

Public Disclosure Authorized

Balochistan, Pakistan

Strengthening Budget Management to Improve Education Service Delivery

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Acronyms

ADP	Annual Development Program
AEPM	Academy of Educational Planning and Management
ASER	Annual Status of Education Report
BESP	Balochistan Education Sector Plan
C&W	Communication and Works
CGA	Controller General of Accounts
CPEC	China Pakistan Economic Corridor
DDO	Drawing and Disbursement Officer
DDEO	District Development Education Office
DDWP	District Development Working Party
DEG	District Education Group
DPMS	Development Planning and Monitoring System
EMIS	Education Management Information System
GDP	Gross Domestic Product
GFMIS	Government Financial Management Information System
GoB	Government of Balochistan
HDI	Human Development Index
KP	Khyber Pakhtunkhwa
LEG	Local Education Group
M&E	Monitoring and Evaluation
MTBF	Medium-Term Budgetary Framework
NER	Net Enrollment Rate
NFC	National Finance Commission
ODI	Overseas Development Institute
P&DD	Planning and Development Department
PC	Planning Commission
PDWP	Provincial Development Working Party
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
PILDAT	Pakistan Institute of Legislative Development and Transparency
PITE	Provincial Institute for Teachers Education
PTSMC	Parent Teacher School Management Committee
PSDP	Public Sector Development Program
PSLM	Pakistan Social and Living Standards Measurement Survey
R&M	Repair and Maintenance
SED	Secondary Education Department
UNDP	United Nations Development Program
UNESCO	United Nations Educational, Scientific and Cultural Organization

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This review was conducted at the request of the Government of Balochistan (GoB) to explore the causality of the weak public financial management (PFM) in the province. Syed Waseem Kazmi (Senior Financial Management Specialist) and Abid Khan (Program Assistant) led the World Bank team. The consultants team included Mian Asif Shah (Lead Consultant), Asmatullah, Jehanzeb Pervez, Mehdi Raza, and Sana Ikram.

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Executive Summary

Balochistan is Pakistan's largest province, with 44 percent of the total landmass but only 5 percent of the country's population. Apart from the urban centers, such as Quetta and Khuzdar, the rest of the population of this province is scattered over a large swathe of arid and mountainous terrain. These peculiarities coupled with the security situation and the system and capacity constraints have mounted the challenges for the Government of Balochistan (GoB) to deliver public services to its citizens. As a result, Balochistan is the least developed province among the four federating units of Pakistan in terms of social and economic indicators. Balochistan has the highest proportion of poor and the lowest percent growth in real consumption of the bottom 40 percent.

In the local context, the China Pakistan Economic Corridor (CPEC), an initiative for regional economic integration, offers tremendous opportunities for Balochistan. The Gawadar Port, a deep-sea port situated on the Arabia Sea at Gawadar in Balochistan, features prominently in CPEC providing a link to the 'one belt, one road' initiative. For Balochistan to realize the true potential from CPEC, it needs to invest in the education sector with the intention of creating a knowledge economy by which the residents of Balochistan can not only actively participate in CPEC but also reap rewards from this immense opportunity. Responding to the challenges in the education service delivery, the Balochistan Education Sector Plan (BESP) supports actions in five areas: improving quality education, access and equity, higher education, alternate learning pathways, and governance and management. Implementing this plan requires more and better use of resources, but the pathway for this in the plan is not clear.

Summary of findings and recommendations

This review seeks to complement the BESP by evaluating the effectiveness of public financial management (PFM) practices in Balochistan. The report analyzes the last 10 years' spending pattern to assess its consistency with policy priorities. This review would aid the GoB in strengthening public expenditure management with setting forth the priority reform agenda. The assessment was conducted in coordination with the GoB and entailed the review of PFM practices, consultations with different stakeholders in the government, and development partners. The recommendations take into account the local context. In this regard, some of the reform measures that entail a paradigm change and are difficult to implement have duly been considered and interim solutions offered. The gradualist approach was adopted after gauging the appetite for reform and the resistance that may be put up by interest groups. The interim measures can also facilitate achieving the end goal by capitalizing on the interim gains and creating an environment for change. Some of the key findings of this expenditure reviews are as follows:

- **At the level of systems, government efforts have been found wanting.** The study found that existing institutional arrangements in the education sector, particularly the PFM system, needs strengthening. The gaps include a budgeting process lacking in transparency and a budget classification system that does not allow fund tracking to the service delivery unit (that is, primary school) through the Government Financial Management Information System (GFMIS). The study has exposed the failure of the current PFM system to track expenditure and has observed considerable delays in the disbursement of funds. The local/district authorities are not represented at the policy-making level and have no effective role in the planning process. This is particularly incongruous with the aims of the government as they are the ones closest to service delivery units and naturally have the best knowledge of local needs.
- **Lack of hierarchical planning process due to the absence of provincial growth strategy.** Though the GoB with support from the United Nations Development Program (UNDP) formulated a Comprehensive Development Strategy in the year 2013, the strategy has still not

been formally adopted and notified by the government. The BESP is the only sector plan available to steer public investments. However, its implementation progress is lagging because the BESP is not integrated with the development budget process.

- **The medium-term budgetary reforms have not been implemented in the province and has thus undermined the line department’s ability to link sector strategy with budget.** The sector budgets, including for the school education department, are prepared without any medium-term perspective, which is necessary for fiscal discipline and an accountable environment, thus establishing a service delivery budgetary framework (input-output-outcome).
- **The development planning process is weak, which is essentially an outcome of the residual revenues after accounting for the recurrent expenditure.** In the absence of a medium-term fiscal framework, it is not possible to define fiscal rules. The size of the development program is worked out under the budget constraint and this measure may facilitate in laying down the size of the development portfolio for a fiscal year, but in the absence of a link with the revenue mobilization targets and options, it sets no urgency for resource generation. Rather, available resources are shifted toward investments arbitrarily.
- **Schemes are selected or qualify for the Annual Development Program (ADP) without going through the appraisal process, which is done after the schemes are approved for the ADP.** Most of the new schemes within the current year ADP do not have an underlying feasibility study (PC-II) or project planning document (PC-I) at the time of approval of the ADP. It is because of this reason—the appraisal is done after selection—the estimated cost of the schemes in relation to annual allocations in the ADP are not reliable and changes significantly over time. It also leads to a delay in the start of the project as the best part of the first year of execution is consumed in preparing the project documents (PC-II and PC-I).
- **Recurrent budget estimates were found to have been determined typically on an incremental basis with no obvious link to the actual needs of the spending units.** The non-salary budgets, if appropriately designed and allocated, can make a significant contribution to improving service delivery. However, the suboptimal resource allocation and distribution have either rendered the basic infrastructure inoperative or severely affected the school environment.
- **Lack of institutional capacity for evidence-based planning and performance measurement.** The Education Management Information System (EMIS) data requires thorough cleaning and the Education Department needs to ensure its application and usage at the facility level. During the focus group discussion for the BESP, it was discovered that the budget preparation largely takes place at the directorate level relying on the EMIS data. The cluster heads found that the EMIS data did not reflect the schools’ requirements. It is critical for service delivery sectors like education to have an information management system that would cater to the information needs at every tier of governance. For that purpose, the Education Department has to set up a reliable data collection system and have online connectivity for transferring of data in real time.¹ The arrangement will enable the department to (a) develop a reporting framework with report templates—currently reporting is on ad hoc basis; and (b) linking financial data with physical information. This is critical for monitoring of development budget

¹ The governments of Punjab and Khyber Pakhtunkhwa (KP) have already established a network of monitoring agents in each district with online connectivity to transfer data into the central information system. The systems supplement the provincial EMIS (which is not online or real time) and provide decision makers with feedback critical for planning and performance measurement. The Balochistan Education Department can certainly learn and build upon the experiences of these provinces.

execution, as leakage can be identified through regular reporting of financial-physical progress reports.

- **The process of budget releases needs improvement, as in certain cases, it took even up to three months for funds to reach the District Development Officer (DDO) level.** One of the key factors is duplication of process in the GFMIS and manually as well. This leads to unnecessary delays in providing funds to the spending-level service delivery unit. To foster transparency, predictability, and timeliness of cash management, the GoB can adopt the practice of other provinces in notifying a budget release policy for both recurrent (non-salary) and development budget.² The policy will not only ensure certainty in cash flows but will also facilitate timely project completion.
- **With limited coordination between provincial and district levels in the approval of development projects, the risk of duplication is high.** Future role of districts should be clearly identified. Since the abolition of the Balochistan Local Governance Ordinance in 2001, the deconcentrated offices of the provincial line departments manage the overwhelming bulk of service delivery in the districts with only a limited role for the local government organizations. This remains the case despite the election of local councils since February 2015. Organizational review to realign or restructure the Education Department is critical to ensure that there are clear job descriptions, goal congruency, participatory planning, and an effective accountability mechanism.
- **There is no formula-based system for the transfer of funds from the provincial level to local government.** Release of funds is subject to extensive delays and there is only very limited pre-audit of expenditures after the downward transfer of funds to district councils. Planning and management capacities at the district level are very limited and the bulk of development spending takes the form of development projects funded through budgetary allocations through the members of the provincial assembly.
- **Lack of incentives has choked innovations in service delivery.** Government of Balochistan provides a meagre sum of PKR 4,500 (USD 35) per annum to each school as grant for use by the Parent Teacher School Management Committee. Performance based grants is a universally accepted mechanism for inducing innovations in the service delivery and has been adopted in other provinces. GoB needs to consider emulating grants mechanism adopted by other provincial government for improving the service delivery.

² The governments of Sindh and KP have the practice of issuing a budget release policy for the development budget at the start of each year.

1. Introduction

Improving educational access and outcomes helps reduce poverty through its links to other development challenges such as health, economic empowerment, and peace building. The role of public financial management (PFM) as a contributory factor in improving service delivery is receiving greater attention in literature. Although PFM alone does not have a direct link (Welham, Krause, Hedger 2013) to improved service delivery, robust PFM can provide an enabling environment for improving service delivery and promoting economic growth. This report acknowledges that PFM and other factors influence the quality of service delivery. It also makes a case for how in Balochistan the enhanced budget management can contribute to improving service delivery in the education sector. The resource envelope of Balochistan owing to the National Finance Commission (NFC) Award (2009) increased manifold and although the security-related expenditure and the wage bill encumbered a large share of this increase, the additional provincial share offers an opportunity to the GoB to improve its socioeconomic indicators, provided the resources are prudently managed.

It is important to note that Pakistan has a single PFM system at the federal as well as the provincial levels while main responsibility lies with the federal government. The Controller General of Accounts (CGA) is the custodian of the country information management system. The CGA transacts payments and carries out bookkeeping, on behalf of all the levels of governments through its network of offices across the whole country. Provinces are independent for planning and budgeting, execution, and accountability processes. The country PFM system has undergone various reforms since 2001 and provinces are at different stages of implementing modern tools for planning and budgeting (Medium-Term Budgetary Framework [MTBF]), internal audit, and financial reporting. Like the CGA, the Office of the Auditor General of Pakistan has the sole mandate for the audit of the all tiers of government. The audited reports are presented to the respective Public Accounts Committee of the federal and provincial governments.

In Balochistan, progress in educational access was noted, but serious challenges remain in the inclusiveness, retention, and learning outcomes. Responding to these challenges, the Balochistan Education Sector Plan (BESP) supports actions in five areas: improving quality education, access and equity, higher education, alternate learning pathways, and governance and management. Implementing this plan requires more and better use of resources, but the pathway for this in the plan is not clear. This review seeks to complement the plan by evaluating the effectiveness of public finance in education in Balochistan. It analyzes government expenditures mainly over the period FY12–FY16 to judge whether spending is consistent with policy priorities, to determine what results were achieved, and to suggest the next steps. By better understanding these issues, the government and its development partners can assess the effectiveness of budget planning and execution, and the impact on further investment. The review should help authorities to diagnose spending problems and to move toward more effective and transparent budget allocations and spending. The goal is to get a baseline understanding of key policy and management challenges and to set forth priority reform areas and an agenda for moving forward.

Balochistan is among the most challenging contexts one can imagine for improving educational outcomes. This review assumes that there was an appropriate process used in designing the BESP and that its analysis and recommendations are accepted by key stakeholders as the basis for going forward, are correctly prioritized, and are practical given the context. This review only addresses the PFM aspects implied by the program. Addressing key PFM challenges will not, by itself, improve education in Balochistan, but only as part of the wide range of actions supported by the BESP. There are also process issues that go beyond PFM that are also crucial to address, but are not covered in detail here. For example, there are a range of motivational problems affecting civil servants and teachers, and the need for seeking authorization for teamwork with highly varied functional roles and skill sets and for allowing solutions to emerge from trial and error. These issues will need to be

addressed going forward to have greater assurance of achieving the envisioned improvements in education.

A. Study Rationale

The Government of Balochistan (GoB) partnered with development partners to conduct a PFM assessment on the Public Expenditure and Financial Accountability (PEFA) Framework 2016 to reflect on the PFM practices to offer evidence and provide direction to the provincial reform efforts. The findings of the PEFA review revealed weaknesses on all seven pillars.

Table 1.1: Pillar-Level Rating

Pillars	Rating
Transfers from higher-level government	A
I. Budget Reliability	D
II. Transparency of Public Finance	D
III. Management of Asset and Liabilities	D
IV. Policy-Based Fiscal Strategy and Budgeting	D
V. Predictability and Control in Budget Execution	D
VI. Accounting and Reporting	C
VII. External Scrutiny and Audit	D

Note: Author's calculation based on aggregation of pillar-level scores in the Balochistan PEFA report.

Several factors steered the demand for this diagnostic study: (a) the lack of an impressive performance³ on PEFA ratings, and the fact that PEFA assessment offers an overall performance of the PFM systems on a high-level set of indicators and not the causality of the performance; (b) the lack of efficiency in public investments; (c) the constant increase in public investments with lack of corresponding impact on the human development indicators; and finally, (d) the GoB's resolve to improving PFM in the province. All the above manifested the need for a deeper diagnostic of the budget processes and systems.

With the government's unwavering commitment toward strengthening PFM, a sequel to the Balochistan PEFA assessment (2017) was commissioned to diagnose the bottlenecks in the budget formulation and execution and improve the budget management to provide an enabling environment for improving service delivery in the education sector. The findings will also aid in formulating an evidence-based PFM reform strategy and provide a strategy for the Education Department to improve budget management.

B. Study Methodology

Appreciating the complexity of PFM in Pakistan and by extension in Balochistan, its presentation for this report has been simplified by categorizing the subcomponents of the investment planning, budget formulation, and budget execution:

(a) Investment planning

- Policy and strategy preparation, which is the starting point
- Project preparation and prioritization

³ The upgraded PEFA Framework (PEFA 2016) with additional dimensions and stricter criteria has also affected the results.

- Project appraisal

(b) The budget formulation includes

- Budgeting framework, which forms the core, explaining the systems available for public sector budgeting; and
- Legislative scrutiny.

(c) The budget execution process for this report begins after the legislature enacts the budget and includes

- Cash releases defined in terms of authorization or budget release orders;
- Procurement and contract management; and
- Payment.

This report in its theoretical precepts relies on the principles of sound budgeting and financial management enunciated in PFM literature and good practice approaches; however, the dictums are adapted given the scope of functional assignments in the provincial government context. It outlines elements for analysis of budget management creating a link between the theoretical precepts and the assessment application model.

The link between the principles of sound budgeting and the assessment application is established by drawing up the key parameters relevant to the public expenditure systems and processes, which are categorized functionally among central departments (Finance and Planning and Development) and line departments (Education). The report identifies the gaps and strengths in public expenditure management in the province on the following key parameters:

- (a) **Policy formulation** - Does it properly steer public investments?
- (b) **Planning and budgeting** - Is it policy based, methodical, and forward looking?
- (c) **Resource availability and predictability** - Is it sufficient and timely?
- (d) **Operational framework** - Is it facilitative or adversarial?
- (e) **Management decision support system** - How informed is the decision making?

The approach adopted for the report was to map out the investment planning and budget formulation and execution processes that aided in identifying the budget processes, the key work products, and the institutional links among different entities. The process mapping was conducted with a detailed review of the relevant instruments and interviews with stakeholders. District visits (other than Quetta) could not be conducted due to restricted movement allowed in the province at the time of the fieldwork. Alternatively, information was gathered from the central offices of the relevant departments.

Development budget datasets provided the overall (provincial) budgetary data and segregated data of the focal sectors. Then schemes were identified to explore allocative efficiency. For selected schemes, the data collected comprised details on scheme cost, approval, source of financing, cumulative release and utilization, year of completion, and patterns of yearly releases. For the procurement section, the report covers analysis of procurements from the development budget. The

report includes a review and mapping of the processes and is based on a mix of open-ended and structured interviews, field visits, and analysis of financial data.

The key information sources used for this report were the Annual Development Programs (ADPs), budget call circulars, project progress reports, sample project proposals, budget documents, and civil accounts. The budget datasets were analyzed to assess the allocative efficiency such as the funds distribution trend and the shifts between ongoing and new schemes (project), project execution in relation to completion rates, and efficiency or otherwise in the screening mechanism. The budget execution process was analyzed from the perspective of the cash releases after budget approval, procurement, and payment process. The findings were used to formulate recommendations that would lead to strengthening budget formulation and execution to provide an enabling environment for improved service delivery.

The report does not reflect on the quality of the feasibility reports (PC-I) and the costing of the project. Important to consider, it is one dimension that needs to be explored separately given the opinions made on the quality of feasibility studies and the project cost estimates. Also, a combination of factors contributes toward expenditure inefficiencies, which may not be viewed in terms of budget misspending that also contribute to poor infrastructure and service delivery. Although both quality of feasibility reporting and project costing are highly significant, the two factors are not addressed because they are beyond the scope of this report. Similarly, procurement is a vital element affecting the budget execution and, given an independent framework available for review of procurement practices, a separate assessment would be more beneficial to have a holistic review of the procurement practices.

Political economy issues, particularly corruption, hidden incentives, and the aspects of civil services recruitment and pay, have a high degree of influence on the performance of the PFM systems. This report, acknowledging its overarching influence, does not explicitly explore the political economy aspects, being a matter of wider debate given its multiple dimensions. It would be beneficial to conduct a separate assessment to reflect on the political economy perspective. The GoB is formulating the PFM reforms strategy, and this study would offer evidence on the strengths and weaknesses in budget management to the reform strategy. Finally, a formal capacity assessment is not part of this report; however, capacity constraints have been referenced in the causality analysis based on the feedback from interviews with the government officials and staff.

C. Report Structure

This report is divided into **five sections**. Following the introduction, Section II covers the provincial context with a snapshot of challenges and opportunities in Balochistan. Section III provides the trend analysis and fiscal performance for overall resource availability in Balochistan, complemented with a trend analysis for the education sector. Section IV explores the causes of the gaps in the upstream functions (budget formulation) and downstream functions (budget execution). Section V offers recommendations in the local context and for bridging the gaps.

2. Balochistan at a Glance - Opportunities and Challenges

A. Socio Economic Overview

Pakistan's real gross domestic product (GDP) growth has improved from an estimated 3.6 percent in FY13 to 4.3 percent in FY15, and an expected 4.5 percent in FY16. Growth in FY16 is driven mainly by large-scale manufacturing and services growth, with a slowdown in the agricultural sector. Taking advantage of high remittances and low oil prices, the recent growth uptick has been less than that in the rest of South Asia because of challenges such as unreliable electric supply, limited fiscal space, trade protectionism and weak facilitation, and exports concentrated in slowing markets. However, fiscal consolidation is promising, with a reduction of the fiscal deficit from 8.5 percent of GDP in FY12 to 5.4 percent of GDP in FY15, helped both by keeping recurrent spending in check, and strong tax revenue performance.

In the case of Balochistan, its average real GDP growth rate was 3.9 percent for the decade ending in FY12, lagging behind an average of 4.7 percent for Khyber Pakhtunkhwa (KP) and Sindh, and 5.1 percent for Punjab. For FY15, growth in gross provincial value added at constant prices was 1.4 percent, lagging Sindh (3.2 percent), Punjab (4.3 percent), and KP (7.0 percent). Contributing 4.3 percent⁴ to overall GDP, Balochistan's GDP at constant factor cost for FY14–15 was only US\$4.5 billion. Balochistan's GDP primarily depends upon mines and minerals, transit facilities, and agriculture. Historically Balochistan's economy was more dependent upon agriculture; however, the share of this sector has gradually declined due to prolonged drought and inadequate public investment for development of water reservoirs.

Balochistan is a curious case of abundant opportunities, but plentiful challenges. 'As a frontier province it borders two countries', providing a corridor for trade with the Central Asian Republics and occupies 'two thirds of the national coastline' (World Bank 2008), in theory positives from the international trade perspective. The province has considerable resources, including 50 metallic and nonmetallic materials of which 41 are mined, the world's eighth largest herd of cattle and third largest herd of goats, two-thirds of the national coastline, and borders with Iran and Afghanistan, making it a potential trade corridor. Yet its contribution to the national economy is only 4.3 percent of the GDP. Deep-rooted tribal complexities, poor infrastructure, natural catastrophes (prolonged drought followed by flash floods), and civil conflict all work to keep living standards low, with low participation in education, and declining incomes from 2004–10.

Balochistan is on the cross roads of development and prosperity, an opening presented in the form of the China Pakistan Economic Corridor (CPEC). However, the province can only benefit if the government can revitalize the drivers of growth that fundamentally can be achieved with the provision of education including vocational education to offer skilled labor force, improvement of health facilities, and investing in the ancillary infrastructure. Balochistan is blessed with natural resources but bridging the missing elements are the means to utilizing the resources to its potential, which can be realized if the GoB can align its public finances to infrastructure development and improving service delivery.

Balochistan is the least-developed province among the four federated units of Pakistan in terms of social and economic indicators. Around 56 percent of Balochistan's population falls in the category of multidimensionally poor. 'With an estimated Human Development Index (HDI) value of 0.391, the level of human development in Balochistan is low. Among the three components of HDI including education, health, and income, the income index for Balochistan had declined from 0.409 in 2010 as

⁴ Social Policy and Development Centre Annual Review 2012–13 "The State of Social Development in Rural Pakistan."

compared to 0.487 in 2004 (UNDP 2013). Performance on social indicators is also behind that of other provinces.

Table 2.1: A Glimpse of the Context with Selected Indicators

Province	Population density per sq. km	Literacy rate % (10 years and above)	Primary Gross Enrolment Rate (Classes 1-5)	% of out of School Children	Birth occurred in a health facility	Infant mortality
Balochistan	29	41	73	66	35	49
Khyber Pakhtunkhwa	352	53	92	34	62	63
Punjab	513	62	98	47	69	81
Sindh	331	55	79	51	72	81

Source: *Pakistan Demographic and Health Survey 2017-18 (NIPS)*, *Social Indicators of Pakistan 2016 (PBS)*, *25 Million broken promises - Crisis of Pakistan Out of school children 2014 (Alif Ailaan)*, *Pakistan social and living standards measurement 2014-15*.

Balochistan has the highest proportion of poor (57 percent in 2013, compared with national average of 30 percent) and the lowest percent growth in real consumption of the bottom 40 percent (2.5 percent, compared with national average of 6.5 percent).⁵

B. Education Sector - Context and Performance

The challenges in Balochistan including the low population density, security situation and the resultant expenditure priorities and limited role of the private sector in education provision offers a compelling evidence that the traditional methods would not yield the required results. Although, in Balochistan, owing to the availability of greater fiscal resources, there has been some progress in educational access, but serious challenges remain in inclusiveness, retention, and learning outcomes. The progress in educational access is evidenced in the net enrollment rate (NER), which increased by 6 percentage points between FY01—FY11. This was mainly due to an increase in boys' enrollment, while girls' enrollment fell by 2 percentage points in the same period. In the subsequent period, FY11—FY15, the NER for primary age was unchanged, and for middle and secondary schools, increased by one percentage point each. By comparison, the NER for Pakistan as a whole increased over the same period by 1, 2, and 4 percentage points, respectively.

Table 2.2: Net Enrolment Rates (2014–15) (percentage)

Category	Balochistan			Punjab			KP			Sindh		
	M	F	Total	M	F	Total	M	F	Total	M	F	Total
Primary (ages 6–10)	67	42	56	73	67	70	78	62	71	67	54	61
Middle (ages 11–13)	34	13	25	39	38	38	48	31	41	37	30	34
Secondary Matric (ages 14–15)	19	9	15	29	29	29	34	18	27	29	20	25

⁵ Poverty headcount based on FY14 poverty line (poverty, earlier years back casted). (World Bank 2016, 56).

Source: PSLM.

Note: M = Male; F = Female.

The quality of education is of serious concern from the learning environment, retention in school, and school completion to student learning outcomes. A comparison of enrollments in primary and secondary grade indicates that only 16 out of every 100 children enrolled in primary grades make it to grade 10. Student learning outcomes are also very low; the Annual Status of Education Report (ASER) 2012 reports only 34 percent of children in Class 5 could solve Grade 3 level arithmetic problems and 36 percent of Grade 5 children could read an Urdu story of Grade 3 level in rural Balochistan. The year 2014 saw deterioration in this performance, with only 33 percent of Grade 5 children able to read a story.

Pakistan Education Statistics report⁶ (2014–15) documents 1.85 million out-of-school children in Balochistan, higher in percentage terms than any province in Pakistan. The high dropout rate, focused on the lower primary level, contributes to the low NER. School participation rates vary across the province, by districts, rural-urban, and gender. Gender disparities are widespread; the overall adult literacy rate is 41 percent and only 19 percent for females. In 2015, there were only four literate women for every 10 literate men (World Bank 2016, 29). The indicators for female enrollment are exceptionally poor, especially at the rural level; girls' primary net enrollment numbers in districts Dera Bugti, Barkhan, Musa Khel, and Loralai are in single digits. Overall, the NER for girls (ages 6–10) is 40 percent and drops to 33 percent in rural Balochistan, compared to the NER of 63 percent, for boys (rural). The NER for girls (ages 11–13) in the rural areas drops to an abysmally low 7 percent, at the middle school level, indicating very low retention rates; in comparison, boys' NER at the middle school level in the rural areas is 30 percent.⁷

Access to schooling is a serious challenge in this vast and sparsely populated province. Out of the roughly 22,000 settlements in the province, 40 percent do not have access to a school.⁸ Where schools are present, they are in poor physical condition—approximately 7 percent⁹ of schools lack a building and are functioning in temporary shelters or without shelter; the buildings of existing schools also suffer from severe neglect and disrepair. Only 26 percent of Balochistan schools are equipped with basic facilities compared to 93 percent in Punjab, 44 percent in KP, and 23 percent in Sindh (World Bank 2016, 29). Schools lack teaching and learning materials and teachers are poorly equipped to support learning outcomes. Various estimates done by the Education Department indicate that over 1 million children remain out of school in Balochistan.¹⁰ Fiscal difficulties further compound service delivery challenges requiring support from local stakeholders for implementation and technical support, as well as fiscal support from development partners.

Article 25 A of the Constitution of the Islamic Republic of Pakistan stipulates free and compulsory education for the ages between 5 and 16 – that implies a 100 percent NER. From the PFM perspective, the policy makers and implementers would have to consider the resources required to comply with the constitutional obligation. The GoB with a 56 percent (primary), 26 percent (middle), and 15 percent (secondary) NER spends a considerable amount of resources, while the private sector has carried out the same function with more economy and efficiency. This may be a consideration for the GoB to enter into public-private partnership and focus on improving its regulatory role to infuse the third E (Effectiveness) to achieve value for money.

⁶ Pakistan Education Statistics are compiled by the Academy of Educational Planning and Management (AEPM), Ministry of Federal Education and Professional Training, Government of Pakistan.

⁷ PSLM 2010/11.

⁸ BEP 2013–2017.

⁹ Pakistan Education Statistics 2010–2011, National Education Management Information System.

¹⁰ BEP, 2013–2017.

Table 2.3: Annual Per Student Expenditure

Year	Primary	Middle	Secondary (Matric)
2010–11	6,429	34,097	84,569

Source: United Nations Educational, Scientific and Cultural Organization (UNESCO) Report (2011).

Note: The above expenditure data does not include textbook costs.

The multiyear, costed BESP signifies the Government of Balochistan’s commitment to improving education in the province. The formulation of the BESP (Government of Balochistan, 2013) preceded extensive consultations with a wide range of stakeholders including international development partners and was endorsed by the provincial cabinet of ministers with patronage of the provincial Education Minister.

It supports actions in five areas: improving quality education (curriculum, textbooks, teacher training and professional development, improved school facilities, better assessment of learning outcomes); access and equity (improve utilization, re-entry of out of school children, reduce bottlenecks in poor areas, and barriers to girls education); higher education (transition to four-year undergraduate programs, faculty development, improved career guidance for graduates); alternate learning pathways (policy framework, institutional arrangements, awareness raising, and improved learning materials); and governance and management (enhanced political support, improved efficiency, data systems and use, monitoring and evaluation [M&E], and community involvement). Implementing this plan requires more and better use of resources, but the pathway for this in the plan is not clear.

Administrative structure

Public education in the province is managed mainly by the Secondary Education Department (SED), which covers the primary and secondary school sectors. There are a number of other authorities that support the SED in the management of teachers, data collection, teacher training, curriculum development, textbooks, literacy, and private and religious schools. Other bodies include the Department of Higher Education, the Department of Social Welfare, and the Balochistan Technical Education and Vocational Training Authority.

The SED has set up a local education group (LEG) and district education groups (DEGs) for providing oversight and support to educational reforms. The Provincial Institute for Teachers Education (PITE) provides capacity building and teacher training. Community members are organized as Parent Teacher School Management Committees (PTSMCs), with responsibilities to coordinate land, building construction, teacher recruitment, and monitoring of school performance.

3. PFM in Balochistan - A Glance at the Bigger Picture to Appreciate the Sectoral Context

A. PFM Practices in Balochistan - Context and Gaps

Given the difficult context of Balochistan, it is remarkable that the provincial government has improved PFM performance in areas like international standard budget classification, timely approval of the budget by the legislature, Treasury Single Account consolidation and reporting by the Central Bank, daily deposits of collected revenue, monthly reporting of revenue and spending, transparent procurement practices, good segregation of duties, and restricted access to records with changes recorded in an audit trail. However, improvements are needed in other aspects of budget reliability, the management of assets and liabilities, policy-based fiscal strategy and budgeting, predictability and control in budget execution, accounting and reporting, and external scrutiny and audit. PFM requires continuous attention owing to various factors—the changes in the standards and processes, staff turnover creating capacity gaps, and altering government priorities.

The budget is expected to be a tool for controlling public expenditure and ensuring fiscal discipline across the government. However, Balochistan's budget document, as approved by the legislature, has three serious deficiencies causing it to lose its significance as a control tool. First, public investments in the development budget are not costed, nor is any check applied at the commitment stage. Second, the budget authorizes expenditures that cannot be financed according to its own estimates of revenue. Third, the practice of informal budgetary cuts applied through a complicated mechanism of budget releases is not good practice.

Poor practices of expenditure and revenue reconciliation are major weaknesses that lead to significant risks of misappropriation and irregularities. The cash payments are often paid into the government consolidated funds, without any prenumbered receipt that can be tracked in the treasury offices and revenue collecting agencies. Thus, controls of completeness of revenue are very weak in the absence of reconciliation processes, coupled with nonexistent internal and external audit of revenue receipts.

The assets and liabilities record, though required is neither reported nor recorded. The GoB is unaware of its liabilities, debt stock, stock of arrears, and financial and nonfinancial assets and their performance. The mechanism of M&E capital expenditure is very weak with no consolidated report available.

Strategic allocation of resources requires planning and executing the budget in line with government priorities aimed at achieving policy objectives. At the time of the assessment, the GoB had one sectoral policy prepared for the education sector, but it is not reflected in the approved budget. Incremental budgeting is the only basis of budget preparation. Fiscal policy, strategy, and medium-term perspective are completely missing in the financial planning process.

From frontline service delivery unit perspective, it cannot be predicted when and how much resources will be available to the service delivery units. The element of performance evaluation of service delivery is noted to be absent in Performance Indicator 8 of the PEFA assessment.

B. Balochistan - Overall Resource Envelope and Fiscal Performance

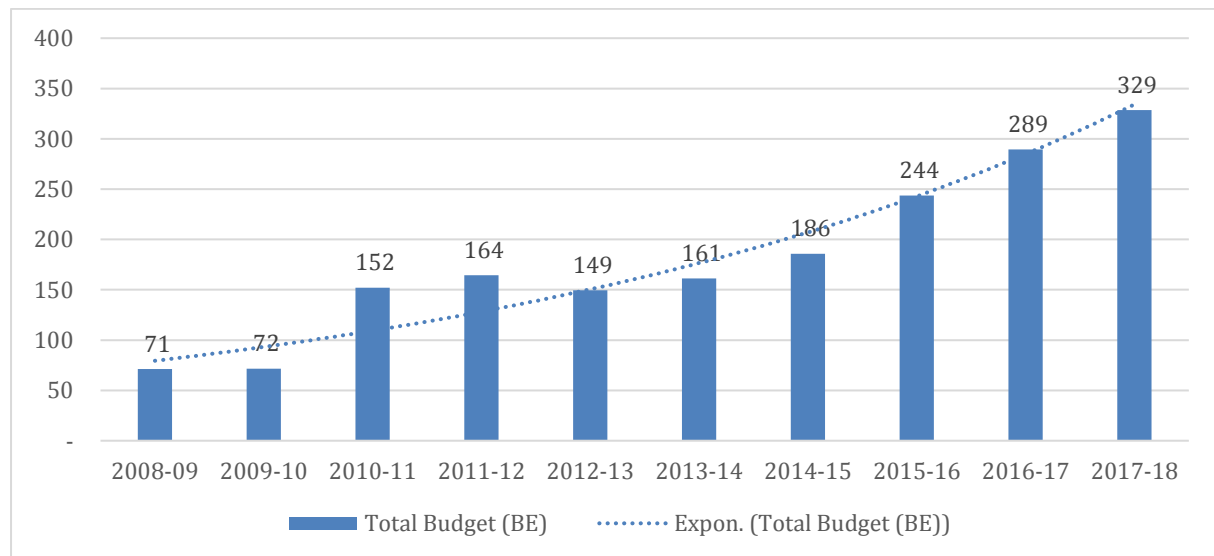
Balochistan, as a federating unit of Pakistan, has its fiscal transfers governed by the Constitutional stipulations and the fiscal arrangements determined by the NFC¹¹—a constitutional body established

¹¹ Article 160 of the Constitution of the Islamic Republic of Pakistan stipulate the NFC with the objective to recommend to the President of Pakistan the distribution mechanism of the net proceeds of the taxes between the federation and the provinces, the grants in aid to the provincial governments, the exercise of the borrowing powers conferred by the Constitution, and any other finance-related matter referred to the Commission by the President.

to decide on the vertical and horizontal revenue-sharing mechanism. The NFC Award (2009) was an important step forward to bring in a paradigm change in the fiscal sharing arrangements. The provincial share in the divisible pool taxes increased from 47 percent (before NFC Award 2009) to 57.5 percent from FY11–12 onward.

The resource envelope of Balochistan was further substantiated with the adoption of the Rights of Balochistan package (2009)¹² comprising constitutional, political, and budgetary measures intended to reduce conflict and improve trust between the province and the Central Government. The implementation of the NFC Award (2009) commenced in the budget year 2010–11, and that is when Balochistan witnessed an increase of 120 percent in federal transfers, substantially augmenting its resource envelope and increased the availability of finances from PKR 71 billion to PKR 289 billion in 2016–17 and pitched at PKR 329 billion in the current budget.

Figure 3.1: Balochistan - 10 Years' Resource Trend (PKR, billions)

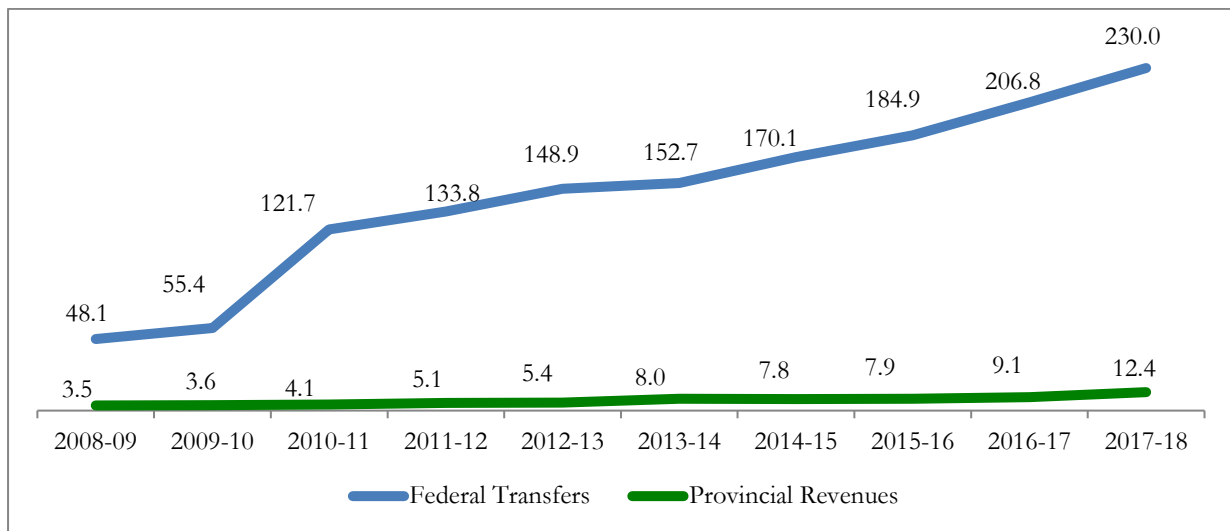


Source: Annual Budget Statements, GoB.

Over the past 10 years, Figure 3.2 shows the heavy reliance of Balochistan on the Central Government for its fiscal needs. The federal transfers have ranged from 93 percent to 97 percent of the total receipts under the NFC Award, and this share further increases if the capital receipts and the foreign-funded projects are accounted for.

¹² Aghaaz-e-Huqooq-e-Balochistan Package (Rights of Balochistan package) is a set of proposals endorsed by the Parliament that among others commits additional fiscal resources for the province of Balochistan. For details, see PILDAT 2009.

Figure 3.2: Balochistan - Share of Federal Transfers and Provincial Revenues (PKR, billions)

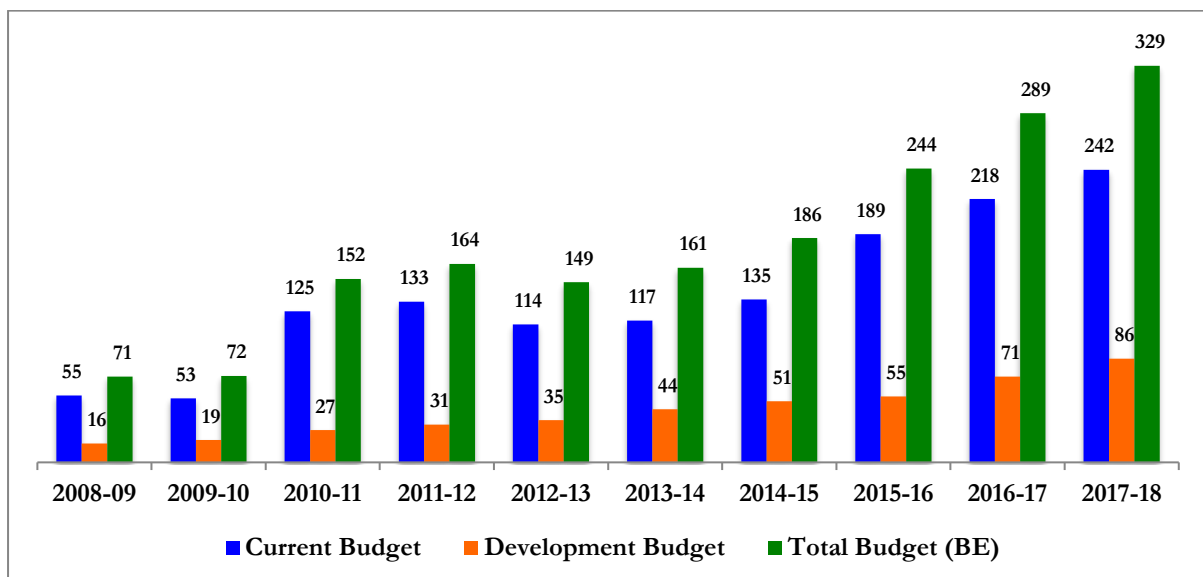


Source: Balochistan Budget Books.

The massive increase in the resource availability is still short of the finances required to meet the development deficit in Balochistan. The resources could be further substantiated if Balochistan could improve its own source revenue collection performance. Over the past 10 years, Balochistan's own revenue where the province has complete autonomy has shown a less than satisfactory performance and an erratic trend.

Figure 3.3 shows that in the past 10 years, the budget allocation ratio between the current and development budget on average stood at 76:24. The current budget witnessed an increase of 136 percent after the NFC Award (2009) that could largely be attributed to the transfer of human resource owing to the devolution of the services that entailed absorption of the staff, and the resultant wage bill as well as the hike in public sector salaries.

Figure 3.3: Budget Composition (PKR, billions)

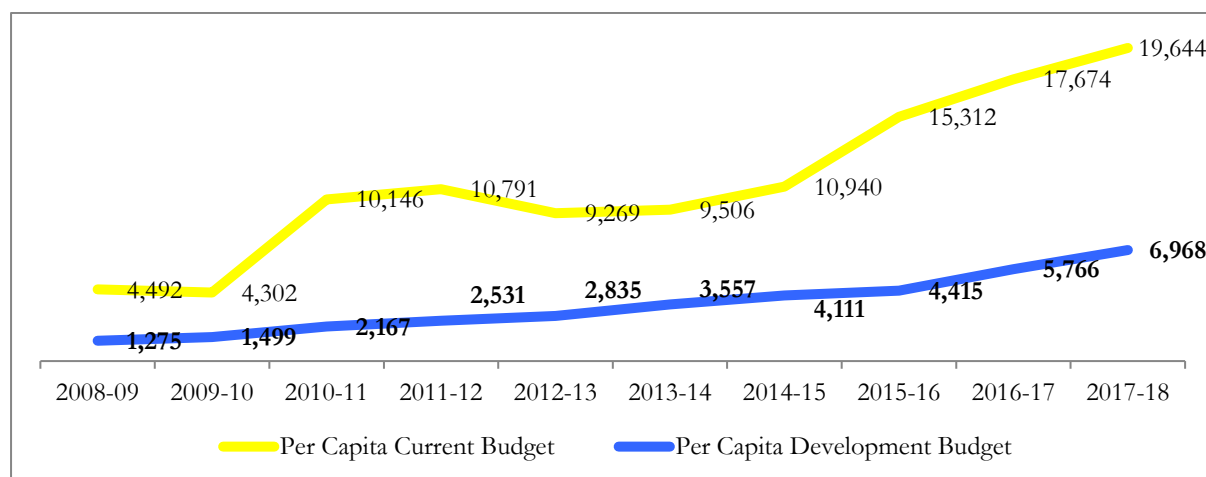


Source: Annual Budget Statements, Government of Balochistan.

Note: Budget data includes foreign portfolio assistance and capital receipts. 2017-18 data is budget estimates.

The GoB allocates substantial per capita resources. The variation in the per capita allocations steeped in 2010–11 and has almost doubled in 2017–18. In nominal terms, the gap between the current budget and the development budget has widened. The additional resource availability and myriad development needs manifest prudent expenditure management to ensure the completed developmental claims are aptly prioritized and addressed.

Figure 3.4: Per Capita Budget Allocations (PKR)



Source: Annual Budget Statements, GoB.

Table 3.1 provides an interesting insight into the budget allocation perspective. Balochistan’s per capita budget is the highest among the provinces, and the current budget allocation is quite instructive. Balochistan allocates more than double the Punjab allocations and is 1.6 and 1.5 times more than that of KP and Sindh. Although the province being sparsely populated owing to wide geographic spread creates additional challenges for Balochistan, the comparator provides food for thought for the policy makers to reflect on the budget allocations. The per capita increase in development budget is flat while the per capita current budget allocation rises steeply on a year-on-year basis. This is due to the annual increase in salaries, which the provincial government is compelled to announce each year, given the cost push inflation. This leaves very little budgetary resources for the development portfolio in relation to provincial growth rate.

Owing to the high current budget allocations, the last four years average (2013–17) reveals that the GoB allocates the lowest to development budget averaged at 24 percent, while Punjab allocates 37 percent of its resources to the development budget, KP 34 percent, and Sindh 31 percent. Rationalizing current budget allocation will allow increased share for the development activities.

Table 3.1: Interprovincial per Capita Budget Allocations Comparator (PKR)

Province	2015–16	2016–17	2017–18
Balochistan			
Current Budget	15,367.64	17,737.64	19,714.80
Development Budget	4,431.38	5,787.15	6,992.76
Total Budget	19,799.02	23,524.80	26,707.56
Punjab			
Current Budget	6,845.55	7,726.79	9,280.35
Development Budget	3,636.36	5,000.00	5,772.73
Total Budget	10,481.91	12,726.79	15,053.08

Province	2015–16	2016–17	2017–18
KP			
Current Budget	9,209.97	11,101.67	12,721.31
Development Budget	4,429.48	5,642.49	6,819.67
Total Budget	13,639.44	16,744.16	19,540.98
Sindh			
Current Budget	10,508.16	11,957.41	13,913.86
Development Budget	4,147.91	5,552.99	7,183.05
Total Budget	14,656.08	17,510.40	21,096.91

Source: Annual Budget Statements of the respective provincial governments.

C. Education Sector Financing

Salaries consume the largest share of the recurrent budget, leaving scant resources for operations, and what is available for operations has inherent spending rigidities. This issue will become more chronic with the Teachers' Promotion Policy of the GoB that allows for promotion to the next grade after one year of service. The GoB needs to conduct a scenario analysis to project its wage bill and liabilities over the medium to long term to come up with strategies for revenue mobilization and alternate sources to meet its expenditures.

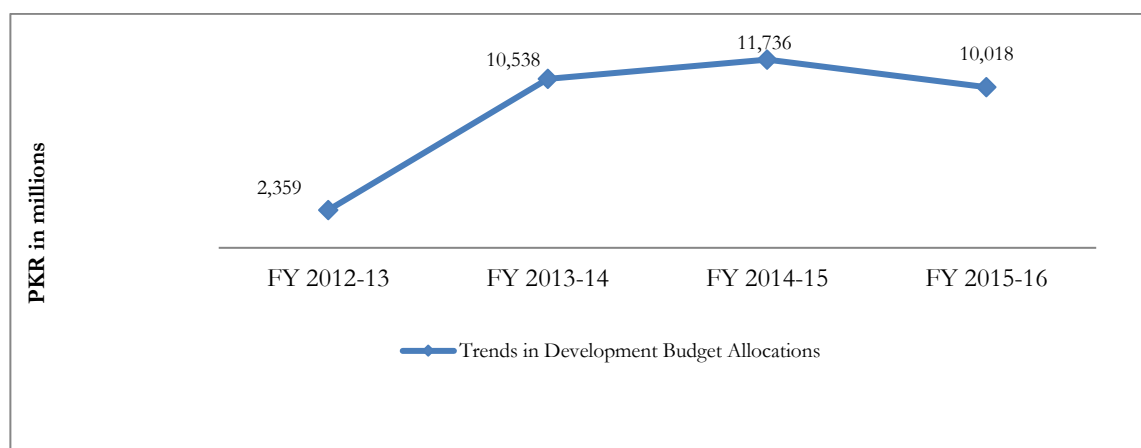
Expenditure autonomy and community participation at the facility level is essential and contributes to improvements in service delivery. Sufficient provisions of grants and other operational budgets and spending autonomy promote innovation in service delivery. However, in Balochistan, the allocation trend and procedural rigidities have led to inadequate, non-salary budget allocations.

Due to greater fiscal transfers, the public expenditure on education increased both in nominal and real terms, particularly after the NFC Award. The SED has been allocated the highest share in the provincial budget. Recurrent budget remained the dominant component. Both the recurrent and development budgets grew at a good rate, but the development budget's average annual growth was approximately three times that of the recurrent budget.

i. Development budget and spending

The surge in the education sector development budget is unprecedented, rising from PKR 0.841 billion in 2004–05 to PKR 10 billion in 2015–16. Schemes identification, preparation, and approval are generally sought after the budget proposals are enacted which significantly undermines the credibility of the development budget. Development budget lapses stood at 8 percent (PKR 191 million), 30 percent (PKR 3.17 billion), and 27 percent (PKR 3.21 billion) for FY12–13, FY13–14, and FY14–15, respectively. Significant development budget lapse is forecasted yet another year in a row in that the Planning and Development Department (P&DD) has not approved approximately 26 percent of the School Education Department programs amounting to PKR 1.53 billion due to non-submission of PC-I.

Figure 3.5: Development Budget Allocations for Education (PKR, millions)



Source: Financial Accounting & Budgeting System (FABS) Reports.

It is pertinent to have a holistic view of the public sector portfolio. The development budget implies capital budget; however, over time a variety of schemes/projects have been included in the development budget that now also comprises projects related to repairs of buildings and provision of machinery and supplies. The analysis of the provincial investment portfolio also reveals that it comprises schemes not directly contributing toward infrastructure development for service delivery and with little bearing on the service delivery. Table 3.2 shows that owing to lack of a release policy, the development budget portfolio results in this spread of resources to accommodate projects. Therefore, even if the GoB achieves a high budget execution rate, it does not infer effective budget utilization.

Table 3.2: Sample of Schemes Considered to Improve Service Delivery (PKR, millions)

PSDP No.	Project/Scheme Title	Cost	Cumulative Expenditure June 2016	Balance	Budget Allocated in 2016–17
Z2015.0502	Construction of Lockers Room, Changing Room at Quetta Golf Club	10	—	10	2
Z2015.0778	Construction of Cafeteria with Allied Facilities (Approved)	110	—	110	5
Z2013.0014	Construction of 4 Parking Plazas in Quetta City	1,044	151	893	2
Z2013.0035	Construction of Parking Complex for Civil Secretariat Under Master Plan	626	560	66	2
Z2013.0016	Construction of 20 Flats and 40 Single Room/Bachelor Apartments for Officers at Inscorb Road Quetta	296	144	152	2
Z2013.0034	Balochistan House Karachi.	62	20	42	2
Z2013.0036	Construction of New Block for Civil Secretariat Under Master Plan	587	535	52	2
Z2013.0143	Construction of Lodges at Quetta for the Members of Provincial Assembly	768	190	578	20

PSDP No.	Project/Scheme Title	Cost	Cumulative Expenditure June 2016	Balance	Budget Allocated in 2016–17
Z2014.0591	Construction of Housing Scheme for P&DD Officers	382	95	287	20
Z2015.0781	Housing Scheme For S&GAD staff	500	—	500	100

Note: PSDP = Public Sector Development Program.

ii. Salary budget and spending

The salary budget in the education sector, like in other sectors and other provinces, consumes the largest share, over 85 percent of the recurrent budget, leaving scant resources for operations, and what is available for operations has inherent spending rigidities. The Education Department employee pool witnessed an increase of 21 percent from 60,848 in FY12–13 to 73,457 in FY15–16. With the existing budget consumed largely in the wage bill, the case of Balochistan will become more chronic with the Teachers’ Promotion Policy of the GoB that allows for promotion to the next grade after a stipulated period in one grade. The salary scales of the GoB and the policy adopted points at a constant increase in the wage bill.

iii. Repair and maintenance budget and spending

Good infrastructure is the prerequisite for improving education. The condition of infrastructure is reported (Table 3.3) to be in a dire need of improvement to not only provide an enabling environment for students for but also to safeguard them from risks emanating from dilapidated buildings. The lack of sufficient allocations, untimely resource availability, and lack of checks has led to decrepit school buildings.

Table 3.3: Infrastructure Status (Primary Schools)

Province	School Infrastructure Score	% of Schools with a Building in Satisfactory Condition
Balochistan	22.89	17.47
KP	71.10	85.69
Punjab	89.42	82.04
Sindh	43.57	28.99

Source: Alif Ailaan – SDPI, District Education Rankings report (2016).

Note: The school infrastructure score is based on the overall condition of school buildings and the availability of boundary walls, working electricity connections, functional toilets, and drinking water.

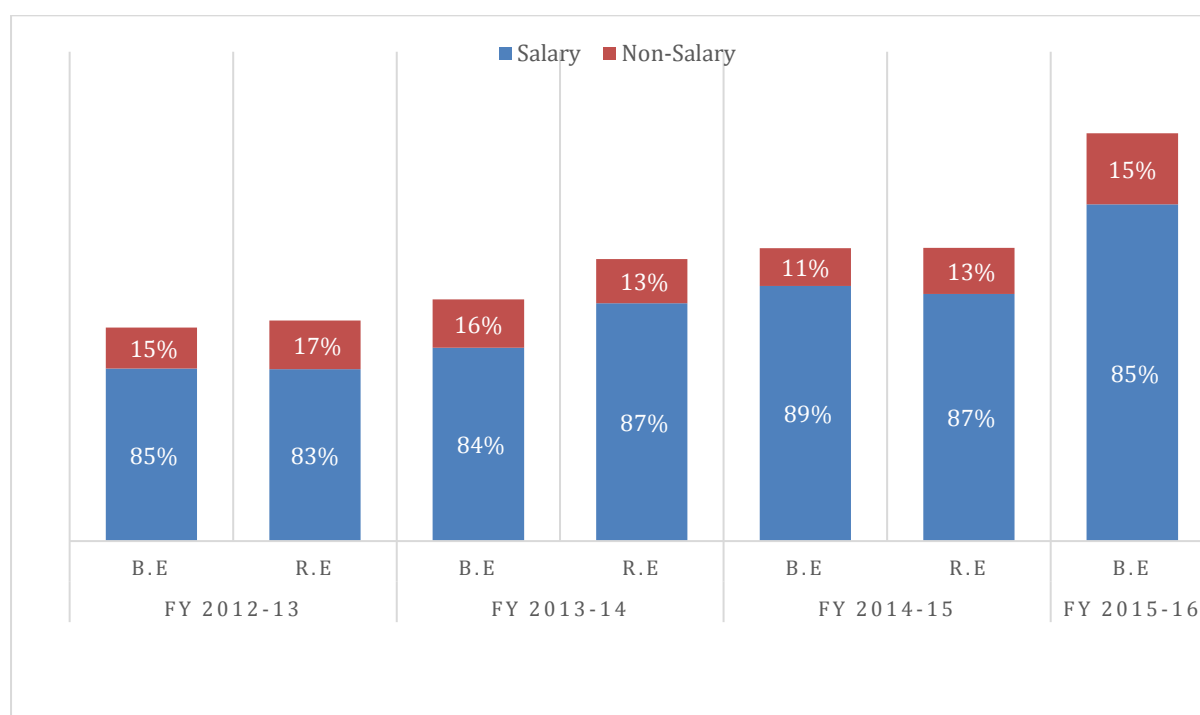
The government’s preference for brick and mortar is evident from the broad public sector development portfolio comprising the large number of schemes (projects) included yearly. The total number of schemes in the years 2012–13, 2013–14, 2014–15, and 2015–16 have been 1,452, 739, 1,694, and 2,250 with a ratio of new projects (schemes) to ongoing at 53 percent, 84 percent, 71 percent, and 44 percent, respectively. These investments translate to additional resource requirement for repair and maintenance (R&M) over time. With the poor condition of existing infrastructure, constant additions to infrastructure, stifling resources for maintenance, and random allocations for R&M, the GoB needs to devise plan for R&M allocations to ensure that the infrastructure does not pose a risk to the students and provides an enabling environment for education.

iv. Other Non-Salary Budget and spending

Expenditure autonomy and community participation at the facility level is essential and contributes to improvements in service delivery. Sufficient provisions of grants and other operational budgets and spending autonomy promote innovation in the service delivery mechanism. However, in Balochistan, the allocation trend and procedural rigidities have led to inadequate, non-salary budget allocations.

Other provinces in Pakistan have instituted grants mechanism to involve community participation and facilitate the head of facility in addressing its operational requirements. The Government of Punjab provides multiple grants like school councils and Farogh-e Taleem with considerable allocations and expenditure autonomy, facilitating the head of the facility to improve service delivery. The school councils are provided PKR 20,000 each for primary schools; PKR 40,000 each for model primary schools; and PKR 50,000 each for elementary schools (EQSDS 2015). In the province of KP, PKR 1.48 million were provided to the schools in the Parent-Teacher Council account, according to the schools' autonomy and fiscal resources for improving their environment. On the contrary, the GoB only provides the PTSMC grant of PKR 4,500 (US\$43 equivalent) per year per school.

Figure 3.6: Ratio of Salary and Non-Salary Budget



4. PFM System Analysis

This section presents the gaps in the PFM systems and practices at two levels. The overall PFM framework, which is beyond the Education Department’s jurisdiction and any changes for improvement can be introduced by the control departments (Finance and Planning and Development). The study then narrows the focus on the Education Department to identify the deficiencies in the budget formulation and execution.

A. The Overall PFM Perspective

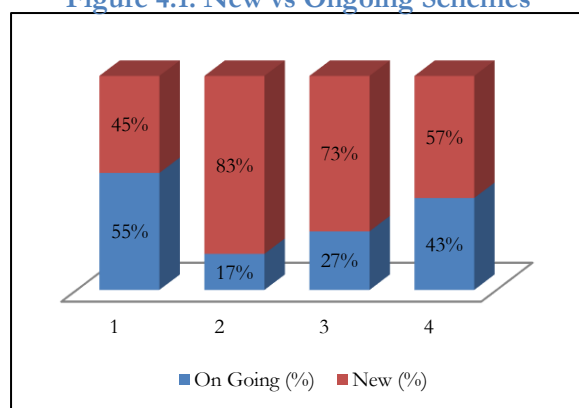
i. Policy framework - *ambiguous to the extent of absence*

In the case of Balochistan, the provincial budget, mainly the public sector development portfolio, in the absence of a notified policy does not reflect the stated policy choices of the government. The GoB, in support from the United Nations Development Program (UNDP), formulated a comprehensive development strategy in 2013; however, the strategy has still not been formally adopted and notified by the government. The BSP is the only sector plan available to steer the public investments, however, its implementation progress is lagging because the development budget gets allocated to activities not identified in the plan. This is largely because the legal and regulatory framework does not require considering sectoral plans in preparing budgets (GoB 2016, 33).

ii. Planning and budgeting - *disintegrated, incremental, and anecdotal*

Similar to the federal and other provincial governments, the GoB follows disintegrated budgeting with responsibilities shared between the Department of Finance and the P&DD. The former is responsible for the recurrent (current) budget and the latter for the development (capital) budget. Upstream functions like the medium-term perspective and output-based budgeting do not exist; consequently, annual, incremental, and input-based budgeting take place undermining the allocative efficiency. In addition, the absence of multiyear budgeting affects the resource commitment for development initiatives.

Figure 4.1: New vs Ongoing Schemes

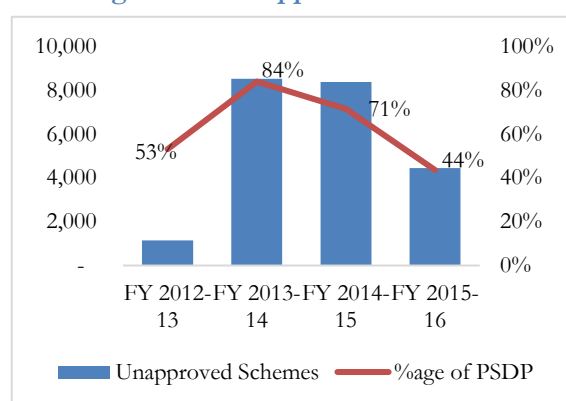


Before the introduction of more complex reforms demanding certain levels of human and system capacity, it is essential that the government ‘gets the basics right’ by ensuring the understanding of the traditional budgeting to help graduate to more complex systems. In that perspective, even the annual budgeting framework lacks the key strengths required to manage the budget formulation process. The P&DD issues a budget calendar without any guideline to set the tone for the public sector investments and an overarching framework for project formulation and prioritization. Consequently, the development budget process at the line departments is adrift and carried out without indicative planning figures or other broad parameters like the development policy focus for the year, the ratio of new to ongoing schemes, or ensuring compliance of administrative approvals and codal formalities for the budget preparation.

iii. Project screening and budget allocation mechanism - a case of token allocations

The Project Appraisal Framework at the P&DD and the line departments has significant deficiencies. The key gap identified was the lack of discipline in the screening process. A considerable number of schemes (proposed projects) is included in the budget without necessary administrative screening and feasibility analysis. Interviews with the line departments pointed at the inclusion of projects in the budget without consultation of the line departments. As a result, the project's viability (needs assessment and requisite scope) is not carried out. Similarly, without the requisite analysis, the financing plan is not developed, and the budget allocations in all unapproved schemes is not aligned with the financing plan of the projects.

Figure 4.2: Unapproved Schemes



The budget estimation process is unsystematic and arbitrary. The development budget proposals are presented to the legislature without the established administrative processes and viability determination, yet the budget is passed and that creates a snowball effect. First, unless a priority, the next deadline for project proposal submission is spontaneously stretched to the next budget submission to the legislature; consequently, the departments are under no compulsion to complete the project documentation and screening. Second, budget is allocated without even knowing the estimated cost of the project. Instances were found where 'unapproved schemes' were included in the

budget for two consecutive years and with budget allocated, however, could not be spent owing to completion of the business processes.

Budget allocations have been quite patchy; consequently, schemes have been parked in the PSDP for almost 15 years. Schemes have received budget allocation of over 30 percent of project cost when on priority, while the same schemes received only 0.04 percent of the remaining balance required for completion of project.

Table 4.1: Impact of Resource Allocation on Project Execution (PKR, millions)

Project/Scheme	Year Project was Approved	Status in 2016-17	Revised Cost in 2016-17	Expenses till June 2016	Allocation in 2016-17
7.5 km black topping of Musa Kahil drig road	2001	Ongoing	328.6	259.7	1.5
College teachers training academy	2001	Ongoing	222.3	188.9	0.5
Kot-Khan Mohd Irrigation Scheme Musa Khel	2002	Ongoing	62.44	56.31	1.5
Construction and establishment of cutting, tailoring, design center building at Turbat, Duki, and Mastung	2010	Ongoing	106.2	37.8	1.5

The budget allocations in the year 2016-17 ranged from minimum PKR 0.1 million for a scheme to a maximum of PKR 500 million. Around 380 schemes were allocated PKR 1.5 million regardless of their

size or estimated costs. Both ranges are instructive and reflect on the allocation sufficiency and at the same time, mirror priority setting in budget allocation. The consequence of these deficiencies is significant cost escalations due to delayed implementation encumbering the future resource envelope; and the mismatch in the project financing requirements and budget allocations also has the potential for disputes over the terms of the payment between the government and the contractor.

iv. Budget data and records system - inconsistent and poorly maintained

The key constraint during the review was the timely availability of quality data. Currently, the budget-related data presented to the provincial assembly and disseminated to the public has inconsistencies, which in the case of the former are in noncompliance with the constitutional responsibilities, and in the case of the latter, undermine transparency. Also, poor quality data undermine policy formulation and its implementation. The annual budget statement, the submission of which to the legislature is a constitutional responsibility, has different budget numbers from the development budget data (Vol. IV) that in turn is different from the budget white paper data submitted to the legislature.

Table 4.2: Data Inconsistencies in Budget Documents Submitted to the Legislature (PKR, millions)

Document	Total Development Budget (RE) (2017/18)	Education Affairs and Services (BE) 2016/17	Education Affairs and Services (RE) 2016/17	Education Affairs and Services (BE) 2017/18
ABS	68,058	42,675	40,106	45,854
White Paper	67,977	42,175	39,606	45,791

Source: ABS and White Paper (2017–18).

Note: ABS = Annual Budget Statement; BE = Budget Estimates; RE = Revised Estimates

PSDP management relies on accurate, timely, and detailed data on project implementation. Beyond optimal allocation of resources for efficient outcomes, the policy making also benefits from data analysis. PSDP records, as presently maintained, leave considerable scope for systematized data maintenance to serve as a component of management decision support system. Availability of centralized automated data reflecting the unique and constant ID codes with the ability to capture future requirements is crucial to the development portfolio management. Currently, the data is spread across departments, which complicates the data collection and the analysis becomes protracted and time-consuming discouraging research and review.

With the available data, allocative and execution efficiencies were evidenced to be lagging significantly. A more detailed analysis would benefit the GoB on the impact of these delays on the liability management. Sample projects from three sectors were analyzed—roads, education, and industries. In 2016, projects were still being executed that were approved in 2001 and 2002. The projects that envisioned timely development of infrastructure to spur economic growth instead sapped resources and led to liability accumulation. The P&DD does not conduct analysis on the aforesaid lines and therefore the budget execution is devoid of the 3Es (economy, efficiency, and effectiveness) and eventuates in unapprised policy formulation.

B. Education Department Perspective

i. Development planning framework - gaps in theory and practice

The BESP is the central policy document of the education sector planning and reforms in Balochistan with clearly defined objectives and activities duly costed to facilitate the budget making process. The review of the BESP in relation to the budget allocations revealed vast gaps. Significant underfunding for the BESP implementation ranging between 21 percent and 29 percent in the years 2013–14, 2014–

15, and 2015–16 has led to the accumulated deficit in budgetary allocations of PKR 24 billion. As a result, the progress achieved in the three years of the BESP is only 26 percent (Table 4.3).

Table 4.3: Thematic Area Wise Physical Progress on BESP Activities

Sr. No	Thematic Area	Progress to Date (%)	Planned Initiatives	Initiatives Completed
1	Quality education	30	200	60
2	Access	23	82	19
3	Governance and management	28	79	22
4	Higher education	0	40	0
5	Adult literacy and ALP	31	45	14
Overall progress		26	446	115

Source: PPIU statistics.

The issue of resource availability is acknowledged; however, the budgeting process appears to be devoid of the BESP activity costs resulting in significant underfunding. The issue gets compounded with the inclusion of development schemes (projects) in the PSDP that are not aligned with the priorities set out in the BESP. Such schemes accounted for 87 percent, 77 percent, and 69 percent of the approved budget during FY13–14, FY14–15, and FY15–16, respectively. The operational plans are developed in isolation by the education department not taking into confidence the Department of Finance and the P&DD nor the relevant donors. These issues and the deficiencies in the oversight of the standing committees of the provincial legislature have hindered the achievement of the BESP objectives with the resultant adverse impact on the education service delivery in Balochistan.

ii. Project formulation - *the case of missing stakeholders*

The project formulation, prioritization, and budget estimation take place in the absence of the citizens' and service providers' participation. Most of the schools, which fall under the SED, are either primary or middle schools representing the largest group of students enrolled with the SED institutions. However, at the time of budget preparation, the facility staff has negligible role in the process. Evidence suggests that this practice is not only an accepted practice but formally institutionalized, whereby, even the budget for clusters, which is allocated by the SED itself, is done using a rule of thumb criteria and does not take into account the actual needs of schools. The noninvolvement of the facility staff results in appropriations for heads of accounts in the current budget that are not needs-based that either lapse at the close of the fiscal year or in certain cases, the schools employ improvisation techniques which are not necessarily always within the legal parameters.

The issue of non-participation is more profound in the development budget process. Interviews with the facility staff provided details on how the infrastructure-related initiatives, in some cases, were not the needs of the facility, and in others, were not the priority of the schools. The lack of participation was not only evidenced at the school level but also at the district staff level.

The packaging of schemes for various schools (commonly referred to as umbrella schemes) are poorly formulated, resulting in delays in project execution owing to the lack of identification of the prerequisites at budget approval stage like the site identification, completion of coding process, and creation of cost centers. Ninety-nine percent of the development budget projects (schemes) are not approved or appraised. Screening begins after the budget is approved and that too is not methodical, affecting the quality of project proposals and project execution.

iii. Incremental budgeting - *making the facility unwelcoming*

Recurrent budget estimates were found to have been determined typically on incremental basis with no obvious link to the actual needs of the spending units. This was primarily the case with estimating primary and middle schools' non-salary-related budget for which the facility staff's input was not obtained by the District Development Education Offices (DDEOs) or in the case of cluster schools, by the cluster heads (acting as the DDEO of the schools in the cluster), resulting in unrealistic budgeting devoid of schools' needs. The issue of unrealistic budgeting is further exacerbated during the allocation among the primary and middle schools where the distribution of resources is not carried out on a sound and logical basis and is rather driven at the discretion of Education Department Offices. There is no reporting on resources received by primary schools in a year; the Government Financial Management Information System (GFMIS) only provides information at the DDEO level. School data is maintained manually by the DDEO in budget registers, but this may not include resources provided by donors and philanthropists directly to the schools (GoB 2016, 34).

The non-salary budgets, if appropriately designed and allocated, can have a significant contribution for improving service delivery. However, the suboptimal resource allocation and distribution have either rendered the basic infrastructure inoperative or severely affected the school environment. Evidences were noted where insufficient allocation for electricity dues resulted in the disconnection of service due to nonpayment of bills. The restoration process precedes approval processes not only at the department level but also at the level of electricity supply companies, making it time consuming besides creating expenditure overheads in terms of restoration fee and related penalties. The sanitation issue was frequently cited largely owing to the deficiencies and rigidities in budget availability and expenditure processing.

The GoB is providing PKR 4,500 to each school as a PTSMC grant, which is less than PKR 375 (US\$3.5) a month. Provision of unconditional grants is a universally accepted flexible mechanism for inducing innovations in the service delivery, however, PKR 375 a month immediately chokes even the thought of creative initiatives for improving the service delivery.

iv. Cash management - *absence of policy framework and manual processing*

Fund management for this analysis defined in terms of cash releases¹³ is the key to budget execution. Financing plan and performance indicators are provided in each PC-I, developed for individual projects. However, these performance indicators are mostly in respect of project implementation than with respect to outputs that the project will deliver after completion of the implementation phase. If the funds are not consistently allocated to projects in accordance with the financing plans in the PC-I, the performance indicators are of little value and the utility of M&E of the schemes is undermined with results available ex ante with respect to the accumulation of the throw forward.

Priority projects (schemes) with efficient budget releases reflect high performance indicating timely funds availability as a vital ingredient for high budget execution. Many projects incorporated into the PSDP are 'drip fed'—designed to incorporate a large number of projects reportedly to placate politically driven influences with little regard to efficient use of public expenditures and value for money. Funding is not provided on the basis of efficient and effective project execution but on an ad hoc basis according to the perceived political imperatives.

The process of managing cash releases (authorization) is carried out on the GFMIS and manually as well. This leads to unnecessary delays in providing funds to the spending-level service delivery unit. In certain cases, it took even up to three months for funds to reach the DDO level. This caused difficulties

¹³ Cash releases are authorization in the form of budget release orders.

in utilizing the available funds, especially during the second half where funds were released close to the fiscal year end resulting in lapse of funds.

The release of the R&M budget entirely in the second half created serious utilization challenges due to multiple reasons. The most significant problem was the fact that utilization of this budget has the involvement of the Communication and Works (C&W) Department, which served as the executing agency. The process is drawn out and cumbersome where the Education Department first identifies the schemes normally after the start of the fiscal year. The C&W Department then prepares cost estimates, which are submitted to the relevant forum for approval. Only then, the work orders are issued and funds are transferred to the C&W Department for executing the schemes. This whole exercise, coupled with the fact that R&M funds only became available in the second half of the fiscal year, reduces the time available to efficiently utilize the budget. The budget lapses for R&M under the recurrent budget stood at 57 percent, 7 percent, and 9 percent during FY12–13, FY13–14, and FY14–15, respectively.

The issue with releases at the local levels is further compounded with the lack of interdepartmental and intradepartmental coordination. In the focus group discussion conducted with the Education Department staff and the head teachers, it was observed that the releases in certain cases coincide with the school’s winter vacations that further shrinks the time available for the execution of projects. With the budget lapse factor and the limited time available for budget utilization, the expenditure efficiency is compromised, as the objective is to utilize the budget available rather than achieving value for money.

v. Data inconsistencies - constraining issue analysis

The EMIS data requires a thorough cleaning and the Education Department needs to ensure its application and usage at the facility level. During the focus group discussion for the BESP, it was discovered that the budget preparation largely takes place at the directorate level relying on the EMIS data. The cluster heads found that the EMIS data did not reflect the schools’ requirement. Cluster heads were provided budget allocations for furniture for schools that were inoperative and with lack of awareness and coordination, the furniture could not be appropriated to the schools needing furniture. Factors constraining revision in the EMIS include the lack of awareness of the EMIS in the field and the lack of access to EMIS by the facility heads, and where these factors are not relevant, the information flows and the process of information submission hinders the data update. This is particularly relevant in the case of staff turnover. Individuals lacking capacity also lack the initiative; as a result, the budget allocations continue to be devoid of the facility needs.

Table 4.4: Variation in the EMIS Data

EMIS Statistics	Actual School Condition
Government Girls Primary School, Labour Colony, Nawa Killi (EMIS Code: 13212)	
The school has <ul style="list-style-type: none"> ▪ Electricity, ▪ Water tap as source of water, ▪ No water tank, and ▪ One toilet. 	The school has <ul style="list-style-type: none"> ▪ Nonfunctional electric connections, ▪ No water connection, ▪ One water tank, but no water, and ▪ Two toilets, one for teachers which is functional and one for students which is nonfunctional
Government Girls Middle School, Siddique Abad (EMIS Code: 09621)	
The school has <ul style="list-style-type: none"> ▪ Water facility in latrines, ▪ No water tank, ▪ Three toilets, and 	The school has <ul style="list-style-type: none"> ▪ No water source, ▪ A water tank but nonfunctional, ▪ Nonfunctional toilets,

EMIS Statistics	Actual School Condition
<ul style="list-style-type: none"> ▪ 567 enrolled students. 	<ul style="list-style-type: none"> ▪ 700 enrolled students, ▪ Requirement for additional rooms as most of the students sit under the open sky, and ▪ 4 classrooms and 24 teachers which were not reflected in the EMIS
Government Girls High School, Killi Sabzal (EMIS Code: 03437)	
<p>The school has</p> <ul style="list-style-type: none"> ▪ No water facility in latrines, ▪ No electricity, and ▪ Requirement for six new rooms 	<p>The school has</p> <ul style="list-style-type: none"> ▪ Functional latrines with water facility, ▪ Functional electricity, ▪ No need for additional rooms. The school has well maintained building with sufficient classrooms, which were half empty suggesting low enrolment. Class 10 with furniture and fixture but was closed.

5. Recommendations

In formulating the recommendations, the approach adopted relies on the functional problems in which the consultative process has taken advantage of local knowledge to pinpoint functional problems, binding constraints, and steps forward. This is mainly a political process of negotiating and setting priorities, and to a lesser extent, a technical exercise. Also, although a separate political economy analysis on the stipulated frameworks would highly benefit in identifying detailed political economy-related findings; however, in this report; the political economy analysis related consultations and analysis has been carried out to a limited extent to figure out why current practices serve key interests both formally and informally, and why the public interest has not been able to prevail. Finally, the consultations and analysis have reviewed and confirmed the evidence and theory of change that a given reform will fix the functional problem.

A. Policy- and Strategy-Level Actions

i. PFM reform strategy and action plan

The budget is a combination of political and technical processes, and with competing claims on scant resources, provision of a technical framework may not be the only solution to improving PFM, though it is a measure to address the chaos in public expenditure management. It is not intended to exclude the political process but should facilitate establishing the broad parameters and offer support for appropriate channeling and cascading the stretched resources. Therefore, an evidence-based PFM reform strategy that is time-bound and milestone based is the starting point for the GoB. Strengthening PFM is a challenge (Pretorius and Pretorius 2009) owing to 'complex, political and institutional nature of the task' (DFID 2009). The challenge is exacerbated by not knowing what and how to fix issues. The lack of a PFM reform strategy in Balochistan has rendered the budgeting system, in particular, adrift. With the issues diagnosed, it is essential for the GoB to formulate PFM reforms strategy to start fixing, in the order of priority, the budget formulation and execution process. On the contrary, resource hemorrhaging will continue and become unsustainable.

However, translating the strategy into concrete actions requires a detailed follow-up plan to monitor the progress for the achievement of results. As experienced in other provinces, the lack of an objective action plan for the implementation of the PFM reform strategy undermined the reform efforts. Finally, the implementation of reform measures is subject to the government officials' ownership and the capacity to apply the tools introduced. The GoB would benefit from developing an integrated training strategy and monitor its application during the implementation period. This would help in creating a database of beneficiaries and aid in establishing performance trajectories to guide the subsequent capacity development initiatives.

ii. Revenue collection performance to steer the determination of the size of the PSDP

The recurrent budget facilitates running the day-to-day government operations and therefore takes precedence over the development budget. Setting the size of the development portfolio with the revenue residue might be the first step but not the end-all. Instead of relegating the development budget to the residual revenues, it is important to link the PSDP with the demand for public investment, followed by the review of the key sectors and priorities to identify important projects. The additions to the PSDP portfolio should then be linked back to revenue mobilization targets and options. Depending upon the provincial targets of investment in public infrastructure derived from development policy objectives, the corresponding revenue mobilization options may be worked out by the Department of Finance in collaboration with the revenue authorities, P&DD, and key sector departments to ensure a more predictable financing for the PSDP. Besides, the involvement of the key sectors would contribute toward a more realistic demand articulation for public investments.

iii. Capturing the impact of development spending on the current budget

Recommending integration of budgetary practices in an environment with clearly defined administrative jurisdictions is impractical. Given the entrenched interests, addressing dual budgeting needs to be approached gradually with a phased approach. Similar to other provinces, Balochistan follows dual budgeting with the jurisdictions for the development and recurrent budgets; however, this results in a mismatch between existing and prospective liabilities generated from the public investments. The Department of Finance is the authority to decide on the new items/expenditure on the recurrent budget side while the P&DD has a limited-to-no role in current expenditure. These issues need to be thrashed out as concrete agenda items among the P&DD, the Department of Finance, and the relevant line departments.

The interim solution for creating a link between the development and recurrent expenditure is the strengthening of the role of the Department of Finance in broader Provincial Development Working Party (PDWP) deliberations and, more specifically, on questions of recurrent liabilities flowing from approved projects. Similarly, the P&DD's role needs strengthening in cash releases to ensure the projects'/schemes' monitoring results feed into the cash release mechanism.

iv. Transparency and access to information

This is a key gap that is limiting the internal and external stakeholders of the government in contributing toward system and process improvement, and limited information to public is undermining not only the accountability regime but is also discouraging the feedback needed for evidence-based policy making. Additionally, the fiscal disclosures can facilitate research that would greatly benefit the governments in improving public investments. The GoB could benefit from establishing performance trajectories by initiating an open budget survey. The evidence documented in these reports would aid the successive governments in improving access to information.

v. Cash management

The first step to improve budget reliability is the provision of reliable information to the spending units on cash availability. In this regard, the Department of Finance needs to adopt a budget release policy articulating the indicative funds' availability for the development and recurrent spending. Other provincial governments as well as the federal government notify an elaborate 'cash release policy' that provides the spending units with timely information that assists in improving budget utilization. There are a number of considerations for the cash release policy. For instance, some areas of Balochistan are affected by weather conditions, which can shrink the project execution period. Making cash available at the time when the projects cannot be executed undermine budget utilization. Similarly, the agriculture investments are seasonal and providing resources for agriculture in the non-plantation period would also result in budget lapses. Additionally, the release policy could consider making resources available on priority for those projects that are nearing completion and the GoB could create a threshold for providing resources to projects having consumed 85 percent of its total cost to facilitate timely completion of project. Other similar measures could take those conditions into account to notify a release policy that would provide transparency, timeliness, and predictability in cash availability.

vi. Investment in data systems to graduate the budget processes

The key issue identified in this report was the timely availability of relevant quality data, particularly for long-running projects and those that have had more than two revisions in cost, scope, or time. The lead-time analysis of such projects was hindered due to data quality at the executing agencies, irreconcilability of interdepartmental data, and the availability of original documents (PC-I)

particularly for those projects that had multiple revisions. The focus of the data availability in the P&DD for public domain is geared toward producing the PSDP-related documents. Whereas a key imbedded objective is seeking project completion for development. The Development Planning and Monitoring System (DPMS) introduced¹⁴ at the P&DD needs to be fully functionalized and integrated to rationalize budget allocations, facilitate systematic releases for projects placed in the completion category, and place the line departments (implementing agencies) on higher responsiveness for such projects to avoid slippages.

The M&E Directorate is represented at the PDWP meetings; however, its feedback needs to be made more comprehensive and meaningful by increasing the system-based data availability of the total development projects. The DPMS integrates the expenditure data generated from the Accountant General's office. As identified in the PEFA report, the data availability for the AG office has issues particularly with regard to the third-party payments and those development budget-related expenditures that are not within the Treasury Single Account.

The source of financial information needs to be enhanced to include data from the projects offices and the C&W Department to ensure timely reporting of expenditure, reflection of the third-party payments, and the expenditure incurred by projects using special accounts outside Treasury Single Account. The P&DD maintains PSDP-related data; however, the data comparison with the C&W progress reports and the PC-Is showed inconsistencies. Improving data availability and its quality is integral to a more comprehensive portfolio management system to facilitate statistical analysis with accurate, timely, and adequate information on ADP projects to support decision making during ex ante and ex post evaluations.

vii. Data classification for budget preparation

The projects in the PSDP should have the requisite data with relevant classification and categorization to the one-line item currently submitted in the budget documents. The classification will not only benefit the timely targeted cash release but will also provide information on liabilities, accumulation status in relation to liquidation, and generation through new projects. Currently, owing to absent or inadequate specifications for liability creation through project implementation, project classification—according to the nature, type of works, minimum divisibility, or timeliness—is not maintained. This is due largely to the poor quality of project documents (PC-I) and recording of the PSDP and project liabilities according to the summary budgetary submission requirements, constraining systematic PSDP management. Feeding the approved project documents into a centralized and accessible databank with the earlier level of detail rather than summary information would improve the PSDP management.

Improving the datasets would assist in assessing the fiscal space for new projects. The projects completing or dropping from the PSDP, while achieving utilization below or above threshold, or utilization equal to a minimum or maximum percentage of approved cost will be reviewed to highlight causes for dropping or learn from methods used to achieve cost savings. The system should be able to generate an annual report to guide policy making on PSDP size, portfolio management, releases, and medium-term planning.

viii. Portfolio cleaning and rationalization

For the current and subsequent year's PSDP, the P&DD should review the existing portfolio establishing the current status of all schemes, determine the sunk costs (if any) for the PSDP cleansing exercise, and make recommendations to the Cabinet to effect notification on avoiding token

¹⁴ The Resource Wing of the P&DD uses the DPMS for ADP formulation and the M&E directorate uses it for its functions. For users, the DPMS dashboard reflects the ADP summary information and another is dedicated for M&E related information.

allocations for subsequent projects and ensuring compliance by line departments with the P&D guidelines, in general, and for the distribution ratio of the new and ongoing schemes, in particular.

The planning, appraisal, and monitoring of the PSDP and the projects can consume a great deal of time, effort, and energy. The size of the PSDP, in terms of the number of schemes, has taken a toll on the three functions mentioned earlier and influenced the quality of public sector investments. The current size of the PSDP has led to thinly spread resources stifling the performing projects and adding to the time and costs overruns. The GoB can improve the quality of the planning, appraisal, and monitoring functions by rationalizing the size of the ADP and the approval ceilings of the departmental-level screening. The latter with low sanctioning authority lends a large number of schemes to the PDWP. However, of greater importance for the GoB is to make a policy decision that includes only those projects in the PSDP that are large and complex with intraprovincial externalities. The remaining projects, on the basis of the principle of subsidiarity, may become part of the local government's development portfolio. This measure will accord greater time to policy-level deliberations, reflection on policy and development initiatives implementation, and improving the quality of appraisal and monitoring of the public sector development portfolio.

ix. Gender budgeting

In the Balochistan context as identified in this report, the reduction in the net enrolment rate for girls is a classic example of the gender biased budgeting. This anomaly is not intentional but has arisen owing to the lack of appreciation of gender-based budgeting. A phased approach is suggested beginning with the determination of the universe of the beneficiaries with appropriate categorization for creation of a gender-disaggregated data bank. The formats used for project planning, execution, and M&E need to be amended in this regard. This would be the first step toward a more gender-balanced budget allocation mechanism.

x. Timely initiation of budgeting process

The development budget is formulated with an annual incremental increase indicated in the guidelines. With that practice, the budget process can be initiated at the beginning of the fiscal year rather than in December. Efforts should be directed for issuance of sector-wide indicative ceilings for the development budget but that would require strengthening the medium-term perspective in the budgeting process with greater focus on own-source revenue mobilization.

xi. Delegation of responsibility for development of proposals for routine projects

The project proposal (PC-I) development, particularly for infrastructure, should reflect reality at the planning stage rather than being carried out as a desk job to avoid time and cost overruns. The C&W Department in most cases prepares project proposals for the line departments; and with the C&W Department's own massive portfolio of roads and buildings, the line departments' proposals get queued up waiting their turn. The GoB can notify the yardsticks and standards for the average run-of-the-mill projects and delegate the responsibility of the project proposal development to the line departments and ensure scrutiny at the appraisal stage for compliance of the standards. This measure will not only contribute toward capacity development in line departments but also improve budget planning, timely completion of codal formalities, and project execution leading to improved budget utilization of the new schemes.

B. Operational and Procedural Improvements

i. Phased approach for making project proposal submission mandatory

The project proposal development process needs strengthening. The submission of the PC-I during the PSDP formulation stage may be made mandatory. However, given the entrenched practices and the size of the portfolio (in terms of the number of schemes), this measure may take a phased approach in the short to medium term. During the interim period, agreement may be reached on the percentage of schemes having a complete PCI in the first and second year, and by the end of the agreed term, all new schemes need to be prepared for PC-I. This action may be endorsed by the Cabinet to ensure that political imperatives do not undermine the agreed measures.

ii. Improve inter and intradepartmental information flow

The infrastructure development schemes in cases where land acquisition is required have experienced delays. For projects implemented in the jurisdiction under the Board of Revenue (mainly rural areas), the land acquisition rests with the Board of Revenue, and the priority tend to dilute when more than one department is involved. The resultant delays lead to poor budget utilization and the cyclical revisions in cost and time durations. In the interim period (that is, until the government adopts a more integrated/delegated approach), arrangements may be put in place to ensure participation and concrete discussion at the PDWP and DDWP regarding the time frame for site identification and land acquisition with the Board of Revenue (or related agency). This also entails that the agreed time frame incorporated in project implementation and financial planning reflects realistic project duration to guide the budget allocation decisions.

iii. Monitoring and evaluation

The GoB should provide a robust, institutional arrangement for M&E. The timely feedback from the M&E Directorate with respect to project execution efficiency for the PDWP deliberations can lead to informed decision making with regard to budgetary allocations, translating into improved budget execution.

The enforcement of the decision with respect to submission of PC-V is vital to improving public investments. Based on the pattern of the federal government, the provincial government can institute a mechanism for PC-V preparation like withholding cash releases to subsequent projects if the PC-V documents are not prepared and submitted.

Currently, project monitoring and progress reporting largely based on finances—rather than the physical progress—and the inconsistency in final grant and expenditure data constrain the quality of monitoring. The purpose of the PC-III form is to facilitate the funds allocation with cash and physical plans and review of the financial and physical progress of the projects by the P&DD. The submission of PC-III should be made mandatory to improve project monitoring and budget allocations. Finally, the third-party project evaluations piloted by P&DD should be enhanced to allow independent feedback on the projects and policies to improve future public investments.

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