

Macroeconomic Management in a Decentralised Set-up

WILLIAM BALDRIDGE

The issue of macroeconomic management in a decentralised set-up is a big question. My part of discussion will get more down into the nuts and bolts and as you see I will unfortunately ask a lot more questions. I think that it is very important that all parties have begin to equip themselves with relatively detailed knowledge of what is likely to occur in the shape and structure of government processes as the devolution of authority in 18th amendment begins to take place. It occurs to me the development stakeholders or the government of Pakistan and the provincial ministries of finance, the Planning Commission and the CCI and potentially others even including the international community. I think these bodies need to know how this devolution can actually occur. What are the actions necessary to develop a transparent budget and an auditable budget, procurements in expenditure processes at the provincial level that were administrated by the federal level in order to avoid macroeconomic management to continue to occur in decentralised set-up. The current arrangement provides as far as I know bulk of resources to be collected and controlled with the federal level. Also there is a significant share of responsibility currently with the federal government. These distributional arrangements will necessarily change as the budgetary regulatory framework for the 18th amendment becomes agreed upon. This regulatory framework is not really in place yet. A regulatory framework would need to be enacted and implemented. This means to me at least that an assessment of pre-18th amendment situation is needed to provide a base line to understand how the new structure will have to be reformed. An assessment perhaps should be done with a review of existing policies or to sort out what were the initial conditions going into 18th amendment. I think as federal and provincial governments are moving towards implementation, at both budgetary and operational levels, a few questions may be needed to be asked. One is how will the new responsibilities assigned to the provinces be financed? What will happen to federal government staff currently engaged in doing all the functions will no longer be with the federal government. How will the human and operational capacity at the provincial government level be developed with a particular emphasis on budgeting expertise and expenditure expertise. If there is going to be control and management at macro level, then there is going to be a tremendous amount of capacity required at the budgeting and expenditure level in the provinces. I think an assessment of the provincial capacity is a good idea. An assessment

William Baldrige, Director Economic Growth, USAID Pakistan, Islamabad.

would perhaps address processes, practices and capacities that already exist in the provinces to assume the additional work which is going to be entrusted to them by the 18th amendment. This assessment could include practices and capacities that already exist and determine what are your legal systems that are in place in the areas that will see increased involvement by the provinces. So a key question to me is what are the practices and institutions that are needed to make the finance dimension of the 18th amendment fully operational. I am just focusing here on the inter-government finance dimensions of the 18th amendment—how to make the inter-government finance component fully functional operational in Pakistan quickly. The gaps in human resources, the gaps in the regulatory framework, the gaps in institutional strength should be identified in detail and then recommendations perhaps should be taken on board. Things to look over the in terms of gap analysis would be, laws and regulations that need to be adopted, practices in each of the four provinces will need to be changed, practices at the federal level will need to be modified, old regulations or reforms which are many, addition of human resources certainly at the provincial level, perhaps even approaches at the donor community level should be adjusted to help, how far these capacities to shift away we do government to government assistance. I am basically saying that there are a lot of questions that need to be looked at before we are fully operational how to do this. One area is to look at tools and techniques currently used today to examine report on the current budget. What are the inputs received from lines spending in it and, central, federal, financial and planning organisations from the provinces? What input does the centre require from the spending units in provinces and do they use the same budget codes, the same economy codes, same fiscal data. Is that data entered and communicated electronically or manually and if manually, are the systems in place and clear enough and were more enough for easy transfer of data from provinces to the Centre? What is the ability to produce budget reports across different sectors of the government hopefully by economic classification code and by economic activity? What is the state of ability to report across sectors and across provinces? What is the current state of play in budget preparation at the provincial level? What are the strengths and weaknesses in the budget process and what is the role of stakeholders today in the budgetary process, to what extent is the budgetary process either stakeholder driven or at least a stakeholder-informed process? What is the transparency of budget development process and what are the steps needed to garner increased levels of legitimacy for decisions made during budget review and budget approval process. If budget is not perceived by public as legitimate and reflective of their priorities, that is a problem. There is a need to public communication and public awareness in the budget process. Where does that stand today? How is the expenditure tracking and expenditure monitoring in the provinces? Is there an emphasis on transparency mechanisms in the public expenditure structure? Once this money starts to be expended at the provincial level, provincial governments and their constituents are even going to feel more serious than ever about the transparency of expenditures. What is its capacity to be transparent about budgetary and expenditure information now? Budget management is another area. Does the budget formulation process currently allow respective governments, provincial or national to become more proficient in identifying, formalising and in executing what the strategic priorities are as the country shifts to evolve a budgetary process strategic priorities are going to take a whole new order of

significance at least at the federal level. Is the annual budget planning and development process developed within the context of a medium term expenditure framework and does that annual budgetary process along priorities to be harmonised with the medium term expenditure framework. Are annual budgets sufficiently clear and informative to facilitate our legislators adopting budgets and managing or monitoring or the execution of budgets? Is results-based budgeting a new undertaking in the provinces and therefore not something to look at? Either in the provinces or at the federal level, does civil society, take a grass roots approach to budget formulation and execution. If now, is more civil society engagement in budget formulation and execution monitoring needed?

Are safeguards in the provinces in place to begin to spot abuses or the ways to improve processes to put a more auditable system and more auditable expenditure processes in place? Budget and expenditure institutions organise among functional assignments nor the needed functions in revenue generation to match the job descriptions to human skills..... to ensure a match up with the job descriptions and services needed. The question for the young economists could be whether demand for your services exist outside Islamabad, out in the provinces to control over expenditure, to ensure integrity of appropriations, do commitment control, manually or electrically manager payment functions, rationalise the expenditures so that accounts at the provincial level are not overdrawn as the expenditure year goes on or sort of relation of daily basis in place to be drawn on in budget formulation. The basic question is a common check of accounts in place at both the provincial and federal level. ----- If not, quick adjustments have to be made. Do expenditure tracking tools exist at both levels of government, federal and provincial so that expenditure tracking can occur so that the provinces can notify the extent at various expenditures particularly in different categories. Can we acquire similar accounting system at the provinces and the federal institutions, integrated communication systems, are management system integrated? Are staff trained in similar ways at the various levels of government? Does your managerial approach train to develop common practices and procedures and to develop staff in all the four provinces as something like the same speed, developing the same skills at the same time?

Legal or regulatory framework needs to be developed at the provincial level on public finance and public accountability that at the federal level.

Does this public finance law contain comprehensive rules and procedures that we expect the principals of public funds can be spent without an appropriation by ..Does at each of the provinces where the public finance manager was required cabinet or proposals Another big area to work into is institutional capacity. At federal level does the Ministry of Finance, Ministry of Planning structure simple and effective communication between other departments at the federal level of government along with the provinces. Does it separate policy making and policy execution? Because as the federal level law changes, more distinction between policy and execution can emerge. Does it contain a core unit of treasury and budget and economic and fiscal policy, revenue administration and revenue management at the provinces? That might be worth sorting out. At the federal level, is there a treasury single account? That will be critical as well in the four provinces. This would enable better data management unit. Where are we now on the right to borrow. How is the right of the provinces to borrow going to be balanced with the concept of implicit federal guarantee? Who approves that provincial borrowing at the

federal level? What is the law of the central debt management unit? Cash management functions at the treasury, are they good enough to ensure the liquidity of the treasury single account? Do revenue collection functions exist adequately at the provincial level? These are some of the questions that might need to be looked at. Devolution of fiscal and budgeting implies a huge amount of human capacity which speaks to the younger people here. I think you probably have good time taking a deep dive what the capacities exist in this area. That is all.