FINANCIAL ANALYSIS

1. The financial analysis includes (i) financial sustainability analysis; (ii) an assessment of the overall financial position of the borrower, to assess its current and long-term financial viability; and (iii) assessment of the financial management capacity of the executing agency. All analyses followed the relevant Asian Development Bank (ADB) guidelines and methodologies.[1]

A. Financial Sustainability Analysis

2. Financial sustainability analysis was required to assess the fiscal sustainability and debt repayment capacity of the Benazir Income Support Program (BISP). The trends of economic growth, total receipts, and expenditures were analyzed, and the BISP's financial performance was assessed based on the latest available audited financial statements, documents provided by the BISP, and information obtained during discussions and meetings with the Government of Pakistan and BISP. The government has continued to provide counterpart funding (which it has done since the BISP was set up in 2008), and pay debt servicing and operation and maintenance (O&M) costs.

3. The objectives of this analysis are to (i) review the historical trends of the BISP payments for unconditional cash transfers (UCTs) and the share of government receipts, (ii) review the share of funding from development partners and related trends, (iii) review the trends of O&M costs and other cost components to assess the financial discipline of the BISP, and (iv) estimate financial projections and future budget allocations.

4. The financial sustainability assessment indicates that the BISP has sufficient funding either through counterpart funding from the government or through development partners to finance debt repayments, O&M costs, and other expenditures. Trends of the counterpart funding as well as development partners' contributions indicate that the government is financing about 89% of the disbursements (Table 1).

Table 1: Benazir Income Support Program—Budgetary Allocations and Cash Payments

FY	Total Budget Allocation (PRs billion)	Government of Pakistan (PRs billion)	Foreign Sources (PRs billion)	Number of Beneficiaries (million)	Share of Funding from the Government of Pakistan (%)
2016	102	87.61	14.38	5.34	86
2017	115	97.00	18.00	5.43	84
2018	121	107.00	14.00	5.64	88
2019	124	112.00	12.00	5.64	90
2020 [a]	180	167.50	12.50	5.70	93
Total	**814**	**725.30**	**88.83**		**89**

FY = fiscal year.
Note: The FY of the Government of Pakistan ends on 30 June.
[a] Projected for the FY.
Sources: Government of Pakistan.

5. Expansion of the targeted BISP intervention can allow the government to reduce its untargeted subsidies while protecting the poorest part of the population from the economic

[1] ADB. 2005. *Financial Management and Analysis of Projects*. Manila; ADB. 2006. *Handbook for Borrowers on the Financial Management and Analysis of Projects*. Manila; ADB. 2009. *Financial Due Diligence: A Methodology Note*. Manila.

effects of fiscal consolidation. Budget allocations for untargeted subsidies are decreasing every year, but the increase in allocation to the BISP budget is not increasing proportionate (Table 2).[2] However, substantial investment in social protection in the short term can be difficult in countries such as Pakistan, where balance of payment difficulties and exchange rate policy choices constrain the size of fiscal deficits and impose fiscal consolidation challenges. In addition, for political reasons, rebalancing government expenditure priorities to free up resources from alternative budget categories may not be easy. However, current support for social protection in Pakistan is significant. The comparison of BISP allocations against gross domestic product (GDP) shows that the government is increasing its contribution for the BISP as a percentage of GDP (Table 2).

Table 2: Benazir Income Support Program Targeted and Untargeted Subsidies

FY	**Untargeted Subsidies (Revised)** (PRs billion)	**BISP Allocation (Revised)** (PRs billion)	**GDP (at Market Value)** (PRs billion)	**Untargeted Subsidies (Original) as Share of GDP** (%)	**Untargeted Subsidies (Revised) as Share of GDP** (%)	**BISP Allocation (Revised) as Share of GDP** (%)
2016	196.54	102.00	29,077	0.47	0.68	0.35
2017	168.95	111.50	31,922	0.44	0.53	0.35
2018	147.61	113.00	34,618	0.40	0.43	0.33
2019	254.99	124.70	38,558	0.45	0.66	0.32
2020 [a]		180.00	39,500	0.69	(…)	0.46

BISP = Benazir Income Support Program, FY = fiscal year, GDP = gross domestic product, (…) = data not available.
Note: The FY of the Government of Pakistan ends on 30 June.
[a] Projected for the FY.
Source: Asian Development Bank, Government of Pakistan.

6. Tables 2 and 3 also show that the government's budgetary allocation process for untargeted subsidies requires considerable improvement as every year from fiscal year (FY) 2016 (ended June 2016) to FY2020, there was an upward revision in untargeted subsidies ranging from 43% to 68%, which could crowd out the allocation for targeted subsidies. The government has consistently received support from development partners for its targeted subsidies under the BISP.

Table 3: Benazir Income Support Program Targeted and Untargeted Subsidies
(PRs billion)

FY	**Untargeted Subsidies (Budgeted)**	**Untargeted Subsidies (Revised)**	**BISP Allocation (Budgeted)**	**BISP Allocation (Revised)**
2016	137.60	196.54	102	102.00
2017	140.60	168.95	115	111.50
2018	138.84	147.61	121	113.00
2019	174.79	254.99	124	124.70
2020 [a]	271.50		180	

BISP = Benazir Income Support Program, FY = fiscal year.
[a] Projected for the FY.
Note: The FY of the Government of Pakistan ends on 30 June.
Source: Asian Development Bank, Government of Pakistan.

7. The upward revision in subsidies put more pressure on other fiscal allocations, especially for social protection, as every year the government has to revise its tax collection target downward because of the weak performance of tax collecting agencies (Table 4).

[2] Allocation to the BISP is made outside Public Sector Development Program.

Table 4: Status of Original and Revised Tax Collection Targets

FY	Tax Revenue Target (Revised) (PRs billion)	Tax Revenue Target (Original) (PRs billion)	Downward Revision in Tax Collection Target (%)
2016	3,419	3,418	0.0
2017	3,825	3,956	(3.3)
2018	4,147	4,330	(4.2)
2019	4,393	4,888	(10.1)
2020 [a]	5,822	5,822	

( ) =negative, FY = fiscal year.
Note: The FY of the Government of Pakistan ends on 30 June.
[a] Projected for the FY.
Source: Government of Pakistan.

B. Overall Financial Position of Executing Agency

8. Latest audited financial statements for the fiscal year ended 30 June 2018 show a surplus receipt of Rs.1.94 billion over payments. The payment trend also shows that the major expenditures of the BISP include UCTs that cover basic needs like nutrition and education. This indicates that the expenditures are incurred within the budgeted figures.

Table 5: Status of Receipts and Payments
(PRs billion)

FY	Total Receipts	Total Payments	Surpluses
2016	104.42	101.99	2.42
2017	107.01	110.88	(3.87)
2018	108.57	106.63	1.94

FY = fiscal year.
Note: The FY of the Government of Pakistan ends on 30 June.
Sources: Audited financial statements of the Benazir Income Support Program.

9. The reporting period of the statement of receipts and payments mirrors the FY. The statement of receipts and payments is prepared using the cash basis of accounting and is presented in Pakistan rupees, which is the BISP's functional and presentation currency. Receipts of funds consist of receipt from the Government of Pakistan and donors. The BISP recognizes receipt of funds allocated to the BISP by the government upon quarterly release by the Ministry of Finance and endorsement by the Accountant General Pakistan Revenues, as communicated to the National Bank of Pakistan. The BISP recognizes receipt of funds from development partners upon the State Bank of Pakistan's advice to the National Bank of Pakistan of the amount credited in the assignment account of the BISP. In development partner assigned accounts, the funds released by the development partners are routed through the State Bank of Pakistan by converting foreign currency to Pakistan rupees per the State Bank of Pakistan's Revised Accounting Procedure 2013 for revolving fund accounts. Expenditure is recognized on the date when payment is made. In accordance with section 13(4) of the BISP Act 2010, donations and grants received by the program shall be exempt from all taxes.

C. Rationale of the Program

10. The BISP is a federal social safety net initiative of the Government of Pakistan. Its long-term objectives include meeting the targets set by the Sustainable Development Goals by eradicating extreme and chronic poverty and empowering women through the provision of comprehensive social protection. The BISP is headquartered in Islamabad and has a

nationwide presence, with six regional offices in provincial capitals. There are 34 divisional and 385 district offices across the country.[3]

11. The Prime Minister announced the Ehsaas poverty alleviation program on 27 March 2019 with its four pillars ([i] addressing elite capture and making the government system work for equality, [ii] safety nets, [iii] human capital development, and [iv] jobs and livelihoods) and 115 policy actions to reduce inequality, invest in people, and lift lagging districts. Under this program, the government has allocated an additional PRs80 billion to the country's social protection spending in the FY2020 budget, bringing this spending to PRs120 billion by FY2021. The program is for the extreme poor, orphans, widows, the homeless, the disabled, the jobless, poor farmers, laborers, the sick and undernourished, students from low-income backgrounds, poor women, and the elderly.[4]

D. Additional Financing by ADB

12. The BISP will implement the proposed project as the executing agency. The project will enable the expansion of the UCT program; contribute to further improvements in the financial management and control systems of the BISP for mitigating risks of error, fraud, and corruption; and strengthen policy research functions. The project will have following outputs:

(i) **Cash transfer program expanded.** As of January 2019, the BISP had disbursed a cumulative total of PRs537.57 billion through UCTs to over 5.6 million families. The additional financing will continue to provide a financial cushion in the form of UCTs to the poorest of the population.

(ii) **Institutional strengthening to support cash transfers.** The additional financing will also support the BISP in institutional strengthening to improve the financial management systems and mitigate any risks.

(iii) **Institutional strengthening to support policy research.** A policy research unit will be established to help the BISP implement ongoing programs effectively and transition from its UCT-oriented approach to one that will have a greater impact on reducing intergenerational poverty in line with the Ehsaas program.

E. Project Benefits

13. The project will yield some benefits that are difficult to quantify. However, investing in social protection can yield fiscal savings for the government in the medium term. As the poorest households become more resilient to shocks, build their human capital, and are able to improve their employment potential, their need for government support decreases. In the short term, resources spent through the cash transfer program of the BISP can have an important positive multiplier effect on local economic activity through consumption spending by the beneficiaries. Further, the households falling in the lowest income quintile typically spend most of their monthly income on food, rent, fuel, and lighting. The government also earns revenue from the consumption expenditure.

[3] Government of Pakistan, Ministry of Finance, Finance Division. 2019. *Pakistan Economic Survey 2018–19*. Islamabad.

[4] Government of Pakistan, Prime Minister's Office. 2019. *Ehsaas: Prime Minister's Policy Statement*. Islamabad.

F. Financial Management Assessment

14. The financial management assessment (FMA) of the executing and implementing agencies includes a review of accounting and financial reporting systems, internal and external auditing arrangements, staffing, fund disbursement procedures, and financial information systems. ADB guidelines for undertaking an FMA involve the following steps: (i) use a standard questionnaire to assess the financial management of the relevant project implementation units; (ii) identify issues for review based on results of the questionnaire; (iii) review recent assessments made by other development partner agencies, the latest audited financial statements, and approved manuals and charters; and (iv) identify appropriate financial covenants to monitor financial conditionalities of the project for which the implementing agency would be responsible.

15. The FMA recommends capacity development measures to ensure that BISP will be able to meet the project's financial management requirements. The FMA proposes strengthening the BISP's financial management capability to manage the project outputs, including by (i) appointing full-time and dedicated staff with experience in handling foreign funds in the finance and audit departments, (ii) appointing finance staff to manage project accounts, and (iii) seeking external financial management assistance or hiring additional finance staff as needed.

16. The project financial management pre-mitigation risk is assessed *substantial* with key areas of weaknesses indicated as follows: (i) delay in appointment of credible external audit firm; (ii) audit observations raised by the Auditor General of Pakistan are not settled in a timely manner and some of the observations are pending settlement with the Public Accounts Committee; (iii) the internal audit department of the BISP is not adequately staffed with information technology (IT) audit-trained personnel; (v) the key post of director of internal audit is yet to be filled; (vi) the BISP follows the cash-based system of accounting; (vii) there is no integrated financial management system with other departments; (viii) manuals for conditional cash transfers and UCTs are yet to be approved by the BISP Board; (ix) the IT policy needs to be amended to include the scope of the management information system audit, periodic risk assessments, access rights, and data encryption need to be emphasized.

G. Conclusion and Recommendations

17. Due to continued support from government as counterpart funding, the overall financial position of executing agency is satisfactory and adequately covers all the operational expenditures. Between FY2016–FY2020, the government is persistently financing around 90% of the expenditures despite the fact that the tax revenue targets are revised downward almost every year. The share of the allocation to BISP as percentage of GDP has increased from 0.32% during FY2016 to 0.46 % during FY2020, whereas the share of untargeted subsidies has hovered between from 0.50%–0.70% over the same period, which indicates Government's commitment to shift its budgetary resources from untargeted to targeted subsidies. However, BISP needs to strengthen its financial management capacity, budgetary control systems, IT audit and finalization of contracts with banks (the latter which is also a structural benchmark targeted for October 2019 under the recently approved IMF Extended Fund Facility). Specific risk mitigation measures include: (i) BISP shall develop and implement a comprehensive and dynamic Risk Management Framework, (ii) Principal Accounting Officer and Director General (Finance & Accounts) to constitute the Budget Scrutiny Committee, and (iii) Board of Directors to approve an external audit appointment policy that incorporates leading practices on selection and evaluation, including timing and term of appointment, emphasizing quality over cost, etc.