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Development Initiatives

## Policy Brief

### Public Sector Development Program Funding Pattern and Its Consequences

Budget Study Centre

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# Policy Brief

## Public Sector Development Program Funding Pattern and Its Consequences



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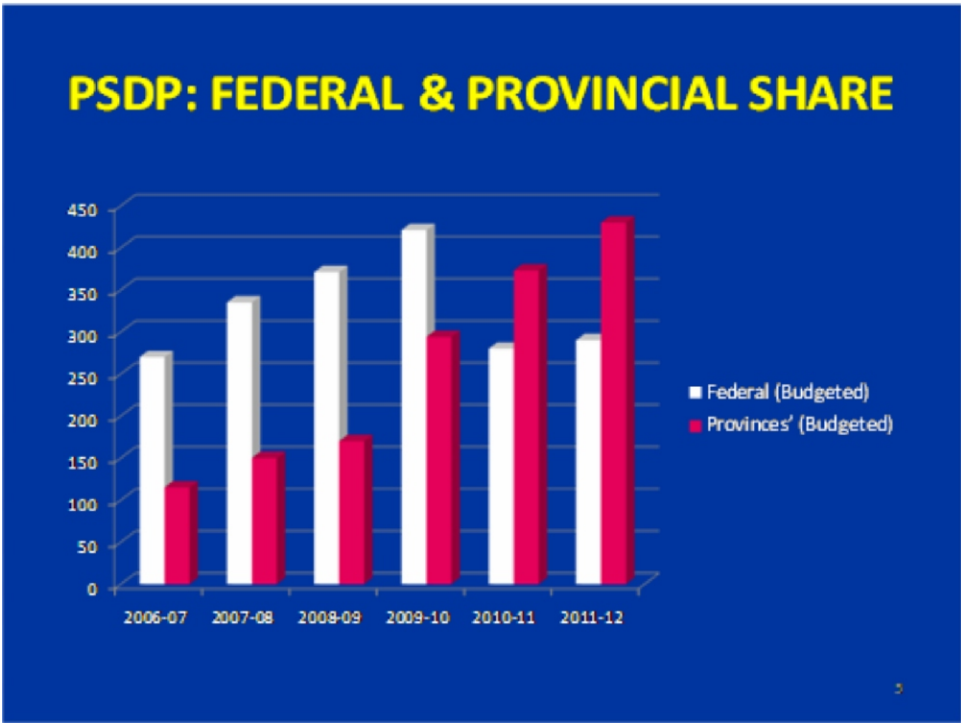
PSDP: Funding Pattern AND ITS CONSEQUENCES

Public Sector Development Programme (PSDP) is the main instrument of the Annual Plan, meant for providing budgetary resources for development projects and programmes.

This paper aims to look at the pattern of funding of PSDP during the last 5-6 years in order to try to find whether there is a relationship between the pattern and the time & cost overruns that mar a large number of Federal projects.

With the above objective PSDP allocations for six years (2005-06 to 2011-12) have been reviewed (Tables below). It is important to note that PSDP is divided into two major components; ‘Federal’ & ‘Provinces’.

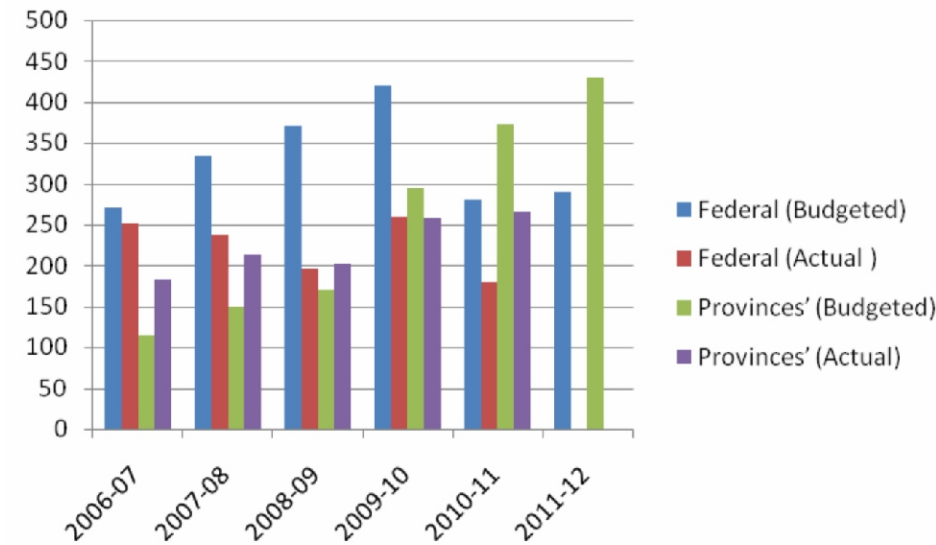
PSDP: Allocations & Expenditure



It is evident from the above data that the Federal allocation has reduced substantially in 2010-11 & 2011-12. Since there has been no corresponding decrease in the number or volume of projects being implemented at the Federal level, the lower allocations have had an adverse impact on a

very large number of Federal projects, the cumulative effect of which is the slowing down of the whole development process. An example of this was Planning Commission’s acknowledgement in March 2011, that 83 projects planned to be completed by June 2011 may not be completed on time<sup>1</sup>, due to non-release of allocated funds. Such projects continue beyond their original completion dates through revision of PC-Is.

While the Federal allocations are reducing (with the actual expenditure being even lower), the Provincial allocations have registered an average increase of over 18% during the period. The following table shows a comparison of Federal and Provincial components:



The following points need to be highlighted here:

- a) There is a continuous gap between the allocations and actual (final) expenditure in the Federal component.
- b) In the case of Provinces the actual expenditure ended up higher than the budgetary allocations upto the year 2008-09. However, for the last three years the releases to the Provinces have also been lower than their allocations.
- c) The allocations to the Provinces have continued to register an increase even during 2010-11 as well as the current year when the Federal allocations have reduced drastically.

<sup>11</sup> [http://www.pc.gov.pk/hot%20links/analytical\\_review\\_of\\_psd\\_p\\_portfolio.pdf](http://www.pc.gov.pk/hot%20links/analytical_review_of_psd_p_portfolio.pdf) page 21

The explanation for a 33% decrease in the Federal component and a 26% increase in the share of the Provinces in 2010-11, is the changed scenario since the implementation of the 7th NFC award and subsequently the devolution of subjects under the 18<sup>th</sup> constitutional amendment.

While, this should have brought a healthy change in the overall development process, the actual outcome leaves a lot to be desired. A major problem has been the provinces’ reluctance to take over the financial responsibility for the vertical programmes in Health and Population Welfare sector which have huge financial outlays. The implication is that while the financial resources have been transferred to the provinces the liability of running these programmes is still with the Federal Government, which, with a reduced resource envelope finds it difficult to meet the obligations.

This situation leads the Federal Government to release lower than budgeted amounts to various projects. These lower levels of releases compared to the projects’ cash/work plan, result in accumulation of liabilities referred to as the ‘throw forward’. In normal circumstances a project’s throw forward is the amount of funds required during the successive years until its completion. It however becomes a source of concern, if the required resources are not made available on time. The affect is delay in implementation, at times leading to cost overruns, putting further pressure on the financial resources.

PSDP cuts affect most projects in the portfolio. The cumulative throw forward therefore keeps on increasing, adding to the complexities of the development process. The following table shows the total throw forward of the PSDP at the beginning of FY 2010-11.

**PSDP Throw Forward as of 30.06.2010**  
**Rs. Billion**

| Sector         | No. of Projects | Cost  | Throw-Fwd<br>(30-6-2010) | Allocation<br>2010-11 |
|----------------|-----------------|-------|--------------------------|-----------------------|
| Infrastructure | 409             | 3,103 | 2,450                    | 135                   |
| Social Sector  | 1,227           | 850   | 581                      | 132                   |
| Others         | 186             | 154   | 121                      | 13                    |
| Total          | 1,822           | 4,107 | 3,152                    | 280                   |

As can be seen, the collective throw forward stood at Rs.3152 billion at the start of the FY-2010-11. As against this huge throw forward, the annual allocation was a mere Rs.280 billion. At this level of annual allocations there is little likelihood of successful implementation of the project portfolio.

Reduction in financial allocations during the implementation phase, not only delay their implementation they also increase, in many cases, their overall cost due to inflation. Either of the two factors would require a revision of the project and its approval by the CDWP/ECNEC. The non-completion of the project on-time also means that the expected IRR could get lowered. The prolonged implementation period also has adverse affects on the quality of the project.

The Planning Commission is alive to the issue. Some efforts have been made to address it. However, paucity of resources and constant pressure to include new projects in the portfolio has not allowed the Commission to take any tangible measures.

In a recently published review of PSDP portfolio the Planning Commission has identified the following reasons for the huge portfolio resulting in a large throw forward.<sup>2</sup>

- Approval of many provincial projects without due consideration.
- Frequent reductions in PSDPs as a result of fiscal constraints.
- Lack of proper fiscal impact assessment of projects at approval stage.
- Upward revisions of project costs due to delays caused by paucity of funds.
- Not funding infrastructure projects with Public-Private Partnership (PPP) or on Built to Operate & Transfer (BOT) or Built to Operate & Own (BOO) basis.

In 2008-09, the Commission came up with the following strategy to tackle the ever rising throw forward<sup>3</sup>:

<sup>2</sup> [http://www.pc.gov.pk/hot%20links/analytical\\_review\\_of\\_psdp\\_portfolio.pdf](http://www.pc.gov.pk/hot%20links/analytical_review_of_psdp_portfolio.pdf)

- Projects of high priority fully protected
- Projects which could be delayed for 1–2 years deferred
- (Identification of )Projects which could be dropped from the PSDP
- (Identification of) Projects which could be shifted on Public Private Partnership (PPP) mode

The strategy, however, did not see the light of the day. The outcome is summarized in the following paragraph<sup>4</sup>:

*“As a result, 140 out of 1865 projects were either deferred or transferred for consideration for PPP, which reduced the throw-forward by Rs 380B (approximately 13%). The immediate outcome of this exercise was acknowledged and appreciated but soon after the deferred projects were forced back into the PSDP and those proposed for PPP could not be fully implemented. A similar exercise was conducted during 2010-11 as directed by the National Economic Council. Over 1000 projects were classified into different categories on the basis of expenditure incurred, but the recommendations could not be enforced”.*

The reasons for the failure of the Planning Commission were as follows:

- The mechanism used during the rationalization exercise was faulty. Ministries/Divisions were asked to fill out proforma indicating projects that fell into this or that category. The reluctant responses from the Ministries, sifted through to identify a few projects to be deferred or dropped.
- The Commission was unsuccessful in communicating the gravity of the situation to all the stake holders and convincing them of the urgent need to act. The Commission could have led by example and reduced or scaled down some of the projects being implemented in the Planning Commission and P&D Division. Such an action would have conveyed a strong message to all the other ministries that the Commission was serious about the business of rationalization of the portfolio.

<sup>3</sup> [http://www.pc.gov.pk/hot%20links/analytical\\_review\\_of\\_psdp\\_portfolio.pdf](http://www.pc.gov.pk/hot%20links/analytical_review_of_psdp_portfolio.pdf)

<sup>4</sup> Ibid.

- Another reason which essentially flows from the first one is the culture where even the development projects are referred in ‘your’ and ‘mine’ terms. Individuals running various projects consider them their own fiefs and would put up resistance against any effort at rationalization.

Some new factors have come into play in the last two years, which have made the work of the Planning Commission even more difficult. The 7th NFC award has resulted in greater resource transfers to the provinces, whereas the 18<sup>th</sup> constitutional amendment has abolished the concurrent list thereby reducing Federal intervention in several areas especially the social sector. The reduced Federal allocations and increased Provincial allocations in 2010-11 pointed in the direction of greater Provincial responsibility and a reduced Federal role. However, Provinces have resisted the Federal efforts to disengage itself from the projects and programmes relevant to the devolved subjects. Many of the vertical programmes in the social sector, therefore continue to be a part of the Federal component of PSDP.

Also, the Planning Commission has been unable to stop the introduction of new projects, some times of questionable urgency, in the portfolio. The every growing size is only slowing down the process further.

### Policy Options

There are several public policy lessons in the above explained situation. The most important being that policies and strategies should be worked out very carefully and implemented vigorously. Delaying decisions making at one point leads to complications in the future, which are not easy to address.

Planning Commission should lead by example and reduce the number of its own projects first. It should then begin to properly review the portfolio of all the other ministries by sitting down with them and looking at the costs, benefits, viability and urgency of every single project. The simple criteria whereby projects with higher percentage of expenditure incurred are preferred over those with a lower percentage is not objective. What needs to be assessed is the need of the project. A sense of urgency is required to be communicated by the Planning Commission.



Budget Study Centre (BSC)

Following are the objectives of BSC  
To undertake analyses of the federal, provincial and district budgets.

To identify partners in the selected districts and provide them with budget analysis reports and guidance for working on the ground.

To engage with governments for budget reforms and increased allocation in social sector.

To impart trainings to civil society groups on Budget analysis and Advocacy

To provide technical support to other coalition/network partners.

Capacity building projects should be subjected to greater scrutiny to ensure that they actually increase the capacity of the government departments. Projects not fulfilling that criteria may be capped and phased out. In Planning & Development Division itself, a number of capacity enhancement projects are currently underway. While the Planning Commission has moved away from Vision 2030 and is now pursuing the new Framework for Economic Growth, a project relating to Vision 2030 is still included in the PSDP 2011-12. Even after the completion of World Bank funded multi-billion rupees Public Sector Capacity Building Project (PSCBP), the Finance Division is now implementing a development project titled Institutional Strengthening of Finance Division, from domestic resources. Before embarking on this new project, an assessment should have been made as to why the PSCBP project failed to sufficiently enhance the institutional strengthening of Finance Division.

While it is desirable to recommend a complete embargo on approval of new projects, it would not be practical. As an alternate, therefore, Planning Commission should try to suspend the powers of the Departmental Development Working Party(s) (DDWPs) for at least a 2 years period. CDWP should also make the approval process more stringent with the aim to approve only those projects which are extremely essential and urgent.

Federal Government may consider the alternatives for financing of vertical programmes in the social sector for which Provinces have not yet taken over the responsibility. An alternate could be adjustments between the Federal and Provincial components commensurate with the allocations for the vertical programmes.

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