A detailed list of proposed new expenditures not included in the current budget, submitted during formulation or revision.

Supplementary Budget

An additional budget presented during the fiscal year to authorize spending beyond initial allocations.

Supplementary Grant

An additional appropriation requested during the fiscal year when the original allocation is insufficient.

Throw-forward Liability

The remaining cost of development projects that will be incurred in future years beyond the current fiscal year.

Token Grant

A nominal allocation made to keep a provision alive in the budget, with the expectation of re-appropriation later.

Treasury Single Account (TSA)

A unified structure of government bank accounts that consolidates and optimizes the use of government cash resources.

Virement

The intra-departmental adjustment of funds between heads of accounts without changing the total allocation.

Zero-Based Budgeting (ZBB)

A budgeting method where every function is justified from scratch, not based on past budgets.

For further resources and analysis on Pakistan's public finance, please visit

PUBLICFINANCE.PK