Dissecting public expenditure (Part – II)

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Debt dynamics requires continued primary budget surpluses to be generated for gradually lowering the burden of interest payments and reducing public debt-GDP ratio.

Revenue mobilisation of an additional 1.5 percent of GDP annually from those outside the tax net (divided evenly between the provinces and the federal government) insulating the lower-middle and poor classes appears a plausible means to achieve these surpluses. The pension bill is growing much faster than any other expenditure head and a switch has to be made from the present defined benefits to the defined contribution system.

The results from tax and pension reform would appear in the medium-to-long term and therefore the focus of expenditure rationalisation should be on the discretionary expenditures. Our budgets still remain input-oriented rather than outcome-based. Public Financial Management Law has delegated powers from the finance ministry to the line ministries to manage the allocations in line with their goal-oriented performance agreements reached between the PM and the ministers. Similar arrangements ought to be made in the provinces.

Salaries and wages paid to government employees account for 19 percent of the total consolidated expenditure mostly to lower cadres. But at the provincial level the wage bill forms around 50 percent of the current expenditure – of which three-fourths is taken away by education, health and the police. The size of employment in the federal government would be brought down gradually by abolishing all the vacant posts in Grades 1-16 except teachers, health workers and technical personnel. The scope for reduction in the running of civil administration is quite large in the provinces where there has been a proliferation in allowances of all kinds and unwarranted expansion in the workforce.

As a result of the restructuring of the federal government, the number of organizations and entities was reduced from 441 to 310 – and 71,000 vacant posts in Grades 1-16 were identified for abolition. A similar exercise has to be done by the provincial governments to cut waste, overlap, duplication and eliminate redundant organisations. Non-salary and operational expenditures have suffered due to the lopsided allocation towards salaries. Savings from employee-related expenses should be diverted to operational expenses in basic services delivery at the local government level to directly benefit the citizens.

Targeted subsidies on electricity, fertilizer, natural gas, to the poor can save at least Rs100 billion. Allocations made out of the contingencies as supplementary grants throughout the year violate the principle of fiscal discipline and should be curtailed by Rs100 billion at least. Grants are used both to meet statutory obligations such as Azad Jammu and Kashmir, Gilgit-Baltistan, net hydel profits and also to offset losses of state-owned enterprises (SOEs) such as Railways, Steel Mills. These enterprises should be placed under the management control of the private sector as decided by the cabinet to minimise this burden.

What are other avenues through which the impact of public expenditures can be enhanced, given the present constraints and the fact that rationalisation would require time and tough political decisions? Commercially viable infrastructure projects can be financed outside the PSDP through Public Private Partnership (PPP) authorities that exist both at the provincial and federal levels. This would entail only a limited amount out of the budget in the form of viability gap funding while creating assets worth multiples of the amount committed by the government. The operation and management of these assets by the private sector would also relieve the government of recurring losses caused by the poorly managed SOEs. The entities formed under PPP would also be able to raise equity and loans from the domestic and international capital markets on the strength of their balance sheets. The proposed corporatisation of the National Highway Authority (NHA) after cleaning up their distorted financial structure would be a big relief for public finances.

Pakistan has some well established and credible civil society organisations (CSOs) working in the fields of education, health, childcare, population planning, rural development, microcredit – to name only a few: TCF, Indus Hospital, Akhuwat, NRSP, SIUT , Kashf etc. These institutions have a track record of competent management in delivering services, a vast network but inadequate funding for scaling up their operations. An outcome based partnership arrangement under which the government provides physical infrastructure and equipment while the CSOs operate and manage the facilities has worked well in a few select areas and can be replicated in other areas. Such an arrangement would relieve the government of a huge supervisory apparatus and improve the quality of service delivery, which is far from satisfactory in public-sector facilities.

Looking at all international NGOs (INGOs) with a prism of suspicion of anti-state activities because of the undesirable activities of a handful is not benefitting the country. Their worldwide experience, domain expertise, small bureaucracies, and the funding they bring can be helpful as demonstrated in many developing countries. Pakistan is one of the most philanthropic countries in the developing world. Instead of donating to mosques and madrassas only, incentives should be given to the philanthropists to co-finance social development with these CSOs.

The aggregate losses of 85 commercial SOEs in 2018-19 were Rs143 billion – financed through government grants, loans, commercial loans and unfunded liabilities. Ten top loss-making companies account for 89 percent of the aggregate losses. But just looking at the losses is not enough. Many profit-making companies are generating subpar returns. A comprehensive report has been prepared after a careful review of each enterprise and specific recommendations have been made with respect to each one of them. This report should be implemented as early as possible to avoid the recurring losses and maximise returns from others. .

Thus opening up the PPP arrangements widely, engaging CSOs and INGOs and reforming the SOE sector would leave funding at the disposal of the government for R&D to both public and private sector, skill upgradation of labour force, universal primary schooling, climate transition financing, social protection, health insurance and other priorities that cannot be funded otherwise and are critical for the future development of the country

To conclude, the strategy for prudent fiscal management is to mobilise revenues from untaxed sectors and individuals and firms outside the tax net and reduce tax rates gradually, devolve powers and financial resources to elected local governments, leverage the private sector for large infrastructure projects through public private partnership and provide only viability gap financing. The strategy further is to engage reputable and credible civil society service providers to expand education and health facilities, particularly in backward and rural areas, cut down the number of unskilled and semi skilled employees and adopt e governance, target subsidies on the poor, privatise or transfer management to the private sector for non-strategic state-owned enterprises, invest in R&D and knowledge economy, and other priorities.

The federal and provincial governments' role has to be reoriented in drawing performance agreements, monitoring, auditing the finances and holding the local governments, CSOs, PPPAs accountable for the results promised in their agreements. The skill mix for this kind of orientation would differ from what is available at present. Retraining of officers in developing performance indicators, automation and computerisation, data analytics would be urgently required in addition to inducting subject matter experts in place of the colonial inheritance of clerks, assistants, superintendents. The social cost-benefit calculus of public expenditure would improve significantly.

Concluded