UTILIZATION OF PSDP FUNDS:
A COMPARISON OF PRE AND POST PUBLIC FINANCE MANAGEMENT ACT 2019."

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CERTIFICATE

This is to certify that this thesis entitled: **"Utilization of PSDP Funds: A Comparison of Pre and Post Public Finance Management Act 2019."**submitted by Zarqa Ghani is accepted in its present form by the PIDE School of Social Sciences, Pakistan Institute of Development Economics (PIDE), Islamabad as satisfying the requirements for partial fulfillment of the degree in Master of Philosophy in Public Policy.

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Author's Declaration

I Zarqa Ghani hereby state that my MPhil thesis titled "Utilization of PSDP Funds: A Comparison of Pre and Post Public Finance Management Act 2019." is my own work and has not been submitted previously by me for taking any degree from Pakistan Institute of Development Economics or anywhere else in the country/world.

At any time if my statement is found to be incorrect even after my Graduation the University has the right to withdraw my M.Phil. Degree.

Date: 11-7-2023

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ABSTRACT

Public Sector Development Program (PSDP) is an important policy instrument which aims to achieve socioeconomic objectives and sustainable economic growth of the government by allocating budgetary resources for development projects and program. To achieve the development goals of a country, the efficient and effective utilization of public funds/allocation is very crucial. However, the utilization of development funds at federal level have been remained dismally poor in Pakistan. This study particularly aimed to investigate specific reasons of slow utilization of PSDP funds before implementation of Public Financial Management Act 2019, how they were mitigated in new Act And level of implementation and the bottlenecks to implement PFM Act 2019 if any. In this study the utilization pattern of PSDP funds are discussed. This study is based on mixed method approach by combining qualitative as well as quantitative research method. Qualitative research method is utilized to investigate in depth the reasons of inefficient utilization of PSDP funds, the reforms to fix the problem and bottlenecks in the way to successful implementation of those reforms. Techniques of descriptive statistics were utilized to analyses trend of utilization of PSDP funds. Findings of the study reveals partial implementation of the Act and various bottlenecks in the way to achieve the targeted fiscal discipline. The reforms introduced are not implemented in letter and spirit. Despite of lapse of three years of promulgation of Act, the very issue of Public Sector Development Program fund utilization prevails. The pace of utilization of funds is slower than quarterly disbursement by the Planning Commission despite of upfront release of funds.

LIST OF ABBREVIATIONS

AGPR	Auditor General Pakistan Revenue
CDWP	Central Development Working Party
DDWP	Departmental Development Working Party
ECNEC	Executive Committee of National Economic Cycle
FY	Financial Year
IPAS	Intelligent Project Automation System
PFM	Public Financial Management
PMES	Project Monitoring and Evaluation System
POA	Principle Accounting Officer
TORs	Terms of Reference

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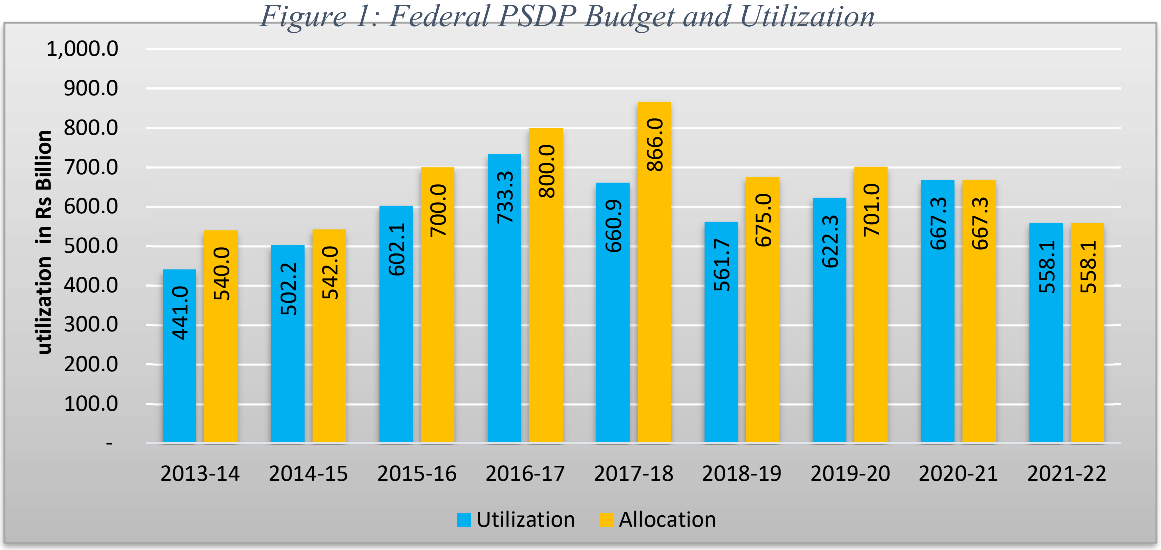
Chapter 1

INTRODUCTION:

Public Sector Development Program (PSDP) is an important policy instrument which aims to achieve socioeconomic objectives and sustainable economic growth of the government by allocating budgetary resources for development projects and program. It is a public intervention which increase private investment which translate into improved infrastructure and human capital in an economy. The program is designed in a way that long-term goals and development objectives of the government are aligned. Only economically viable PSDP financed projects are included which bring economic growth by eliminating infrastructure and skill gaps. (PC, Annual Plan 2015-16, 2015). It is financial sum of development budget in the form of a document that enlists all the public sector projects and program with the specific allocations and objectives made for each fiscal year. In other words, it is that portion of the country's annual budget which deals with development expenditure (PC, Manual of Development Projects, 2019). Here is a glance at total outlay and utilization of federal PSDP funds in last decade.

Figure 1: Federal PSDP Budget and Utilization



Source: Pakistan Fiscal Operation, Finance Division.

To achieve the development goals of a country, the efficient and effective utilization of public funds/allocation is very crucial. Despite of important nature program, the utilization of development funds at federal level have been remained dismally poor (Memon, Memon, Soomro, & Rehman, 2019). As per given statement of expenditure on the website of Planning Commission the utilization of development funds is 76% of total released funds in first quarter of financial year 2021-22.[1] In last financial year 2020-21 the utilization of PSDP funds against releases for similar period was 62%[2]. The trends of availability and efficient resource allocation, setting development targets and their achievement of is on, lower side in Pakistan. Hardly 40% of projects have likelihood to achieve completion as per specified time line mentioned in PC-1 (Shah, 2018).

Pakistan's legal and institutional framework for Public Finance Management (PFM) is evolving. There are many weaknesses in the PFM system and its overall performance is not up to the mark as per international standards. Before PFM reforms, although a Precise PC-1 to PC-5 systems, for project lifecycle was under implementation but not followed rigorously. A large number of unapproved schemes were included in the PSDP every year. Projects were given token allocation in the budget and hence they keep on lingering due to in-sufficient funds. Release process of PSDP funds was complicated which leads to implementation delays. Schemes were included in the PSDP upon political motives and did not reflect the stated plans of government.

In June 2019, Pakistan's Parliament approved a new Public Financial Management Act which was further amended in June 2020. This Act was intended to provide a legal cover to improve the performance of the country's fiscal institutions with an objective **"***to strengthen management of public finances with the view to improving definition and implementation of fiscal policy for better macroeconomic management, to clarify institutional responsibilities related to financial management, and to strengthen budgetary management***"**.[3]

Some critical area addressed in PFM Act 2019 are budget management budget preparation and presentation, development projects and maintenance and use of public assets, treasury management, accounting and reporting, public entities and non-tax revenues. Our

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[1] Utilization summary up to October 2021. https://www.pc.gov.pk/uploads/psdp/Summary%202021-22_Oct.pdf

[2] Utilization summary up to December 2020. https://www.pc.gov.pk/uploads/psdp/PSDP_Expenditure_Summary_2020-21.pdf

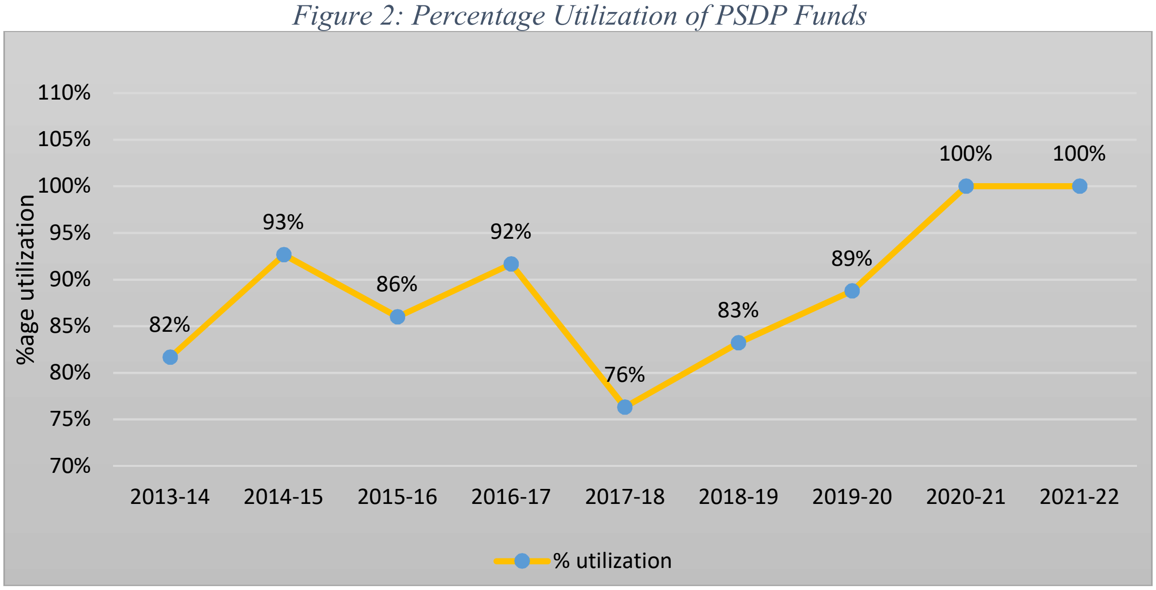
[3] Public Finance Management Act 2019 amended in 2020 https://www.finance.gov.pk/budget/PFM_Act_2019.pdf

area of concern for this study is development project. The reforms were introduced in area of review and strengthening of project selection and allocation process in PSDP and re-vamping of funds release systems.

1.1. Problem Statement:

Public Sector Development Program (PSDP) plays an important role to accomplish development and growth in the country through its interventions to improve human capital and infrastructure. However slow and inefficient utilization of public funds leads to blockage in the implementation of various planned schemes and projects.

Figure 2: Percentage Utilization of PSDP Funds



Source: Pakistan Fiscal Operation. Finance Division

In last decade, the utilization of PSDP funds remained 85% per anum on average. Before the introduction of PFM Act 2019 the utilization pace of Public Sector Development Program was not optimal. We can see in above line chart in the year 2017-18 total utilization is 76% of allocated budget. The level utilization of funds in year 2020-21 and 2021-22 shows the performance even beyond allocated funds. The reason was cut in development budget due to financial crunch. Moreover, a pattern of slow utilization in initial quarters of the financial year has been observed which eventually translate into extraordinary fast pace in last quarter of financial year. In financial year 2020-21 the utilization of PSDP funds was up to 66% of total authorized funds till 3rd quarter of the financial year which reported as 100% at the end of financial year. The utilization of funds was reported as more than 40% in last quarters of the financial year. It compromises with the quality of work done and service rendered to the public at project level. Slow utilization of funds not only add up into the already huge pile of throw forward but also may leads to the waste of public money.

1.2. Research Problem:

Public Sector Development Program is integral part public investment and reflects government's development priorities. In achievement of development targets, the role of public sector development program is vital. Therefore, the utilization needs to be in pace to the planned allocations. In case of Public Sector Development Program, utilization level is not in harmony with planned allocations which not only hinders to achieve already planned development targets but also leads to narrowing the fiscal space for future development ventures.

1.3. Research Question:

Based on the narrative of statement of problem as stated in the preceding text, I am narrowing my research problem into a comparison of utilization of PSDP funds pre and post public financial management act 2019 and investigation of reasons of slow utilization of PSDP funds and have operationalized my topic into following research questions and objectives.

"What were specific reasons of slow utilization of PSDP funds before implementation of Public Financial Management Act 2019?? How effectiveness of public spending in various sectors has been ensured in PFM Act 2019? Whether PFM Act has been implemented fully? If not, what are the bottlenecks to implement the reforms in letter and spirit?

1.4. Objectives:

The thesis seeks to achieve its general objective to compare the pace of utilization of PSDP funds before and after implementation of Public Financial Management Act 2019 focusing on the following specific objectives:

- To study specific reasons of slow utilization of PSDP funds before implementation of Public Financial Management Act 2019 and how they were mitigated in new Act.
- To study the level of implementation and the bottlenecks to implement PFM Act 2019 if any.
- To study the pattern of utilization in a financial year at project level.
- To appraise the interventions introduced in PFM act 2019 to enhance effectiveness of public spending.

1.5. Significance of Research:

PSDP is key sponsor of development program of Pakistan. The output of various sectors and subsectors are determined by the number of projects implemented in a financial year in an economy. Successful and efficient implementation of development projects define the way, speed and success of development agenda of a government. This study may be instrumental to suggest some changes to improve utilization pace of development funds. The public policy makers may find it helpful to avoid waste of public money. The study will contribute in academic literature of public policy as well as add on for strategic plan implementation in public sector organization of Pakistan.

1.6. Explanation of the Key Terms/Concepts:

The term Public spending or government spending can be explained as the money spent to acquire goods and to provide services like education health care and defense etc. there are two types of public spending current and capital spending. In practice, capital spending and current spending are inclusive of government capital budgets i.e. expenditure on durable goods (Goode & Birnbaum , 1956). Public Sector Development Program (PSDP) is part of Government's Budget allocated to create capital assets in the country. Public service delivery and economic growth greatly depends on the capital assets created by the government through allocation of funds. (Lewis & Osterman, 2011).In this study the term public spending will be utilized in-lieu of the PSDP funds. There is a mechanism of funds allocation and disbursement adopted by the Planning Commission of Pakistan. The funds are authorized to release by the Planning Commission of Pakistan on quarterly basis in a financial year. After authorization of allocated funds concerned ministries are responsible of get them release by the Ministry of Finance in respect of Principle Accounting Officer /Secretary of concerned Ministry.

1.7. Organization of the Study:

This study is comprised of six chapters. Each chapter is designated to significant part of the study. Chapter one introduces the topic to the readers. Chapter two consists of literature review and best practices of financial management across the world. Chapter three provide a glimpse of methodology utilized to conduct the study. Chapter four and five provide detailed account of discussion analysis and answers of the research question of the study. Chapter seven is consist of concluding remarks and some policy recommendations.

Chapter 2

LITERATURE REVIEW

In this chapter covers some seminal work published regarding different regions of the world to understand different approaches regarding public investment and financial management of public development funds. It also provides a deep insight about the world best practices of financial management. Additionally, the literature on public sector development in Pakistan is also presented. Furthermore, the synthesis of the literature is also given at the end of this chapter.

2.1. Public Investment

Public spending or government spending are the money spent to acquire goods and to provide services like education health care and defense etc. There are two types of public spending current and capital spending. In practice, capital spending and current spending are inclusive of government capital budgets i.e. expenditure on durable goods (Goode & Birnbaum , 1956). Capital spends are considered of special importance in the whole world due to their nature and large sum of money involved as compared to current spending. Capital spending is important as it create the assets which support both the public service delivery and economic growth of the country. The basic requirement of provision of public service is fixed assets which are obtained through capital spends by governments.

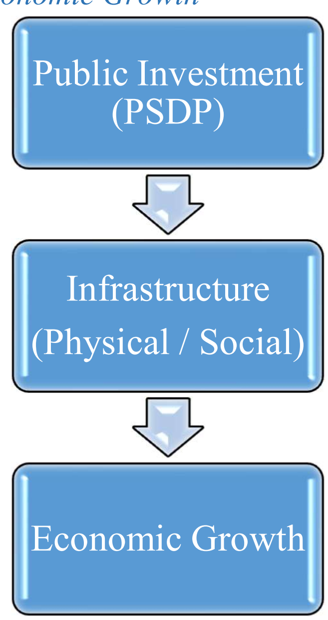
The capital spends are also alternatively known as public investment. The examples are provision of health care is possible through creation of clinics and hospitals, and provision of education as public service schools and colleges are required. Other fixed assists created through capital spends are road infrastructures, sewage systems and communication systems are also great contributors in economic growth of the country (Lewis & Osterman, 2011). IMF (2015) refers public investment as Govt's spending on public infrastructure like railways, roads, schools, hospital and airport. In wider sense this term is also used for expenditure on human capital accumulation and financial investments such as sovereign wealth funds by government institutions however, in this study the focus will be public sending on physical or capital assets.

The Public Sector Development Program (PSDP) reflects the extent of capital spending by government of Pakistan at federal level. It is a document of annual financial outlay of Pakistan that enlists all programs and projects with allocation for that specific financial year at federal level. In this document individual projects are enlisted with their total cost, foreign loan component and date of approval etc. These projects are formulated in line with the sectoral objective. These projects are image of government's policy to create capital assets for that particular year. Capital spending to create assets is key for service delivery and growth in any country, hence PSDP document is summary of capital spending of Pakistan (PC, Manual of Development Projects, 2019). The main focus of PSDP is on to improve regional connectivity through transport and communication facilities, investment on large water related infrastructures in line with National Water Policy improvement and strengthening of health care system improved service delivery education sector special enhanced access to higher education mitigation of climate change, ensuring food security social protection and enhancement of livelihood opportunities.

2.2. Public Spending a Tool of Economic Growth

The impact of public spending on economic growth is an unsolved riddle both empirically as well as theoretically. Though, there are several studies testify the positive and significant relationship between public spending and economic growth, but few others report it as significantly negative. To re-examine the phenomena a study (Yasin, 2011) was conducted in Sub Saharan African countries. The study examined the effect of public spending and some other variables like private investment spending, trade openness and population growth on the economic growth of Sub Saharan African countries by using the panel data for the period of 1987-97. The result obtained through estimation techniques showed significant and positive impact of public spending incurred for capital formation on economic growth. The same

Figure 3: *Public Investment as catalyst to Economic Growth*



impact of private investment spending and trade openness was also reported. The study implied that to create an optimistic economic environment, public spending on capital formation should be increase.

Raj Kumar and Swaroop (2008) also testified the positive impact of public investment on outcome however they have linked the outcome of public investment with good governance. By using cross sectional data of 91 countries for the period of 1990, 1997 and 2003 showed a stronger and positive impact of public spending for education and health on the outcome for the countries having good governance. The results of the study implied that to enhance the development effectiveness of public spending good governance is one of the keys however there may be other reasons also which hinders the effectiveness of public spending in term of outcome.

However, as mentioned earlier, another point of view about relationship of public investment and economic growth also prevails. Din and Ghani (2006) conducted a study based on empirical data in context of Pakistan and concluded that growth in Pakistan is determined largely by private investment. The impact of public investment and public consumption is negative but insignificant over economic growth in Pakistan. However, as the results are insignificant therefore, need to be inferred very carefully.

2.3. Public Investment and Human Capital

The significance of human capital in augmenting individuals as well as overall growth of the economy cannot be ignored. There are various studies available to understand the incidence and importance of public sector expenditure on human capital in developed and developing countries. A study conducted in a small open economy of Benin also prove increased government spending on education has positive long run effect on growth rate. To measure the impact on government spending on growth rate an endogenous growth model was developed in dynamic multisector setting with human and physical capital accumulation as variable. The results showed a significant increase in human capital accumulation which is key to growth with increased government spending on education. In the study human capital accumulation means increased productivity of human capital as well as accumulation of technology (Dissou, Didic, & Yakautsava, 2016).

In Nigeria impact of public spending from 2003 to 2017 on human development was assessed through multiple linear regression model wherein ordinary least square method was used as tool to analyses the variables of the model. The objective of the study was to determine the responsiveness of human development index to capital spending by the government and other variables like recurrent spending, corruption and inflation. The result showed a significant and positive impact of increase capital spending by the government on Human development index (HDI). The study suggested, to increase human development government should enhance capital expenditures on human capacity building in the form of research and development in capital intensive projects. The best strategy to enhance the human skills and to make people better off and healthier in future is human development. The study suggested to reduce recurrent expenditures by Nigerian government and more funds for capital investments in Human Development (Omodero, 2019).

Similarly, In Pakistan fully modified least square method as utilized to determine the growth effect of public spending on physical as well as human capital investment. To evaluate the impact data during the period of 1964 -2013 was utilized from the Pakistan economy. The results obtained were positive and significant for the variable human capital investment through government spending. Moreover, the study also indicated the public spending on human capital is more fruitful than on physical capital at sectoral level as far as growth in Pakistan is concerned. The sectoral analysis also showed that the public spending of human capital has more intense impact on growth in Pakistan. However, at aggregate level otherwise is true. But, it was suggested in the study that to boost the overall output in the countries policy makers have to use the public spending as strategy. (Ali, Ahmad, & Naz, 2016).

In health sector, public sector collaboration is key to effective implementation of health policy. An individual with good health is prerequisite for a productive and efficient human capital. To attain this skill and efficient human capital, public sector plays important role by providing health care infrastructure. Overall public spending on healthcare are progressive in Pakistan (Akram & Khan, 2007). In another study was conducted on 12 counties of Asia and Pacific over last three decades. The study examined the public expenditure on education and health sector and its impact on Gross Domestic Product. The causal impact of public spending on education and health care in Bangladesh, Fiji, Kiribati, Maldives, Nepal, Singapore, Srilanka, Tonga and Vanuatu were observed which increased the GDP of respective countries. (Maitra & Mukhopadhyay, 2012).

2.4. Public Investment and Infrastructure

The development infrastructure plays vital role in growth of nations. The quality and accessibility of infrastructure available is considered as one of the important development indexes. Accessibility to infrastructure determines accessibility to basic needs of life and hence quality of life of a nation. A study conducted in Nigeria to examine the impact of government spending on infrastructure on growth. Data of public spending on key infrastructure of Nigeria was collected and analyzed with econometric techniques. A long run relationship between growth of an economy and public spending on education, health services, water resources, agriculture, and transport and communication were observed. It was also suggested in the study that infrastructural development should be given priority at all levels of governments whether it is federal provincial or local. For a country to achieve sustainable growth, development of infrastructure sector is like foundation stone (Fasoranti, 2012).

Public spending also proved as an effective instrument in enhancing agricultural growth and poverty reduction in developing countries. Growth in agriculture is also dependent on non-agriculture public expenditure such as rural infrastructure health care and education system that's why very crucial to monitor closely and efficiently. However, rural poverty alleviation cannot be achieved by only investing in agriculture. Public spending choices also play important role in rural poverty reduction and economic growth. Each country has their unique requirement and public spending must be in line of those requirements to achieve the objectives for which investments are made. (Fan, Omilola, & Lambart, 2009). Similarly, a positive relationship has been observed between regional growth and infrastructure capital which mainly reflects the manufacturing sector when a case study was held in Italy. The impact of public spending was immensely significant on the low-income groups of the region (Acconcia & Monte, 2000.).

As per Herrera (2018) in developing countries 20 to 30 percent of its GDP is consumed as public spending. This level of public spending impacts GDP levels of a country in great deal when it comes to efficiency of spending. Therefore, measuring the efficiency of public spending is very important when it comes to the decision making about public spending. The World Bank policy papers presents the same phenomena by using a sample of 140 countries with different levels of efficiency of public spending and level of infrastructure. The result showed that the countries with better infrastructure achieved higher outputs with same level of public spending in its peer countries. However, a difference of technically efficient spending and optimal level of spending must be kept in mind in this regard. A country with efficient spending still has room to achieve optimal level of spending (Herrera & Ouedraogo, 2018).

In United States impact of public spending on infrastructure weighed both in short run as well as long run in a report published in 2011. In short run, spending on infrastructure not only stimulated the economy but also boosted the economic activity in the country. The effects were observed in larger sectors like manufacturing and business sectors as well as agriculture which is smaller sector in US economy. However, in longer run, spending on infrastructure created a more significant and sustainable positive impact on the economy. It enhanced the tax revenue against infrastructure. Spending on infrastructure in highly important keeping in view the economic benefits and future economic growth. Investment on public infrastructure like roads power sector public safety buildings and many other in innovative ways will strengthen the economy (Cohen, Freiling, & Robinson, 2011). There could be other motives of public spending or public investment on infrastructure than growth. Some of the reasons of public spending are promoting equity or motivation. It is also assumed that public spending or investment also increase economic output. State typically spend on public infrastructures like transportation and water infrastructure to enhance economic efficiency (Musick & Amy, 2015) .

2.5. Ineffective Public Spending (Challenges):

The public expenditures in low income economies are very crucial and important to ensure fiscal balance and level of inequality. A study was conducted in Nigeria to determine the relationship between bureaucratic management practices and quantity of public services delivered. To study the completion rate of project data of 4700 infrastructure projects implemented by federal agencies were examined. The results showed that 38% of the projects could not even start and remaining 55% of project started but could not be finished and remained incomplete (Rasul & Rogger, Management of Bureaucrats and Public Service Delivery: Evidence from the Nigerian Civil Service, 2016). A similar study was conducted in Ghana where completion rate of over 14000 small infrastructure projects was evaluated. The results showed 36% of the project as incomplete. These evidences substantiate the need of improvement in performance of public project implementation in development countries (Williams, 2017) .

Available literature on public financial management emphasis on the government performance by comparing planned and actual public spending and revenues collected by the government. A study conducted on 45 low- and middle-income countries showed the variation of planned and actual expenditure up to -45% to 44%. This deviation is observed not only within across the countries but also with in the country it even widens over the years. It is also observed that underspending on the projects is as common phenomena as overspending (Addison, 2013). When it comes to government's efficiency specially relating to the public expenditure there is another determinant play important role called structural country variables. For example, a country with higher proportion of young population and higher adult illiteracy rate will respond to the public spending inefficiently. Similarly, the countries with civil liberties like European countries are more efficient in their public spending then Asian countries (Rayp & Sijpe, 2007).

A study of dynamic spending pattern of infrastructure projects of Government of Bangladesh during 2003 to 2013 gives us a deeper look in to the reasons of ineffective delivery. Irregular spending pattern during the life time of the project is first and foremost. Low spending during initial stages of project and more in latter part of implementation period hinders the successful completion of the project. Moreover, when completed and non-completed projects were compared, it was observed that the projects deviated less from plan and done smaller revisions did better and completed successfully. Hence, a careful planning of early stages of the project is key to successful completion of a project. The second reason was lack of capacity of government agencies to effectively completing the project. There are some important stages of project like planning, procurement, hiring management and forecasting where government needs to act during the implementation period, however due capacity gaps effective delivery become difficult (Rasul, Roger, & Litvine, 2016).

When it comes to the challenges of efficient public spending, adequate allocation in suitable sector is very important. However, public spending structure is distorted by allocating public funds of social sector like education and health to the energy fuel and defense etc. the reason behind is public corruption. The officials responsible for the decision of expenditures and contracts have more negotiation powers and hence develop rent seeking behavior. They are aware of secret nature of decision-making regarding defense, public order and energy etc. so they made choice of allocation in the name of national security. Hence corruption determines the distribution of resources among different sectors. On the demand of bribes corrupt official make decision of allocation of funds to the sectors where decisions are taken in the name of national security so that they can demand maximum bribes (Delavallade, 2006).

2.6. Financial Management and Effective Public Investment:

Financial management is critically important for effective utilization and management of public funds. Financial management is important for personal business welfare as well as for economic resources at hand. An effective management of funds can lead to meet short term and long term needs of a country with scarce resources. Financial management handles everything from procuring the funds to effective utilization of the same (Shilpa & Rakesh , 2013).The objective of financial management is to reduce all the hindrances discussed in above literature and to ensure the fiscal growth of entity, financial management deals with all stage of public finance from procurement to effective utilization.

Theoretically, a well chalked out PFM system helps to provide those tools which leads to efficient resource allocation through better information and improved processes. Reforms help to substantively improve the accurate and timely provision of relevant information. It also provides a structural framework to identify, and analyze the alternate options of resource allocation in line with the national growth strategy. This eventually turns into an efficient process to help decision makers to efficiently allocate resources and maximize general welfare (Fozzard, 2001). Moreover, PFM also provide a framework for identifying comparing analyzing selecting and implement the alternate options of efficient resource allocation between the different sectors and programs as per national strategy of growth through an improved annual budget making process (Welham, Krause, & Hedger, 2013).

2.7. Financial Management in Peru

In Peru, poor targeting, deficient financial management and funding leakages are main issues found by researcher which are hindering the efficient pro poor public spending. These are common issues of all developing countries. If we discuss the targeting, degree to which public spending is targeted towards poor varies program to program. The second problem highlighted in the paper is financial management of public funds. The reason behind are unpredictably volatile public funding flow, lack of transparency of procedures of allocation of funds and insufficient auditing. Last one is problem of leakages where a portion of funding is leaked at every stage of its transfer from federal government to concerned quarters. To deal with all these problems government of Peru has introduced an innovative tool of financial management called Public Expenditure Tracking Survey (PETS). The survey was conducted in the country for three years and restructure the way of public expenditures managed and controlled by Integrated Financial Management System (SAIF) I helped greatly to the central Government to transfer intended public resources to the municipalities without extensive delays and leakages (Calix, Alcazar, & Wachtenheim, 2002).

2.8. Financial Management: A Case Study of Malawi

Public Finance Management is multilayered activity. It was introduced in different countries with different objectives. It deals with the management of public funds where budget process is main part. The budget process has two stages long term planning and annual budget formulation. A well-functioning budgeting process consider the effective management of public finance decision making process and policy choices. In Malawi it was first introduced in 1981 by donor agency World Bank which initially failed because it was not fully implemented. It went through many amendments and 2004 one of the key reforms introduced was Public Sector Investment Program (PSIP). The key features of PISP are:

- It maintains the list of public projects in the shape of 5 years rolling plan.
- Projects are prepared by line ministries and ranked in light of Economic growth strategy of the Government.
- Only those projects receive funds which have clear connection with development and recurrent budget of the country
- It is important step in receiving donor supported allocations to better reflect MPRS priorities in making the budget a comprehensive statement of public expenditure (Durevall & Erlandsson, 2005).

2.9. Financial Management in African Countries

A study has been held in Africa where 31 countries were assessed for their PFM performance. A qualitative approach had been utilized to assess the performance through documents. A performance measurement framework was developed in respect of 31 indicators of quality. It is evident from the study that budget making processes in these countries have been improved however there is still a lag in establishing the process and laws. Moreover, study also found that the PFM performance of African countries with low per capita income is strong. In case of highly indebted poor countries initiative under PFM reforms the countries like Ghana Madagascar, Mali, Guinea, Mozambique and Malawi etc. some debt relief also experienced. In past ten years, the countries experienced debt relief through HIPC initiatives have seen significant economic growth (Andrews, 2010). The results of a study conducted in the CEMAC countries (The Central African Economic and Monetary Community) also showed that quality of budgetary and financial management plays as significant role to determine the efficiency of public spending in education and health (Fonchamnyo & Sama, 2016).

2.10. Financial Management and Challenges to Development Sector of Pakistan:

One of the key challenges Pakistan is facing specially in development social sector is inefficient utilization of resources. Government (Pakistan) have taken different measures to improve the performance through various public sector development programs but could not achieve improvement in performance of projects (Muhammad & Riaz, 2014). A case study was held in Punjab which shows poor management increase the bad effects of limited resources available for social sector. It was evident from the study that provincial as well as federal level there are several problems of poor governance. Leakages, issues with bureaucratic structures weakness of rule of law and non-clarity in Government's decision making are some of the problems that minimize the management capacity in public sector. Political factors also add to the injury by hampering implementation of public sector policies. As an example, infrastructure sector of the Punjab has been quoted in the study where selection criteria of project are lacking. To cope up the situation and curtail leakages and waste successful governance reforms with deeper rule of law in fiscal policy particularly in development sector is need of the hour (Gera, 2007).

Another reason of inefficient utilization of public funds is selection criteria of projects. Due to weak planning process projects are developed without due diligence and hence people unable to reap the desired benefits out of it. Even after completion the projects are underutilized because they are managed by the bureaucracy which is hampering the quality and timely completion of projects. Unstable sectoral allocations in Public Sector Development Program (PSDP) are also one the reason of ineffective utilization of public funds (Muhammad & Riaz, 2014).

The social sector of Pakistan comprises on education health security and environment also facing challenges due to absence of a policy framework. One of the many reasons is poor project management and inefficient resource utilization. Social indicators of Pakistan lags those of competitor in the south Asian region. Despite of increased public spending in social sector desired results could not be obtained. The factors affecting the social sector spending to be fruitful are mainly poor project selection and lack of feasibility study, inadequate project planning and monitoring, lack of stakeholder's involvement and last but not the least is timely availability of sufficient funds. Poor project management and low priority projects directly influence the performance of project in social sector (Ahmad & Ali, 2014).

On the other hand, infrastructure sectors are also not very productive. In a comprehensive World Bank (2007) reported regarding infrastructure implementation capacity of Pakistan, some gaps have been identified which hinders the successful public implementation of infrastructure projects in Pakistan.

Lack of Capacity: as per report there are sever capacity issues when it comes to implement planned midterm development framework (MTDF). Contractors are not removed from the project despite of their incompetence to perform. Projects take more time than planned to achieve financial close. Poor project planning and weak implementation contributes to make situation even worse.

Lack of Human Resource: second key challenge to successful implementation of infrastructure project is lack of human resource in term of numbers as well as suitable skills. This problem is prevailing across the board in all professions which is hindering to achieve long term development goals of the country. This gap is widening due to low entrants in the market which only offers inadequate salaries and poor working environment.

Lack of construction material is another obstacle in the way of implementation of planned MTDF of infrastructure sector.

Corruption has also plagued the entire project cycle in construction sector due to which contracts are not enforced as they were conceived and make it difficult to manage risks in the projects. As per an estimation 10 o 15 percent of a project value lost due to corruption.

Cumbersome Government procedures cause delay in project completion. Due to contractual obligation, external verifications by NAB parliamentary committees and law enforcement agencies etc. and local government procedure it sometimes takes twice as much as planned cost and thrice time as much as planned implementation time.

Too much programs in portfolio. Due to poor planning and implementation capacity public agencies ends up with too many projects and programs at their portfolio to manage successfully. And hence poor deliverance is inevitable.

Interruption in releases is also one of the major contributors in difference in delayed projects. There is significant gap observed between planned expenditure and actual expenditure due to the same reasons. In appropriate allocation when it compares to the cost of projects leads to delay the project from 5 to 15 years.

All these challenges hinder the successful implementation of project in public infrastructure even if sufficient finance is available.

2.11. Public Finance Management in Pakistan (Pre PFM-Act 2019):

Public Finance Management (PFM) is a system which manage the financial resources of a country in a way that it's national and local priorities can be fulfilled in the best possible way. An effectual PFM not only boosts the economic growth of the country but also maintains operational, financial treasury management. There are three building blocks of a PFM called Public Revenue, Public Expenditure and public Debt management (El, Daher, 2001). The constitution of Islamic republic of Pakistan 1973 provided the procedures and financial powers for the distribution of revenues before PFM Act 2019.

In Pakistan all three building blocks of PFM were had become weak and were facing many problems. Revenue management was facing continuous low tax to GDP ratio, weaker law enforcement, and contracted tax base and adhoc short term fixing policies. Federal government had to bear the whole burden of revenue collecting due to weaker role of provinces in tax collection. Correspondingly, inefficient expenditure management led to fiscal deficits at the point where it become the boiling point. Development expenditures became the second priority in respect to current expenditures which translated into misallocated priorities in the form of loss minting SOEs and failed expenditure management reforms. Debt mismanagement also added to the injury through increasing debt servicing expenditures (Ahmad A. , 2016).

Federal government of Pakistan published a report (2012) where in Public Financial Systems management systems were assessed as compared to 2009 so that areas need further development can be identified. The report was based on six indicators of PFM and following information was received regarding their progress.

Credibility of the Budget showed a little progress in term of aggregate expenditures as compared to original budget estimates and showed only minor deviations. However, no improvement was shown when it came to re-appropriation of budget under individual expenditure heads and governments tax revenue collection.

Comprehensiveness and transparency of budget noted some progress in provision of information however fiscal risks coming from autonomous bodies and SOEs were noted weak.

Policy Based Budgeting showed progress in respect of 2009 however some weakness regarding documentation and explanation were observed when linkage between MTBF and annual budgetary ceiling came under question.

Predictability and control in budget execution; budget execution keep on showing problems especially in the areas of procurement tax system and audit and control system. Tax to GDP ratio was constantly low as compared to the other countries in the region

Accounting, recording and reporting: No improvement in un-explained reconciliation differences, non-recording expenditure incurred and information regarding procurement were observed.

External scrutiny and audit: legislative security was lacking. Hefty buildups of audit reports and their delayed reviews were observed

Donor practices: due to noncompliance rating in donor practices deteriorated over the time.

The weaknesses of Pakistan's public financial management system stated above, observed during assessment impacted the of budget effectiveness in three areas i.e. aggregate fiscal discipline, allocative efficiency and efficient service delivery.

2.12. PFM Act 2020 in Pakistan:

In June 2019, Pakistan's Parliament approved a new Public Financial Management Act which was further amended in June 2020. This Act was intended to provide a legal cover to improve the performance of the country's fiscal institutions with an objective **"***to strengthen management of public finances with the view to improving definition and* *implementation of fiscal policy for better macroeconomic management, to clarify institutional responsibilities related to financial management, and to strengthen budgetary management*".[4]

Some critical area addressed in PFM Act 2019 are budget management budget preparation and presentation, development projects and maintenance and use of public assets, treasury management, accounting and reporting, public entities and non-tax revenues. Our area of concern for this study is development project. The reforms were introduced in area of review and strengthening of project selection and allocation process in PSDP and re-vamping of funds release systems.

The government will make sure (2019):

i. Clear classification of core and non- no core projects of sectors, ministries or divisions. The projects require detailed and complex planning and design or addressing specific objective of the sector will be specified as core projects and remaining as non-core projects.
ii. Development projects can surpass their predefined threshold of the total cost by Planning Commission only with condition of quality assurance.
iii. Ministries / division will be legally responsible to prepare and design well defined projects in lieu of processes, procedures and templates devised by the Planning Commission.
iv. All development proposals will be liable to pass through approval process.
v. All development projects will be considered to be included in PSDP / demand for grant subject to prior technical approval.
vi. Every Ministry / division will be responsible to allocate adequate operation and maintenance funds for projects with physical infrastructure.
vii. All development projects will be liable to monitoring and evaluation.

Literature Summary &Research Gap:

All the above discussion explains the effective and efficient utilization of public funds leads to economic growth in a country. Different countries have adopted different Financial

[4] Public Finance Management Act 2019 amended in 2020
https://www.finance.gov.pk/budget/PFM_Act_2019.pdf

Management Tools to achieve fiscal discipline. Government of Pakistan has also introduced reforms in form of Public Finance Management Act 2019 for better budgetary management and utilization of public funds. However, systematic review of literature showed that a there is very little or scant research on impact of PFM act on effective utilization of public funds in Pakistan. This study is aimed to fill this gap.

Chapter 3

DATA AND METHODOLOGY

3.1. Introduction

The chapter covers the methodological framework adopted for the study. Sampling techniques, data collection methods, units of data collection, study area, research design and data analysis approaches utilized to deduce the results are explained in this part of thesis.

3.2. Research Strategy

This study is based on mixed method approach by combining qualitative as well as quantitative research method. Qualitative research method is generally used when to understand the underlying reasons or the opinion of the people on certain facts or a problem. It provides insights into the research problem and hence helps in achieving the research objectives. Here the main objective of the project is to investigate in depth the reasons of inefficient utilization of PSDP funds, the reforms to fix the problem and bottlenecks in the way to successful implementation of those reforms. Therefore, qualitative research approach is utilized to provide required deep insight. On the other hand, numerical data is also used in the study as mentioned in UDC2 to the observe trend of utilization of PSDP funds where quantitative research method is employed.

3.3. Research Design

The research design is explanatory. The main objective of the study requires a deep investigation of causes and reasons of slow pace / inefficient utilization of PSDP funded projects which require explanatory study. Explanatory research is an effort to explain why certain phenomena work in the way that they do. Explanatory research helps to identify research studies that why utilization of PSDP is slow / inefficient and also links different ideas within Public Sector Development Program (PSDP) to understand the nature of cause-and-effect relationships. In other words, explanatory research analyzes specific problems and explains the patterns of relationships between variables.

3.4. Unit of data collection

Units of data collection (UDCs) are sources of information which can be exploited to obtain data. It can be an individual, policy document, record, picture or motion pictures. Two-pronged approach for data collection is applied in this study. Information has been collected from primary as well as secondary sources. The primary data is collected from relevant stakeholders mentioned below as UDC1. Sources of secondary data is are act, PSDP documents, reports and development manual mentioned as UDC 2, 3, & 4. The units of data collection to are:

UDC1: Government officers involved in planning and implementation of PSDP funded projects for their deep insight about various problems that a project face during the course of its implementation.

UDC2: Published statements of Planning Commission regarding allocation, authorization, releases and utilization of public funds in various sectors. These statements remained helpful to find the trend of utilization of public funds.

UDC3: Public Finance Management Act 2019. The Act itself provided the insight about various clauses government has implemented to improve the effectiveness pf public spending and financial discipline of development sector.

UDC4: Manual for Development Projects 2021. This manual provided the rules and procedures crafted in the light of PFM Act 2019 to standardized the mechanism of project life cycle.

3.5. Sampling Techniques

The main source of information for this study are relevant stakeholders / government officers involved at various stages of project lifecycle. The main source of information for this study is government officials which are selected through non-probability sampling technique. It is considered the finest method to conduct qualitative studies. In purposive sampling, selection process is made built on a certain criterion (Paton, 2002) rather than randomly. The purposive sampling method is the type in which samples are taken with reference to the research objectives. To keep the discussion within premises of context the, units of analysis are preferred qualitatively to answer the predetermined research questions. In purposive sampling, people are selected for their relevance to the research questions (Bryman, 2016).

The main objective of the study is to get a deeper insight into the reasons of slow pace of utilization of PSDP funds. The objectives of the study demand for purposive sampling to collect the views of the experts of the public policy and project implementation. The sample size was determined under the criteria of saturation point to keep the adequacy of the sample. A small sample size determines the phenomena of diminishing returns occurs successive respondent is adding much less to the given information. There is a rule of thumb that in qualitative study sample lies under 50. This study is based on the data collected through semi structured interviews by 30 respondents of selected ministries and implementations wings of that ministries.

3.6. Methods of Data Collection

The study is aided by the qualitative data, collected through semi structured interviews. The purpose of semi-structured interviews is primarily to determine the interviewees' reaction and opinions to an instance that is most relevant to the research subject. Semi-structured interviews are employed when there is sufficient factual and objective information about a particular topic, but subjective knowledge and information are lacking (Merton & Kendall, 1946). Using semi-structured interviews allows us to give interviewees space and provide elaborate policy angles utilization of public sector funds. An interview guide was prepared to keep the discussion in context. Quantitative data regarding funds utilization will be collected from the published source i.e. website of Planning Commission.

3.7. Analysis

The study of public policy requires examining government actions, policymakers, and stakeholders, which is a dynamic process that always changes over time. Moreover, due to the complex interplay of many government institutions, which also results in a particular policy formation. Therefore, to understand the deeper meaning a thematic content analysis will be utilized as tool to analyze the data obtained from UDC1 and UDC3.

A Thematic content analysis starts with eliminating biases and establishing your principal impressions of the data. Rather than approaching data with a predetermined framework, though this technique common hypotheses are identified to find out common patterns across data. Thematic framework indicating cross cutting themes was deduced from the information collected through interviews. The second research question is about to investigate the pattern of utilization so tool of analysis would be trend line and chart patterns. A document analysis approach would be utilized to analyze the data obtained through UDC3.

After promulgation of Act only three PSDPs have been approved one of them is announced for current financial year. Practically quarter wise data of utilization of funds after PFM Act 2019 is available only for three years. Specific econometric techniques may not be utilized for trend analysis of utilization due to insignificant sample size. The quarter wise trends of utilization have been discussed in the thesis through descriptive statistics.

3.8. Locale

This study is focused on Utilization of funds under Public Sector Development Program which is federally implemented in all over Pakistan. So, locale of the study is all over the Pakistan.

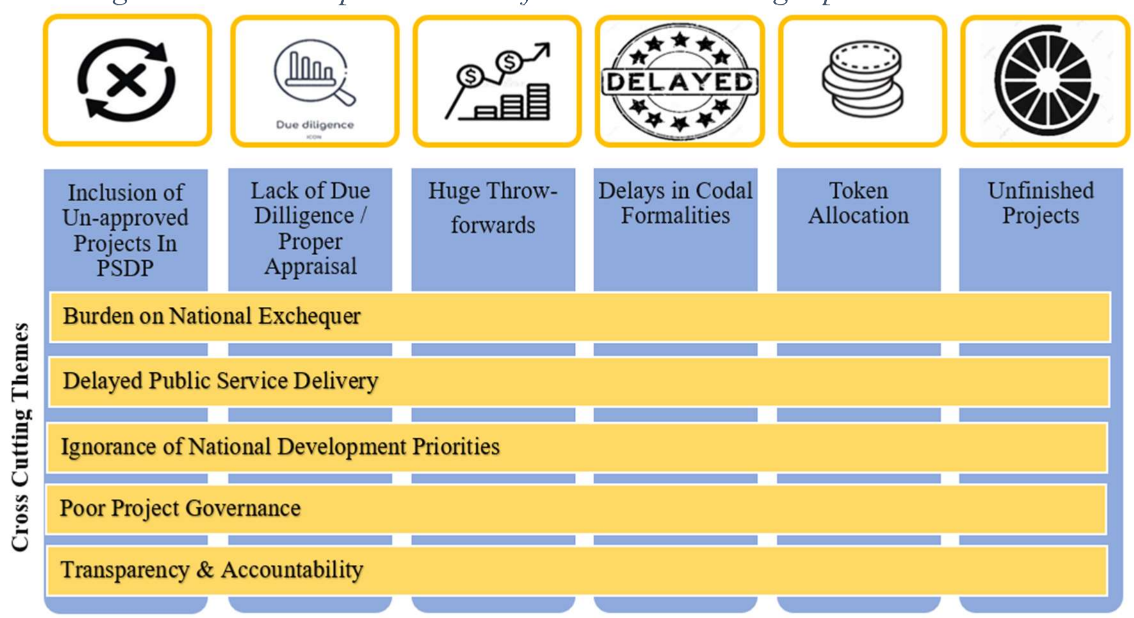
Chapter 4

DISCUSSION & ANLYSIS

4.1 Introduction:

This section of the study is based on the research question about pre-Public Finance Management Act 2019 challenges of utilization of Public Sector Development Program funds and reforms introduced to mitigate the problem. For the purpose, a series of semi-structured interviews have been conducted. Federal government officers from different ministries have been interviewed who are directly involved at various stages of project cycle. The data collected in result of these interviews have been classified into various themes which address the research question of the study. The repeated arguments highlighted by the experts are given preference and included in thematic framework. The thematic presentation of cross cutting themes is as below:

Figure 4: Thematic presentation of utilization challenges pre-PFM Act 2019



Source: Author's Work

4.2 Utilization Challenges of PSDP pre-Public Finance Management Act 2019: Thematic Analysis:

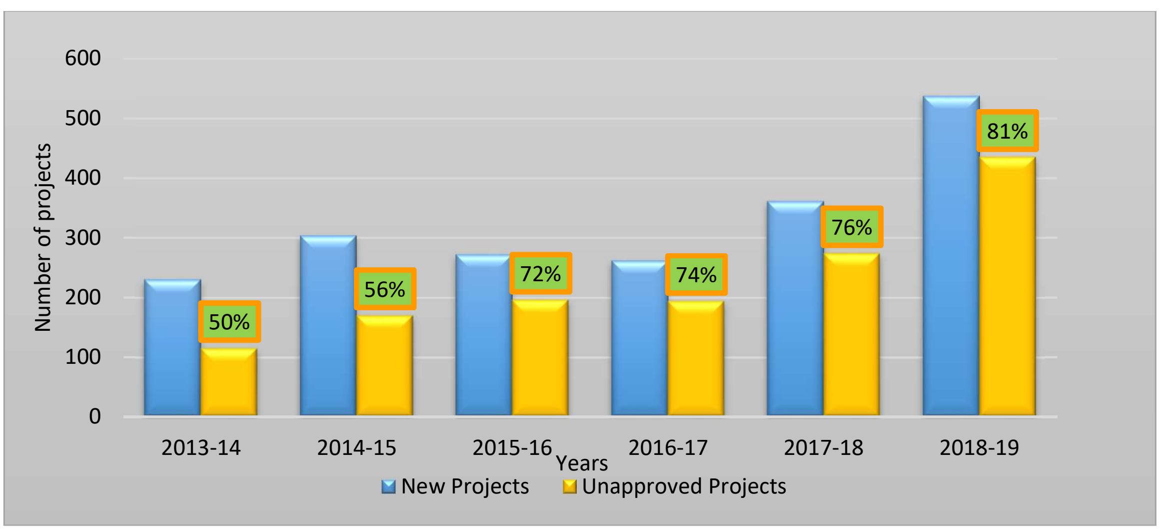
For better understanding of inefficient utilization of PSDP funds which is foremost objective of this study, it is necessary to identify the gaps and challenges in the procedures followed during the course of whole project cycle. Multiple challenges have been identified at every stage of public investment cycle which leads to the inefficient utilization whether it is identification stage of the project, appraisal, implementation or monitoring and evaluation stage. A detailed discussion over challenges / issues has been undertaken in this section which provides a depth to the argument that need of an effective financial management system in context of Pakistan was need of the hour.

The factors identified as gaps and challenges are interlinked and inter related, causing and affecting each other. The discussion regarding the effects of these challenges on achievement of development targets has been undertaken in detail in section 4.3. This identification of weaknesses will eventually lead us to suitable reforms or remedies required to eradicate the problem.

4.2.1. Inclusion of Un-approved Projects in PSDP:

The first and foremost issue is inclusion of development project in Public Sector Development Program with proper approval. Projects were used to be identified and without seeking approval from relevant forum were included in the development budget. When projects were included without approval in the demand for upcoming financial year this leads to the under or over estimation of the budget. Projects had been included without any firmed-up cost or with a tentative cost. The figure below illustrates the inclusion of un-approved projects in Public Sector Development Program over the time span of 10 years:

Figure 5 Un-approved Projects as Percentage of New portfolio in PSDP



Source: Public Sector Development Program

The figure shows the failure to overcome the inclusion of unapproved projects in Public Sector Development Program which not only led to delay in starting a project but also caused poor quality of project planning. On average, 69% of the new portfolio was unapproved when included in the development budget till 2019-20. In the financial year 2018-19 alone, 81% of the new portfolio included in the Public Sector Development Program was consist of unapproved projects. Un-approved project eventually translated into the delays and cost escalation of the public investment included in the Public Sector Development Program. Majority of the respondent from planning commission were agreed that inclusion of unapproved projects cause repeated revisions in the project at later stage and also cause wrong estimation of the budget. "*Once a project included in the PSDP without approval, pressure to approve and implement that project leads to compromise proper appraisal of the project.*

4.2.2. Lack of Due Diligence / Proper Appraisal:

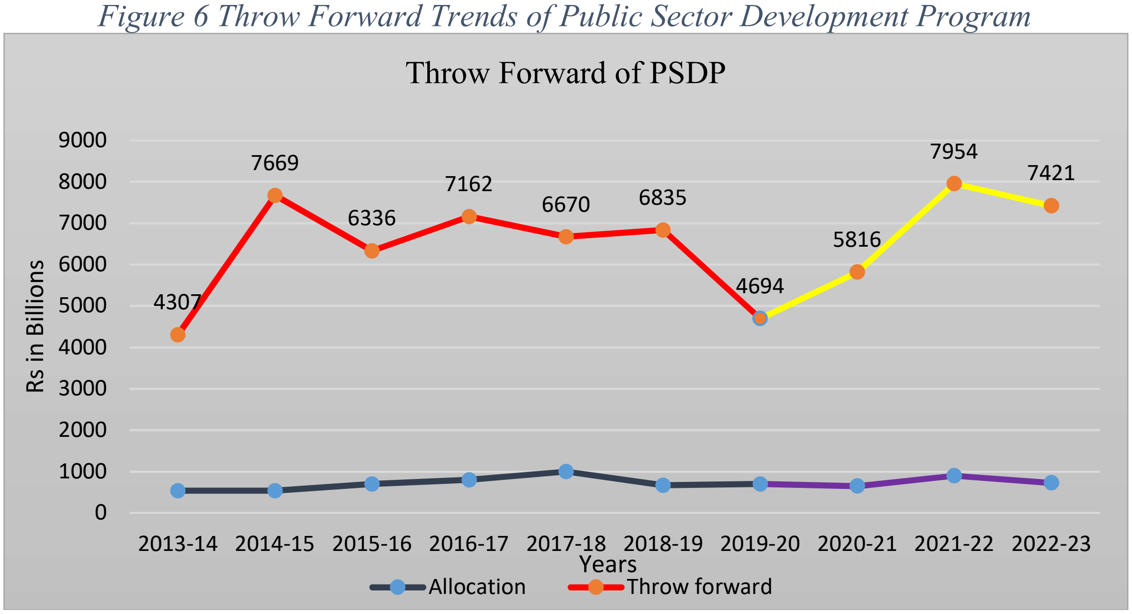
A proper appraisal of the project at planning stage is very important. Proper appraisal from every aspect of the project ensures the smooth implementation of the project. It not only ensures the quality of design of the project but also the financial and economic viability of the project. Though, planning commission has devised the guideline for every stage of the project planning but non-compliance of these guidelines led to failed project or inefficient utilization of public funds. A respondent from planning commission stated the consequences of poor or lacking appraisal in these words "*Lack of due diligence or proper appraisal at planning stage of the project leads of time and cost overrun of the project. The project is revised due to changes and alteration during the implementation which were not addressed at planning stage leads to delay in implementation".*

Non-compliance of the guidelines of planning commission was also a reason behind poor appraisal of the project. There was common practice of "approving the project in principle" in the hurry to kick start the project included in the budget without approval. The principle approval had been granted to the project without appraisal with condition to fulfill approval formalities latter on. However, once a project was approved sponsoring agency showed reluctance to fulfill the approval formalities. Lack of proper appraisal was also one of the sources of the misallocation of budget.

4.2.3. Huge Throw Forwards:

The throw-forward is the amount required in future to complete the projects. Inclusion of excessive number of unapproved projects in to the development budget produces poorly planned projects and hence non-control over the development portfolio by increasing the future demand of the funds and also liabilities. Huge claim of funds of ongoing projects in future reduces the room for new initiatives. More than 80% of the Public Sector Development Program was consist of ongoing schemes with huge requirement in future. The figure below indicates the trends of throw forward in past few years. The analysis illustrates that increasing trend of throw forward in last few years has overcome the increase in allocation. It implies that to complete the portfolio of 2018-19 only, it will take more than 9 years if allocation level sustain at 2018-19 level and no new projects would be included in future PSDP.

Figure 6 Throw Forward Trends of Public Sector Development Program



Source: Public Sector Development Program

Upon asking one of the respondents from project sponsoring ministry specified the reason, "*One of the reasons of huge throw forward is allocation of funds to the projects are not in line with the financial phasing in PC-I"*. Another respondent from Water resource division highlighted that *"numerous projects are added in budget without* *appraisal and approval which cause uncontrolled liabilities for the future Public Sector Development Program. Huge throw forwards narrow down the availability of funds for future ventures and the major chunk of budget is utilized to comply with the past liabilities".* However, an expert from planning Commission responded the query about throw-forward with a different stance *"any calamity or disaster like super flood of disaster hit the country is sponsored through a budget cut in PSDP, and this budget cut leads to further delay in completion of projects as projects become underfunded and hence cause accumulation of huge throw-forwards.*

4.2.4. Delay in Fulfilling Codal Formalities:

Figure 7: List of Codal formalities causing delay in Utilization

Rules and procedure are very crucial in efficient utilization of public funds. Rules and procedures are meant to provide guidence to accomplish the task. But some times these procudres can cause delay in completing the task. There are some to of the proceduaral delays the respondents of the interview highlighted and also gathered from detailed review of midterm review meetings held to review the progress of PSDP fund which hinders the efficient utilization of funds. Foremost of them was repeated revisios of the peoject. As responded by a representative of sponsoring ministry "*As per Manual of Development project a project take 4 to 6 weeks for due diligence / appriasal and approaval in planning commsion . The project not concived properly at approval goes through revision repeatedly due to change in cost and scope. The process of revision put the project at hault and hence delays the utilization".* Another reason was delay in releases fron Finance Division / AGPR. Once funds were sacntioned by the planning commission the concerned sponsoring agency / ministry has to get them released from the AGPR by fulfilling certain codal formalities i.e performa of ways and means. These codal formalities were time taking and hence delayed the process of release. Delay in hiring of project staff was another reaon of slow utilization. "*Delayed recruitment of project staff hindered the project implementation and overall performance of the project"* sponsoring ministry responded while asking.

"*Land procurement and resultnat litigation was one of the most commen hindrance which caused delay in project implementation specially in big infrastructural projects*." Similarly tendering and procurement process also cause delays in effective utilization. A weak procurement practice cause wastage of time and public scarce resources. Moreover the sufficinet fund required for procurement were not provided at times which led to further delay. Last but not the least was opening of assignment account for the project / program which caused delay in utilization of funds. All these procedures and process were devised for the purpose to guide for smooth implementation but became the souce of interruption in the implementation of the project.

4.2.5. Token / Inadequate Allocations of funds:

At the time of Public Sector Development Program formulation many unapproved projects included in the development budget. As these projected were not well thought or well-planned so a meager amount was allocated to them. These allocations were not in line with the financial phasing of the project and even less than one percent or even lower than that. The phenomena is called token allocation to the project. During financial year 2018-19 alone 22 such projects were identified where allocations were made even less than 1 percent of the total cost of the project (see Table 1 below). Moreover there were many more such projects with under allocation of funds . An adequate allocation funds require relevant information regarding project which is missing in case of new un-approved project.

With similar allocations it would be impossible to complete project with specified gestation period and hence time and cost overruns were unavoidable. Besides new projects there were certain ongoing projects were also identified in year 2018-19 which were allocated insufficint or token funds. The projects with token allocations have high occurrence of cost over-run or time over-run. Token allocation or insufficient allocation of the project is a matter of great concern for the sponsoring ministories. "*insufficient allocation of funds hault the project progress and utilization of funds. The process of* *allocation of additional funds required in same financial year is very cumbersome and difficult"* an officer from project implementation unit responded in priviouse word..

Table 1: Projects in 2018-19 PSDP with Gross Under-Allocation of Funds

	Project name	Sector	New/ ongoing	Project cost	Throw forward	Allocation	% age of cost	Years to complete
13	Strengthening of Early Warning System of Pakistan Meteorological Department	Aviation	New	12,942.00	12,942.00	100	0.77%	129
23	Conduction of Water from Indus River System of Tarbella Dam for Islamabad and Rawalpindi	CADD	New	75,930.00	75,930.00	500	0.66%	152
175	Construction of Southern bypass Peshawar	NHA	New	10,000.00	10,000.00	100	1.00%	100
192	Mirpur - Mangla - Muzaffarabad -Mansehra Road (CPEC)	NHA	New	142,000.00	142,000.00	1000	0.70%	142
209	Sukkur - Hyderabad Section (296 km)	NHA	New	175,000.00	175,000.00	1000	0.57%	175
215	Zhob to Kuchlak Road including Land Acquisition CPEC	NHA	New	52,750.00	52,750.00	500	0.95%	105
218	Procurement / Construction of 06 x Maritime Patrol Vessels (MPVs for PMSA)	Defense	Ongoing	16,281.00	12,944.00	76	0.47%	170
296	Construction of State Guest House and Conference Centre, Islamabad	Foreign Affairs	New	10,000.00	10,000.00	70	0.70%	143
560	Infrastructure Development of Gwadar Export Processing Zone	Industries	New	5,400.00	5,400.00	50	0.93%	108
606	Phase-II of Pak-China Project for Establishment of Cross Border OFC Network (Khunjrab-Gwadar-Karachi) along CPEC Ro	IT	New	29,000.00	29,000.00	100	0.34%	290
757	30 MW Hydro Power Project Ghowari	Gilgit Baltistan	New	7,986.00	7,986.00	50	0.63%	158
918	Nuclear Fuel Enrichment Plant (NFEP) (Mianwali)	PAEC	Ongoing	12,656.00	12,656.00	100	0.79%	126
1001	Procurement of 150 New Diesel Electric Locomotives for Pakistan Railways	Railways	Ongoing	55,488.00	55,485.00	1	0.00%	55484
1023	Feasibility Study (PC-II) for Construction of New Rail Link from Havelian to Pak China Border (682 K.M) (CPEC)	Railways	New	474.00	474.00	1	0.21%	474
1157	Power Distribution Enhancement Project (Trench-III) (STG-ELR-DOP Rehabilitation Capacitor Installation & Energy Efficiency.	Power	Ongoing	2,305.82	182.00	183	7.94%	104
1199	Dargai Malakand District KPK	Power	Ongoing	3,769.00	3,769.00	30	0.80%	126
1233	Gomal Zam Dam D.I Khan/South Waziristan Agency	Water	Ongoing	20,626.00	3,897.00	1	0.005%	3897
1264	Construction of Feeding Canal to Manchar Lake to Eradicate Contamination	Water	New	15,000.00	15,000.00	100	0.67%	15
1269	CRBC 1st lift cum Gravity Project D.I. Khan	Water	New	119,600.00	119,600.00	100	0.08%	1196
1277	Lining of K.B Feeder Upper Canal for Water Supply to Karachi City	Water	New	20,000.00	20,000.00	100	0.50%	200
1278	National Flood Protection Plan-IV	Water	New	332,246.00	332,246.00	100	0.03%	3322
1280	Rehabilitation and Modernization of Sukkur Barrage (90% WB, 10% federal)	Water	New	16,163.00	16,163.00	100	0.62%	162

Source: Doing Development Better (2020)

4.2.6. Unfinished projects:

One of the most grieving challenge to Public Sector Development Program funds was incomplete projects as rightly referred "Pakistan as graveyard of un-finished projects" by Ex- Finance Ministers of Pakistan (Haque, Mukhtar, Ishtiaq, & Gray, 2020). Many of the respondent of interview also endorsed the same. There are multiple reasons to leave the project unfinished for good. Many respondents put the blame on financial crunch or budget cuts. *"The projects are left unfinished due to financial crunch or budget cuts. Whenever government face any difficulty to meet ends the first ever response is to curtail PSDP and hence curtail the allocations to different project"* one of the respondents from a project implementation team added to conversation. The projects are also left unfinished not only due to financial crunch but also due to change in priorities. Especially with change in political government, priority to complete ongoing projects stared by ex-political government take back bench. "*Every new government try to introduce its on new flagship projects leaving ongoing projects unfinished to which they are not agree with*" quoted by a respondent during conversation.

4.3 Discussion and Analysis.

PSDP is a tool through which government implements its national development agenda including socio economic development goals. Billions of rupees are allocated to PSDP each year which help to implement Govt's agenda of development through programs and projects. A successful implementation of PSDP as tool of national development create a spillover effect on achievement of sectoral objectives and economic growth. However, when this development agenda faces setbacks in form of inefficient utilization it turns into a nightmare which only create a burden on national exchequer.

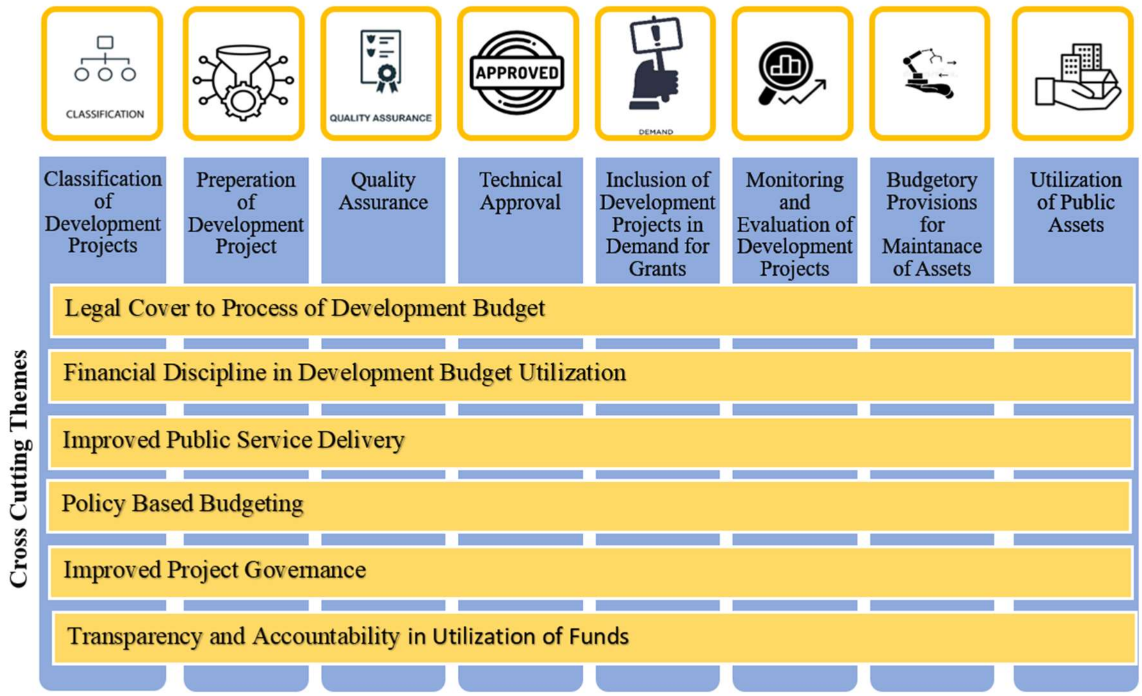
The multiple factors discussed above were doing the same. The unfinished projects were directly becoming a burden on national exchequer. A large number of taxpayers and foreign borrowed money is involved in implementation of these projects. These unfinished projects did not add the anticipated benefits to economy but only added huge liabilities in the form of wastage of public money as well as burden of debt. Delayed projects due to insufficient allocations and time consumed in Codal formalities were adding to the problem, already uncontrollable. Each year more and more unapproved poorly estimated project with tentative costs were becoming the part of the PSDP. It led to the project not achieving their objectives and burdening the national exchequer.

PSDP is not only the tool of implementing development agenda but also a source of efficient public service delivery from the government to public. The faulty projects with poorly planned activities hindered deliver public service efficiently. These projects were meant to provide basic services and facilities to the society however, the above-mentioned factors contributing to the inefficient utilization of PSDP funds were causing lag in provision of public services. It is clearly evident from the performance of some key public service delivery projects in sector like education and health, inefficient utilization is hampering the project performance and also hindering the government objective of social development. Despite of the fact that spending in these sectors had been increased in past few years but due to poorly planned projects with inadequate or misallocation could not achieve the desired objectives.

Huge throw forwards were accumulating due to financial crunch as well as misallocation of available resources were changing the course of development priorities of the government. Due to huge liabilities of past, government was left with smaller room for the new development ideas. Hence past liabilities set the direction of future course of action. Similarly, poor project governance also hinders the development agenda to be implemented smoothly and efficiently. The main reason of failure of PSDP projects is poor project governance. Hasty approvals of ill planned and poorly appraised projects cause time, cost and scope overruns of the project. Projects revised repeatedly due to changes in cost and scope and hence delayed utilization leads unfinished or expensive projects in term of cost. Efficient project governance is key for successful implementation of the project. But due to the challenges mentioned above the successful implementation becomes a dream which never come true.

Given all the factors of inefficient utilization lacking of transparency and accountability in implementation process of project just add salt to the injury. Most of the respondents of the interviews were agree that the guidelines of Planning Commission devised for smooth implementation of projects are not being followed in letter and spirit. Due to lack of fear of being accountable, guidelines are easily violated which translated into poorly planned project. All the factors leading to in efficient utilization of PSDP funds were hindering the capacity of the government to implement development agenda for economic welfare of people.

Figure 8: Thematic presentation PFM Act Led Reforms



Source: Author's Work

4.4 Public Finance Management Act 2019 Led Reforms: Thematic Analysis:

Chapter 3 of the Public Finance Management Act 2019 pertains to the Public Sector Development Program and related development activities. Planning commission has revised manual of development project out of the reforms mentioned in chapter 3 of Public Finance Management Act 2019. Based on the data collected from the semi structure interviews and chapter 3 of PFM Act-2019 the above thematic framework has been framed which provides glance upon the major reforms introduced. The explanation of these reforms and their connection to the problems will be established in this section, which is the first and foremost objective of this study.

4.4.1. Classification of development projects:

Section 13 (a) and (b) of the Public Finance Management Act 2019 pertains to the classification of development projects into core and non-core projects. Section 13 (a) is pertaining to the projects requiring extensive planning about design and implementation with cost equal to or more than 100 billion would be professed as core projects. For the projects of social sector, a lesser threshold may be required. For the purpose CDWP forum will declare any project as core project based on a criterion. The detailed criteria have been mentioned in the manual of development project. Section 13 (b) is pertaining to the project identified as sectoral projects. These are the projects other than core projects undertaken in various sectors by ministries and division. These projects will be designed in accordance to the guideline and procedures of Planning Commission with clear indication of scope objectives and outcomes.

4.4.2. Preparation of development projects

Section 14 (1) and (2) of Public Finance Management Act 2019 directs about the preparation of development projects. Section 14 (1) is regarding preparation of development projects which must be in line with the guidelines, procedures and processes defined by the Planning Commission. Section 14 (2) make sure that all project proposals will undergo mandatory cost benefit analysis and risk management as prescribed by the planning commission.

4.4.3. Quality assurance

Section 15 of the Public Finance Management Act 2019 is regarding Quality assurance of such development projects which surpass their total cost as defined by the planning commission. An independent consultant or body other than the sponsoring ministry / division of the development proposal will undertake the process of quality assurance.

4.4.4. Technical approval

Section 16 (1) and (2) of the Public Finance Management Act 2019 as mentioned in chapter 3 are regarding the technical approval of the project. Section 16 (1) is to make sure that all development project proposals will follow the due process of technical approval. Only those projects will be granted with the approval which would be designed and planned as per procedures and guidelines of Planning Commission. Section 16(2) ensures that forum will consider only those projects which qualify the quality assurance in accordance to subsection (2) of the section 14.

4.4.5. Inclusion of development projects in demand for grants

Section 17 (1) and (2) are regarding Inclusion of development projects in demands for grants • subsection (1) of section 17 ensures inclusion of the development proposal in demand of grant with condition to technical approval. Section (2) makes sure reflection of budget allocation in accordance to the project's cost and financial phasing in the demand of grant.

4.4.6. Monitoring and evaluation of development projects

Section 18 (1) and (2) is regarding monitoring and evaluation of development projects. Subsection (1) ensures monitoring of development project during implementation process along with post completion evaluation and impact assessment within five years of completion of project in case projects cost accede to threshold fixed by the planning commission. Subsection (2) ensures that timelines, forms and formats and guidance shall be completed as approved on undertaking monitoring and evaluation.

4.4.7. Budgetary provisions for maintenance of Assets

Section 19 (1) and (2) is pertaining to budgetary provision for maintenance of assets subsection (1) ensures inclusion of adequate funds in demand of grant for the operation and maintenance to post completion of infrastructure of each sector. Subsection (2) directs the planning commission to make sure the adequate funds for the purpose are not only allocated but also does not exceed to the value of assets.

4.4.8. Utilization of public assets

Section 20 (1) (2) (3) is regarding utilization of public assets. Subsection (1) makes principle account officer responsible of accruing the maximum returns from every asset. Subsection (2) make sure that maximum returns with multiple uses of a public assets to get optimum benefits. Subsection (3) further allows to establish sovereign wealth fund though act of parliament to ensure the optimum returns.

4.5 Discussion and Analysis:

The Public Finance Management Act 2019 was approved with an aim to improve the performance of fiscal institutions of Pakistan. The reforms introduced to improve development budget process and implementation as mentioned in chapter 3 of the Act are mentioned above. During the interviews, upon asking about their perception about these reforms, a mixed response was observed from respondents of different ministries / division.

Most of the respondent were agreed to provision of legal cover through Public Finance Management Act 2019 to the budgeting process. Earlier the development budget was formulated in the light of procedures and processes issued by the planning commission. The violation of these procedures was not liable to any consequences. However, procedures defined are covered under the umbrella of legal binding of the Act. Any violation to these procedure and process devised in the light of Act would be liable to audit objection.

Public investment plays important role to achieve efficient public sector delivery and economic growth in a country. Financial discipline is the tool through which realization of full gain from public investment can be ensured. The aim of the Public Finance Management Act 2019 was to create a financial discipline of fiscal expenditures including development expenditures. "*The reforms introduced in chapter 3 of PFM Act are all about financial discipline whether it is classification of projects as sectoral priorities or quality assurance or maintenance and utilization of public assets. Each of these sections was introduce to optimally use the available scarce resources"*. As responded by Chief of technical section Planning Commission. To ensure optimal and efficient utilization of public funds Act makes it compulsory to appraise any development proposal so that best proposal may be implemented. "*A financial management system like Public Finance Management Act 2019 in Pakistan was required to maintain financial discipline through solid accountability and check on development expenditures*" as responded by an interviewee.

Development of infrastructure in country is meant to provide public service for the wellbeing of the people. One of the sources of Public service delivery in Pakistan is public investment in such projects. Improved financial management can lead to improved public service delivery. Public Finance Management Act 2019 ensures the operational and maintenance cost of public assets after completion of the project which increase the likelihood of efficient public service delivery. "*For example, building a hospital or school may require a small investment but to keep it running huge funds are required every year in the head of salary of staff and procurement of logistics for every day utilization. Hence* *through ensuring the allocation for operation and maintenance cost PFM Act contribute in improved public service delivery"*. Respondent's views.

Public Finance Management Act 2019 was aimed to improve budget formulation process through its reforms and measure. It ensures that classification of development projects into core and non-core. It will facilitate to allocate funds to the priority sector to achieve maximum benefits out of limited resources. An interviewee responded upon asking "*Every time Govt. face financial crunch due to natural calamity or any other reason a Public Sector Development Program cut is proposed to fill the fiscal gaps. Once the development budget would be priorities in the form of core and non-core projects it will help the government to carry on its policy decision even in the times of financial crunch"*. Efficient resource allocation in one of the outcomes of the PFM System which is achieved through policy-based budgeting. Efficient resource allocation can be achieved mainly through informed decision making and structured framework of identification of options for resource allocation. Informed decision making can be ensured through monitoring and evaluation of under implemented projects. Monitoring and evaluation of the projects help decision maker to set not only future course of investment but also make sure the allocation to fast moving projects in present. On the other hand, framework for identification of options for efficient resource allocations is secured by proper appraisal and due diligence before approval of any development proposal.

Public sector faces many challenges one of them is poor project governance. Project governance is set of processes systems and regulations which a sponsoring agency (in this case Government of Pakistan) ensures for successful implementation of the project. Public Finance Management Act 2019 provides comprehensive set of process to ensure well planned project with smooth implementation. Budget transparency is important part of project governance. Mandatory monitoring and evaluation during implementation of project and post implementation has increased the sense of transparency and accountability of the Public Sector Development Program.

4.6 Implementation of Public Finance Management Act 2019:

In this section of study, we will investigate the implementation status of the Public Finance Management Act 2019 and bottlenecks, if any, to achieve full implementation of the Act which is second objective of the study. The analysis is based on the information gathered through interviews of civil servants and experts involved at various stage of project cycle.

Table 2: Highlight of Compliance and Bottlenecks

Compliance	Challenges
❖ Procedures and process of budget making are notified / revised Manual of Development Project 2021. ❖ Monitoring and Evaluation of the projects. ❖ Release of funds mechanism is simplified. ❖ Powers of Principle Accounting Officers enhanced. ❖ Automation of project approval process (IPAS).	❖ Preparation of development budget is not in line with Public Finance Management Act 2019. ❖ Classification of development project**.** ❖ Quality Assurance. ❖ Un-approved projects as part of Public Sector Development Program. ❖ Political Priorities. ❖ Slow implementation process of ACT due to slackness of ministries and divisions. ❖ Lack of proper dissemination of revised development manual.

Source: Author's Work

While framing the interview guide, the target was to frame such question which can serve the objectives of the study. One of them was about the implementation of the Public Finance Management Act 2019. Respondents candidly put up their point of views upon the basis of which this section of study is arranged. Public Finance Management Act 2019 was approved and implemented in July 2019. By then the process of development budget making was completed. However, it took two years to notify the sections of law in the form of procedures and processes. Manual of development project got approved and notified in the light of Act in 2021. The purpose was to facilitate all the stakeholders of the planning process in the light requirements of Public Finance Management Act 2019. The updated / revised manual of development projects is consisting of guidelines simplified to improve understanding about project life cycle.

To ensure the monitoring of the project during implementation quarter wise review meeting have been convening in the planning commission. In this regard chief of the planning commission stated "*Consistent review meeting every quarter helps to not only get informed about the status of implementation of the project but also help to identify the gaps of policy. Then by taking decisions regarding specific issues arise during the review* *meeting implementation can be smoothed. Review meetings are one of the great sources of monitoring other than physical or on-site monitoring of the project*". For physical monitoring a unit of monitoring and evaluation exists in the planning commission. Moreover, guidelines for techno-feasibility of each projects are also under consideration to ensure benchmark for future evaluation of the project.

Releasing mechanism of the project funds have been simplified in the light of Act. The policy of quarterly upfront release of funds have been opted after the implementation of the Act. Act ensures the release of funds as per financial phasing of the projects. While explaining the release mechanism rep of planning commission explained that "a demand in the light of requirement of funds from sponsoring ministries is requested before the release of funds and funds are provided upfront every quarter". The requirement of ways and means clearance from budget wing of finance Division is also abolished. The release strategies for the financial year 2020-21 to 2022-23 are made in conformity of Public Finance Management Act 2019. Moreover, powers of the Principle Accounting Officers to re-appropriate funds to fast moving projects have been enhanced as per section 11 of Act and notified in the release strategy.

To fast track Project approval system, automation of project approval process has been implemented in the form of Intelligent Project Automation System (IPAS). It is a web-based tool which automate the Public Sector Development Program formulation and implementation including process of approval of project release of funds etc. A dynamic interface of the IPAS reflects the approval information such as sector, cost approval status expenditure allocation and throw forward. "*All these features make sure financial efficiency and also minimize time lapse between decisions making to improve project implementation".* As responded by an interviewee.

4.6.1 Bottlenecks of implementation of PFM Act:

Despite of passing almost 4 financial years the Public Finance Management Act 2019 is still not fully implemented. By definition Act is law with immediate implementation once approved by the Parliament. However, status of implementation of Public Finance Management Act 2019 is still under implementation. A piece meal implementation of few of the reforms have been observed so far due to which the objective of financial discipline and implementation of fiscal policy for better macroeconomic management, could not be achieved.

Table 3: Utilization of PSDP projects pre and post PFM Act.

Categories	Number of projects	% Utilization	Pre Public Finance Management Act 2019		Post Public Finance Management Act 2019		
			2017-18	2018-19	2019-20	2020-21	2021-22
DDWP level project Cost less than 1000 million	14	Up to 50%	5	4	9	3	8
		UP to 80%	5	6	2	5	4
		Up to100% and more	4	4	3	6	2
CDWP level Projects Cost between 1000 and 7000 million	24	Up to 50%	5	6	6	1	14
		UP to 80%	7	9	6	7	3
		Up to100% and more	12	9	12	16	7
ECNEC level projects Cost more than 7000 million	22	Up to 50%	4	3	3	6	6
		UP to 80%	10	3	4	2	6
		Up to100% and more	8	16	15	14	10
Total	60						

Source: Author's Estimation.

If we have a look upon utilization of different categories of the Public Sector Development Program funded projects the situation has shown no or very little change even after implementation of Public Finance Management Act 2019. Majority of DDWP level projects with costs within Rs 1000.0 million were unable to utilize allocated funds before PFM Act. The situation is prevalent even after promulgation of law. The information above have been derived from the Public Sector Development Program funded project which were conceived before the PFM Act. So, utilization period is spread over both eras, before and after PFM. Majority of the Public Sector Development Program funded projects approved from DDWP forum are still unable to even 80% of their allocations. Despite of being upfront allocations and releases in accordance to the law projects are still facing low utilization.

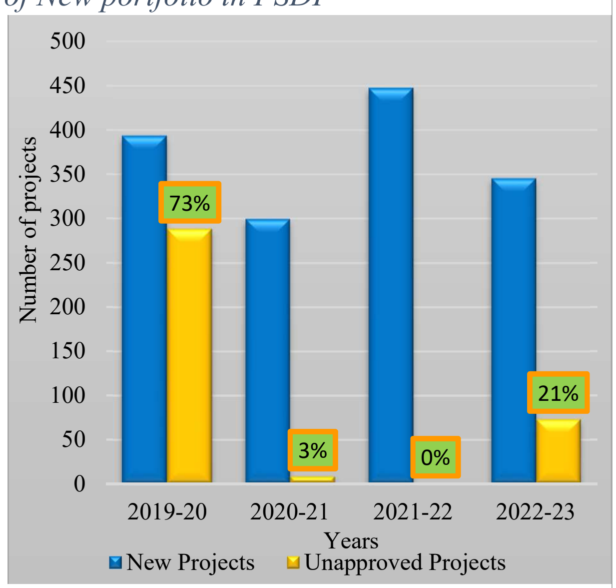
The picture of projects costing between Rs 1000.0 million to Rs 7000.0 million shows somewhat different side. These projects showed good performance even before Public Finance Management Act 2019 and also continue to utilize the funds with same pace after Public Finance Management Act 2019. Similar is the case of projects approved in ECNEC or we can say the mega projects. During the interviews with professionals it was revealed that the smaller projects went through minimum quality checks. Currently, Ministries and division have been sectioned with the powers to approved project in DDWP forum up to Rs 1 billion. However, the approval process of these projects in not in line with the reforms introduced in the law. Therefore, the projects performance is low. As a significantly big portion of Public Sector Development Program consists upon the project with cost below Rs 1.0 Billion. Therefore, overall utilization of the Public Sector Development Program remains low. Hence the fact that Public Finance Management Act 2019 has not changed the course of utilization from the earlier to PFM utilization id evident from the Table 3.

Analysis:

The reason behind is that preparation of development budget is not in line with the procedures and processes explained in the Manual of Development project. Projects are not classified into core and non-core which was the first and foremost requirement of the Public Finance Management Act 2019. The objective behind this particular section of the Act was continuation of the policy. Once a project specified as core project of any sector in the light of the policy of that sector, the allocation for that project was supposed to be prioritized. However Public Sector Development Program from FY 2019-20 to onward does not reflect any classification of the projects.

Another important reform was inclusion of the development project in to demand of the budget with condition of technical approval. However, in very next year to the approval of Public Finance Management Act 2019 73% of total new portfolio of Public Sector Development Program was unapproved. In FY 2020-21the ratio reduced to 3% and followed by 0% new unapproved portfolio in FY 2021-22. However, in

Figure 9: Un-approved Projects as Percentage of New portfolio in PSDP



Source: Public Sector Development Program

2022-23 the situation changed again and 73 new unapproved projects were proposed to be included in demand for budget.

The reason behind the inclusion of approved project was to ensure the quality of development proposal through appraisal process. Section 16 (1) and (2) makes it compulsory to follow due process as prescribed by the planning commission with a condition that forum will consider only those projects which qualify the quality assurance in accordance to subsection (2) of the section 14 i.e. compulsory cost benefit analysis. However, to get un approve project approved before approval of budget from parliament a special CDWP meeting was called to approve these half-cooked projects in hurry by violating the due process of appraisal. Eventually the projects got approved but hasty process left question mark on the quality of development proposal. More over the very purpose of the Section 14 and 15 was to ensure the quality of development project through proper appraisal was violated.

To dig out the reason behind partial compliance of Public Finance Management Act 2019 further questions were asked. The multiple reasons were quoted by the respondents. One of them is change of political priories. Initially in FY2019-20, number of unapproved projects included in Public Sector Development Program was 288. In later years a significant change can be seen when almost no un-approved development proposal was included in Public Sector Development Program (See Fig 5). However, in FY 2022-23 again more than 70 new unapproved projects became the part of PSDP. In April 2022 a change in federal Government happened when with vote of no confidence the political government of Pakistan Tehreek e insaaf was abolished and coalition government of Pakistan democratic movement took charge. The new government had to prepare and got approve the budget 2022-23 in very scant time. In order to materialize the ideas of new government into developing budget a relaxation of rule was sought to incorporated unapproved development projects in PSDP.

Another reason, as described by the respondents was slackness of the ministries and divisions to adopt reforms as proposed. In September 2019 the sanctioning powers of DDWP forum were enhanced up to Rs. 2.00 billion from Rs. 60.0 million. The DDWP forum approves project under the chairmanship of Secretary /POA of respective ministry. However, the large number of projects approved by violating procedures and processes as laid by Planning Commission in Manual of Development project. Approved projects after enhancement of limits of DDWP were not only poorly planned but also were in violation of guidelines of due diligence. Not beyond the fiscal space of respective ministry. At the time of budget formulation, a pressure had been built up to include this half cooked approved projects in the PSDP without considering the fiscal space of the government. These projects were also adding up throw forward or future liability of the Government. Later on, in August 2022 the sanctioning powers of DDWP again reduced up to Rs 1.0 billion. This shows the slackness of sponsoring ministries to follow guideline of Planning Commission in the light of Public Finance Management Act 2019.

Public Finance Management Act 2019 do not address the problem of throw forward directly (See Fig 6). Rather enhanced sanctioning powers of DDWP has increased burden on fiscal space through large number of projects approved and entering into the development budget. The problem of throw forward is unaddressed and increasing throw forward has squeezed the already scarce fiscal space for development budget.

During interviews it was also observed that there was lack of proper dissemination of information about the new Act. The manual of development projects 2021 was revised to simplify the procedures and process in accordance to the Act. However, officer responsible to prepare and implement development project seemed unaware of the most of revised procedures and processes. The government officers were aware of the fact that no project without technical approval will be added in Public Sector Development Program but beyond this they had a little knowledge about other reforms introduced in Public Finance Management Act 2019. As far as officers of the Planning Commission are concerned the level of understanding of new reforms is better. But there is ample room for improvement at sponsoring ministries and implementing units.

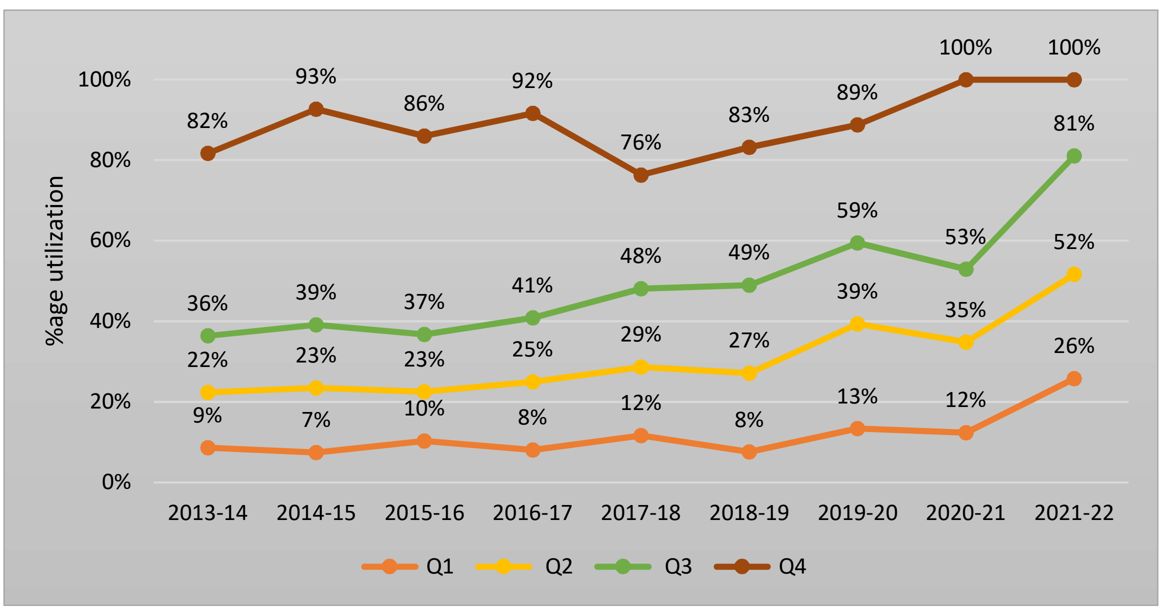
4.7 Quarter Wise Utilization Trends:

In this section the discussion about 3rd objective is carried out. During the interview's experts highlight that a unique trend of utilization has been observed when they reviewed the quarter wise details of utilization. Based on their response the multiple factors have been identified and their impact is discussed in late part of this section in detail.

On average utilization of the funds in first quarter of the financial year has been observed very low. Less than 15% of allocated funds are observed as utilization. Similarly, less than 30% utilization at the end of 2nd quarter and around 50% of allocated funds are observed as utilization till the end of 3rd quarter. A sudden surge in utilization can be seen in last quarter where utilization reach to nearly 90% of total allocated funds total.

When investigated the reasons behind this strange trend multiple reasons quoted by the respondents during the interviews. One of the reasons quoted by the respondents was delay in kick starting the new projects. The problem has been discussed in section 4.2 of this study in detailed that how unapproved projects got approved and got delayed to start due to approval procedures. Another reason indicated during the interviews was delay in fulfilling codal formalities and paper work. It takes a lot of time to get approved and issuance of admin approval of the project. Hence utilization of the funds got delayed.

Figure 10: Quarter wise Trends of Utilization of PSDP Funds



Source: Pakistan Fiscal Operations, Finance Division

One of the reasons as mentioned by the respondents was pressure to show performance which mount as end of the financial year approaches. To show the performance pace of utilization is escalated but this raise a big question mark on the quality of the work done. Sometimes progress is showed only in recurring expenditures of the project. Due to discrepancy of data and non-access to project wise detailed expenditure it was impossible to dig out this phenomenon. However, it could be a great question for the future research. All in all, slower pace of utilization during financial year until 3rd quarter could be one of the main reasons of inefficient utilization of the Public Sector Development Program funds.

Chapter 5

PROJECT IMPLEMENTATION GUIDELINES: PRE AND POST PFM ACT 2019

5.1 Introduction:

The Manual for Development Project is a document issued by the Planning Commission of Pakistan. This is a handbook for the planners of Pakistan which guides how to manage development projects fall under PSDP of Pakistan. An overview of the document will provide information regarding standard activities performed during project life cycle, from identification of a project till evaluation including approval and monitoring which is 4th objective of the study. Moreover, this handbook documents the authentic instructions for various characters involved in project lifecycle like planning experts, consultants and implementers regarding sanctioning powers of different approval forum.

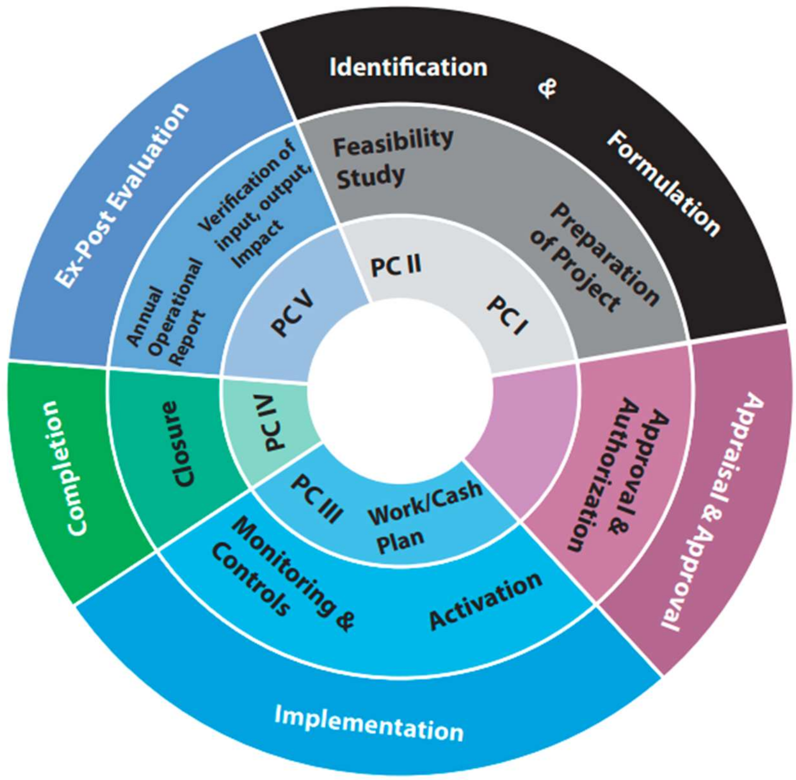
The last Manual for Development Projects was issued in year 1997 by the planning commission. After that it was time and again amended in the light of different guidelines issued by the planning commission. In the meantime, planning process in Pakistan went through different transformations such as public private partnership, result based management (RBM), impact of climate change and disaster risk management. After lapsing a considerable time of two decades and fresh planning imperatives the revision of the manual for development project was need of the hour.

The new and latest Manual for Development Project has been issued in the light of provision of Public Finance Management Act 2019. The objective of the manual is to accumulate all fresh instructions regarding project management so that a deeper understanding can be achieved regarding harvest of planned benefits and objectives and solving any problem that may arise at implementation stage. Moreover, it points towards reform process so that maximum efficiency, effectiveness and proper utilization of funds can be achieved by simplifying the processes (PC, 2021).

5.2 An Overview of Manual for Development Project 2021:

The Manual for Development Project 2021 is divided into six chapters. Each chapter provides detailed insight about each stage of project lifecycle. Details regarding rules and procedures are included in the manual from point when a project is identified till completion and evaluation. The handbook also facilitates the user by providing key notifications and rules as appendix for ready reference.

Figure 11 : Project life cycle



Source: Manual for Development Project, Planning Commission of Pakistan (2021).

5.2.1. ***Chapter 1: Public Sector Investment Planning and Programs***

This chapter provides detailed account on framework of planning approaches. Different plan period and budgetary instruments to realize those plans are elaborated in this chapter. Annual plan is formulated as per guidelines of planning commission mentioned in this manual. Similarly, formulation and approval process of public sector development program at federal level and annual development programs at provincial level has been clearly indicated in this chapter. Moreover, project life cycle and approval forums of the projects along with their sanctioning limits is also glanced.

5.2.2. <u>Chapter 2: Project Identification and Preparation:</u>

The process of project identification and stages of preparation of project are mentioned in this chapter. As financing modalities of the project are decided at this stage, a holistic check list of processes through which project is identified and approved has been included in this chapter. PC-II Performa and pre-defined essentials of feasibility study are included in simplified and understandable manner. Different modes of Public private partnership and process of implementation of PPP projects are also explained. Last but not the least this chapter provides key component of PC-1 Performa along with requirement of Planning Commission for its submission which is primary document of the project and also key step of project preparation.

5.2.3. <u>Chapter 3: Project Appraisal and Approval:</u>

After preparation of project document PC-I, the project is submitted for approval. Project appraisal by Planning Commission is pre-requisite for the approval. Project is appraised on the basis of technical feasibility commercial and economic viability environmental sustainability and risk management. Cost and benefits of the project are estimated during financial economic appraisal of the project by using best practices at international level to make informed decision making. All steps involved for the appraisal of the project are elaborated in the manual for development project. Economic model used to find out internal rate of return, cost benefit ratio, risk assessment and payback period has been included in the manual along with them thresh hold so that decision making process can be facilitated. Moreover, process and guidelines for the approval of the project is also part of chapter three of Manual for Development Project 2021.

5.2.4. <u>Chapter 4: Project Implementation</u>

The crucial stage of project cycle is project implementation, after approval of its objectives, scope and cost. Effective implementation of project, leads to actualization of benefits and achievements of predefined targets. At this stage, role of sponsoring & implementation agencies is important for hiring a suitable project director, setting up project management unit and staffing. The manual facilitates implementing agencies through defining guidelines for smooth implementation of project. Selection/appointment process, TORs and standard pay packages of project director and other staff has also been elaborated. The manual envisages that before undertaking expenditures, the PAOs is responsible for ensuring completion of all code formalities i.e. administrative approvals, extension in execution period, updating the PMES, approval of cash/work plan, etc.

5.2.5. ***Chapter 5: Project Monitoring***

Monitoring of project is an essential activity during implementation period of the project, till its completion. Regular Monitoring helps in identification of bottleneck and taking corrective measures, on timely basis. The project manual defines mechanism for monitoring, as regular internal monitoring to be done by the Project Directors/Consultants, quarterly monitoring by Sponsoring Ministry/department and third-party monitoring is to be undertaken by Projects Wing of Planning Commission. The check list for PC-III proforma has been provided to facilitate monitoring process. For assisting the line ministries /department in project's progress tracking, monitoring, timely identification of bottlenecks and corrective actions, a web based PMES has been developed. PMES serves as a data bank of the project implementation information e.g. cash or work plan, releases of funds through SAP, physical and financial progress etc.

5.2.6. ***Chapter 6: Project Completion and Evaluation***

The project is closed or completed when its predefined targets has been achieved, all the funds are utilized or abandoned for any other reason. At the completion stage, all the technical, operational, financial and administrative actions are formally closed. The reports are required to be prepared on overall performance and results achieved using the PC-IV proforma. The project closure are defined in two stages; operational closure & financial closure. The financial closure is to be achieved within six months of the operational closure. The manual elaborates procedures & responsibility of project closure, also provides check list for project closure & completion activities. The final stage of project life cycle is Evaluation of performance & results which has also been discussed in this chapter. Evaluation is an analysis of achievements of results and intended objectives in order to help measuring the net benefits and draw lessons for the future. PC-V preform is used for evaluation. The manual identifies the evaluation indicators, key questions and check list for PC-V. Feedback from the evaluation is used for operational, analytical and policy purposes.

5.3 Manual for Development Project 2021: An Appraisal

The Manual for Development Project 2021 is revised to effectively fulfill the added responsibilities delegated through Public Finance Management Act 2019. The objective is to

re-structure the business process for efficient and effective project management. A number of new initiatives have been introduced in the revised Manual for Development Project 2021. Some of the guidelines and procedures were already under implementation in the light of notifications by the Planning Commission time to time, but now become part of a manual with legal cover. The new initiatives will ensure the timely completion of the project within approved cost. The summary is given below:

Table 4 Summary of New Initiatives Included In Manual for Development Project 2021.

Sr. No.	Project cycle stage	Initiatives in Manual for Development Project	Analysis and Impact
1.	Public Sector Development Program formulation	Legal cover	Process and procedures have been updated in the light of Public Finance management Act 2019 which provides a legal cover to them. Non-compliance of these rules and procedures will be liable to audit objection.
2.		Updated sanctioning powers of different forums (DDWP, CDWP and ECNEC)	The sanctioning powers of different approving fora were enhanced by the Planning Commission vide a notification[5]. The same has been included in the Manual for Development Project. this initiative will ensure the submission of project proposal / PC-I to the relevant forum only
3.		The PSDP formulation is now regulated by Sections 13 to 20 of the Public Finance Management Act, 2019.	Public Sector Development Program is a policy document. It is manifest of government's different policies, programs, and projects in the areas of social sector, infrastructure and connectivity, economic competitiveness, and climate change etc. The very nature of the document requires effective economic planning so that development vision of the government

[5] Enhancement of Sanctioning Powers of federal project approving fora https://www.pc.gov.pk/uploads/archives/Annex_33.pdf

			can be achieved. The revised Manual for Development Project is formulated in the light of reforms of Public Finance management Act 2019.
4.		Rule & Procedures are more elaborated, different checklists have been provided.	The revised manual envisages the rules and procedures in elaborated and simplified manner. The check lists of various phases of project cycle have been provided so that planned benefits from public investment can be harvested on most systematic way. Various steps involved in formulation and approval of Public Sector Development Program at federal as well as provincial level has been indicated in the manual so that policy can be implemented in standardized manner.
5.		Schematic framework of planning approach has been included in the manual.	
6.		Steps of Public Sector Development Program formulation and approval process.	
7.		Provincial ADP process along with authorities responsible.	
8.		Process flow of development project.	
9.		Intelligent Project Automation System (IPAS)	IPAS is a web based system for automation of process of Public Sector Development Program formulation, approval of projects process of releases, and fund management. The objective to use the system is to achieve financial efficiency, automate, and digitalization of manual processes, which further will minimize information gaps between different stakeholders involved at various stages of development throughout the project life cycle.

10.		Public private partnership (PSDP +) modes and process of PPP projects types of fiscal commitment’s and guarantee involved.	Due to resource constraint in a developing country like Pakistan immense potential remain un explored. To cap this situation public private partnership mode of project financing was introduced. As per PPP act (amended) 2021 the scope has been increased to the extent of whole country. The Manual for Development Project 2021 provides the details of different modes of PPP and authorities responsible for implementation of project. The process of approval and implementation of PPP projects are elaborated in the manual for transparency and clarity.
11.	Project preparation	Checklists for Project Identification and PC-II PC-I	The revised Manual for Development Project 2021 provides clear guidelines on the basis of which project proposal is supposed to be built up. These guidelines ensure the all aspects to be covered at project preparation stage which is key to smooth implementation.it will ensure the due diligence required at project preparation stage. To ensure the standardization of project proposal checklist for PC-1 and PC-II has also been provided in the manual. The revised manual clearly defines the role of development wings of different ministries and division
12.		Project management structure	
13.		Role of development wings of different line ministries	

			and also defines the management structure of the project. The objective is to fix the responsibility of different stake holders involved at project preparation stage. This initiative is very important for the peaceful implementation of project.
14.	Appraisal and approval	Project appraisal checklist, analytical aspects of project appraisal.	Unlike the previous development manual, the revised document provides deeper understanding of various steps required for the appraisal of a project proposal / PC-1. It clearly mentions the responsibility of Planning Commission to ensure all the aspects of appraisal as mentioned in the manual. To ensure the soundness of project proposal a checklist of appraisal has been provided. A holistic appraisal of project proposal ensures technical financial social environmental and institutional viability of the project.
15.		Institutional responsibility of appraisal.	
16.		Check list for approval process requirement.	After preparation and appraisal third stage of project cycle is approval of the project by relevant forum. As per Public Finance Management Act 2019 only approved projects can be included in the Public Sector Development Program so the importance of approval process has been amplified. A project is commenced after approval from relevant forum in a systemic
17.		Guidelines for approval of PC-I	
18.		Administrative approval and account opening procedures	

			manner. For the purpose check list of requirement of approval process is included in revised Manual for Development Project. The guidelines for approval of PC-I provides the foundation to decision maker to reach at most viable decision. Approval of the PC-I follows with further codal formalities required to kick start project which have been indicated as administrative approval and account opening procedures.
19.		Guidelines for proposals seeking foreign assistance.	A separate set of guideline have been provided in the document for the project seeking foreign assistance along with a check list. This makes the process of approval of foreign funded project clear and simplified.
20.		Check list for foreign funded projects.	
21.	Implementation	Financing mechanism and fund release procedures.	The Manual for Development Project 2021 also provide financing mechanism and fund release procedure to make the whole process more transparent and quick. Finance division also issues its release strategy each year. Funds are released upfront on quarterly basis. AGPR's SAP system is updated immediately and then POA decided the release of funds for each project. Release mechanism in revised Manual for Development Project is more simplified.

22.		Guidelines for smooth implementation of project.	A clear set of guidelines have been provided in the document for seamless implementation of the project. These guidelines helps project director and sponsoring and implementation agency to avoid mistakes commonly committed and to fix the responsibility of each activity. It also fix the responsibility of POA for the ownership and maintenance of public assets developed in the result of public investment.
23.		Provisions of Public Finance Management Act 2019 for smooth implementation of projects and maintenance of public assets.	
24.	Monitoring and evaluation	Checklist for PC-III and guidelines for monitoring of project.	The project monitoring is an important step of project cycle it helps the project management team to identify the bottlenecks in the way of smooth implementation of the project. By removing theses bottlenecks implementation agency can complete project within approved scope and cost at approved schedule. Checklist of PC-III and guidelines given in the Manual for Development Project 2021 helps to define an effective mechanism of monitoring of the project which translates in to efficient and timely implementation of the project.
25.		Mechanism for the monitoring of project during implementation	
26.		Check list for project closure.	Project completion is achieved with the closure of the project both operationally and financial. At this stage

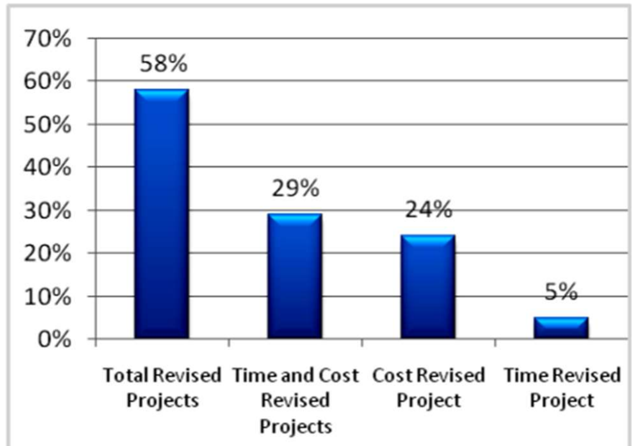
			assets developed during the course of project are handed over to the authorities concerned. A checklist to make this process smooth has been devised by the Planning Commission and included in the Manual for Development Project.
27.		Project evaluation	Evaluation is final step of project lifecycle and also the initial stage for future developmental activities. It determines relevance and impact of project activities in the light of its objective. Keeping in view the important nature of this project cycle phase a whole mechanism of evaluation has been included in Manual for Development Project 2021 which was not part of its earlier version. Types of evaluation and their indicators has been envisaged in the document and evaluation report is declared as mandatory.
28.		Types and indicators of project evaluation	
29.		Requisites and key questions of evaluation	
30.		mechanism evaluation of development projects:	

Although the Manual for Development Project 2021 is a holistic document. However there are some aspects which needs more attention.

5.3.1. Repeated revisions of projects:

The Manual for Development Project 2021 is silent regarding the projects with repeated revisions. There could be multiple reasons for the revision of the project, time over run and cost overrun are most important among them. The repeated revisions of the project are indicator of poor planning at project inception stage and depicts no deliberation of anticipated risks. A study by Mubin, Ahmad and Sial (2011) depicts that 58% of the projects are revised due to either time, cost or scope. 29% of project among them are revised due to time and cost overrun. Number of revisions can be one of the key indicators of a successful project implementation. The manual conditions the 2nd revision of the project with an inquiry report by the sponsoring agency clearly identifying the reasons of revision and inability to complete the project and require to fix the responsibility. However this development manual does not draw any line or end point to same.

Figure 12: Revisions Due to Times and Cost



Source: Pakistan Journal of Engineering and Applied Sciences.

5.3.2. Projects with token allocation / insufficient allocations:

This manual ensure that only approved projects will be the part of Public Sector Development Program. Once a project is approved it has been ensured to allocate the sufficient funds to the project as per financial phasing of the project. However even in Public Sector Development Program of current financial year 2022-23 the projects have been incorporated without proper approval. Therefore, allocation of funds for those unapproved projects is insufficient or token allocation which does not sufficient enough to pay the project staff if let the actual activities of project set aside.

Token allocations to project also become root cause thinning the spread of limited resources among other PSDP projects and hence insufficient allocation and under financing leads to time overrun. These kinds of projects become the reason of huge throw forward or future requirement of funds. This issue is not specific to unapproved projects but also approved project. There are many procurement related projects which require huge chunk of funds or funds equal to total cost due to the nature of project. But allocations of funds made in Public Sector Development Program does not fulfill the required need of funds. There should be a separate category and separate guidelines for these kinds of projects.

5.3.3. *Excluded projects:*

Many development projects included in the PSDP got excluded even before their completion. There are multiple reasons for exclusion of the project without completion including change in government and subsequently changed development priorities. As per a study by Haque, Mukhtar, Ishtiaq, & Gray (2020) from 2000-01 to 2018-19 out of total 100 projects dropped from the PSDP 43 were those which were never completed. Moreover, the total expenditure incurred on these projects were on average more than 60% of their total cost. The expenditure incurred on these projects is sunk cost which worth equal to Rs 27.00 billion. Manual for Development Project 2021 is silent regarding policy for these kinds a project. The fate of projects suddenly excluded remain unknown and hence cause a wastage of already limited resources available.

The above discussed three factors are hampering the Public Sector Development Program’s capacity to achieve its planned targets and it turn leading to wastage of public money.

Chapter 6

CONCLUSION AND POLICY RECOMMENDATIONS

5.1. Conclusion:

The foremost purpose of the research was to identify the gaps between pre-PFM Act, financial management systems and reform introduced through Act. A detailed discussion has been carried out in the study about guidelines of Planning Commission on the basis of Public Sector Development Program had been prepared before the promulgation of Act in 2019. The reforms and aim to introduced reforms have been discussed in the study in detailed. The interviews of government officers involved at various stages of project cycle were conducted in details and deeply analyzed to understand the delay in implementation of Public Finance Management Act 2019 and bottlenecks if any.

The literature review of different studies clearly established the need of a comprehensive management system under the legal binding to eradicate the miss-allocation and inefficient utilization of Public Sector Development Program fund to achieve fiscal discipline and efficient utilization of development funds. A financial management system with holistic approach was required to which address the specific weaknesses of fiscal management in Pakistan with carefully coordinated reforms. The Reforms introduced in Public Finance Management Act 2019 was discussed in detailed manner.

The second objective of the study was devised to identify the bottlenecks in implementation of Public Finance Management Act 2019. The results of the discussion clearly show the sorry affairs in the implementation of reforms. The reforms introduced are not implemented in letter and spirit. Despite of lapse of three years of promulgation of Act the very issue of Public Sector Development Program fund utilization prevails. Still unapproved projects are part of PSDP and huge throw forwards are swallowing the fiscal space for future initiatives. The pace of utilization of funds is slower than quarterly disbursement by the Planning Commission despite of upfront release of funds.

While reviewing the manual for development project 2021, which is considered as bible of development project some lacunas have been identified which needs to be addressed. To avoid the leakages in development budget there are some guidelines that need to be revised. There must be some threshold about number of times a project may be revised. There should be some guidelines regarding insufficient allocation of funds specially the projects required funds in huge chunk at once. There should be some procedure to exclude unfinished projects from Public Sector Development Program to avoid wastage of public money or sunk cost.

This study has indicated various challenges to utilization under different categories of Public Sector Development Program projects. Major challenger includes; inclusion of unapproved projects in Public Sector Development Program, lack of due diligence, inadequate financial allocations leading to huge throw forward and increasing future demands of funds, etc. majority of projects with costing less than 1 billion (DDWP level) are still showing less than 80% utilization of allocated funds. However, the project having total cost between Rs 1.0 billion to Rs7.0 billion has shown improvement in utilization pattern.

The importance of modern-day financial management of development budget is all evident from this study. The reasons of failure to implement has been clearly indicated in this study. There are some gaps identified in the implementation of reforms along with lake of cohesion within government agencies and lake of awareness at stakeholder level about reforms.

5.2. Scope for Future Research:

Future studies can be done on larger sample of data by applying specific econometric techniques e.g. regression analysis. Furthermore, evaluation study can also be undertaken after completion of mandatory time for evaluation, to assess the policy implications of the reforms undertaken through Public Finance Management Act 2019. There are other political, social, economic challenges which can be studied in future.

5.3. Policy Recommendations:

To make PFM led reforms fruitful following are some recommendations which can improve the shape of utilization of PSDP in future.

- Ensuring the implementation of Public Finance Management Act 2019 in letter and spirit through introducing a comprehensive / strict system of internal controls. Once it is decided now that no un-approved project would be part of Public Sector Development Program then it should be followed in black and white and checks and balance should be ensured if any violation is observed.
- Tightening the approval procedure of the projects. The gaps in planning and approval stages of the PSDP program/procedures must be eliminated. It can be done through implementing the aforementioned recommendation in its true spirit. This will be possible only through tightening of procedures and ensuring compliance to those. No project shall be approved which do not follow the set-out procedures as mentioned in the guidelines of Manual of Development projects (2021).
- Responsibility should be fixed by CDWP / ECNEC on the defaulters of the set procedures, rules and regulations while implementing the projects. A strict compliance of the procedures laid in manual in the light of PFM Act must be ensured by respective development forums.
- Creating awareness of Government functionaries through training and capacity building of government officers through training and workshops about the reforms. The awareness regarding procedures and processes of approval and implementation of PSDP as laid in revised manual of development project must be properly disseminate among the government officers responsible for approval and implementation of the PSDP. A regular refresher courses should be part of mandatory training programs for promotions.

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