

**CONFERENCE ON
"RESOURCE MOBILISATION AND EXPENDITURE
PLANNING"**

**PAPERS, PROCEEDING AND
CONSENSUS**

**SPONSORED
By**

**FINANCE DEPARTMENT, GOVERNMENT OF PUNJAB
And
CANADIAN INTERNATIONAL DEVELOPMENT AGENCY**

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LIST OF ABBREVIATIONS

A DP	Annual Development Programme
AER	Average Effective Rate
AIT	Agricultural Income Tax
ARV	Annual Rental Value
BDA	Bahawalpur Development Authority
BHU	Basic Health Unit
BOR	Board of Revenue
CBO	Community Based Organization
CDL	Cash Development Loan
CIDA	Canadian International Development Agency
DA	Development Authority
DC	Deputy Commissioner
DR	Development Expenditure
DG	Director General
DGK	Dera Khazi Khan
DTP	Domestic Trade Price
E & T	Excise and Taxation
ETD	Excise and Taxation Department
GDP	Gross Domestic Product
GOP	Government of Pakistan
GO Punjab	Government of Punjab
GRP	Gross Regional Product
GST	General Sales Tax
HIS	Health Information System
IBA	Institute of Business Administration
IJI	Islami Jamhoori Ittehad
KESC	Karachi Electric Supply Corporation
LGO	Local Government Ordinance
LI IV	Lady Health Visitor
LMC	Lahore Metropolitan Corporation
M & R	Maintenance and Repairs
MNA	Member of National Assembly

MVT	Motor Vehicle Tax
CRD	National Centre for Rural Development
NEMIS	National Education Management Information System
NEC	National Finance Commission
NGO	Non Government Organization
NLC	National Logistics Cell
NRSP	National Rural Support Programme
NWFP	North-West Frontier Province
O & M	Operations and Maintenance
ORCD	Organization for Economic Co-operation and Development
PCI	Planning Commission From 1 (Project Brief)
PCIV	Planning Commission From 4 (Project Completion Report)
PCT	Professions Callings and Trades
PHED	Public Health Engineering Department
RDA	Rawalpindi Development Authority
RHC	Rural Health Centre
RWSS	Rural Water Supply and Sanitation
SAP	Social Action Programme
SB!	State Bank of Pakistan
SDP	Special Development Programme
SDPI	Sustainable Development Policy Institute
SMO	Senior Medical Officer
SP	Superintendent of Police
TTP	Tax on Transfer of Property
UNDP	United Nations Development Programme
UNICEF	United Nations Children Fund
USSR	Union of the Soviet Socialist Republics
UWS	Urban Water Supply
WAPDA	Water and Power Development Authority
WASA	Water and Sanitation Agency

SESSION 1
INAUGURATION

**THE WELCOME ADDRESS OF H.E. LOUISE A. DELVOIE
THE HIGH COMMISSIONER OF CANADA
PAKISTAN'S ECONOMIC AND HUMAN CHALLENGE**

Chief Minister Wyne, Finance Ministers, distinguished guests, ladies and gentlemen.

Let me begin by congratulating the government of Punjab, its Chief Minister and Finance Minister for their foresight in wanting to tackle the myriad of issues and problems which this conference is to address. The fact that you are determined to meet these challenges head on speaks well for the chances of success.

My address to you today is the culmination of an eighteen month program of support which the Canadian High Commission has provided to the preparation of Pakistan's social action program and which has so far resulted in the publication of detailed reports on resource mobilization and spending for each province of Pakistan. While the financial support may have been Canadian I take great encouragement from the fact that the work was carried out entirely by Pakistanis. I believe this is an indication of the quality of talent in this country, a talent which will be in increasing demand in the years ahead.

Pakistan has known numerous economic successes since independence and in the decade of the 1980's grew at approximately the same rate as Singapore. This record of performance gives one a certain measure of confidence that the entrepreneurial spirit of Pakistan will continue to carry it forward. There are, however, three factors confronting Pakistan today which temper optimism for the future.

The first and most important factor is that Pakistan's economy has for years been carrying the triple burden of an illiterate, unhealthy, rapidly growing population. With each passing year this burden grows larger and acts as a stronger brake on economic and social progress.

The second factor is that the world is no longer the place it was even five years ago. Now knowledge and the knowledge-based industries hold the key to economic success in the

twenty-first century. Nations will increasingly compete through high-quality human resources, quality which manifests itself in a skilled, literate and healthy workforce which an economy is able to employ productively.

The third factor is the embracing by most of the developing world of a single model of development based on an outward oriented, integrationist approach to economic development and international trade. Many developing nations with better developed human resources than Pakistan are reorienting their economies and will become much more competitive in the near future. As a result, Pakistan must continually increase the quality of its products to stay competitive in tomorrow's world.

These three factors characterize the key long-term economic challenge facing Pakistan. That is: the need to upgrade its human resources quickly and dramatically. This challenge is doubly daunting when one considers that Pakistan is starting from so far behind most developing countries. The fact that under Pakistan's constitution social sector development rests largely with the provinces makes it clear why this conference is being held in Lahore this week. But it may also tend to obscure the fact that human resource development is just as much an economic as a social issue.

A glance at the program reveals that this conference is about raising more money and spending it more efficiently. If Pakistan is to address its critical development needs it must first of all find more resources for all its programs. This need for resources cannot simply be met by borrowing more money today so that it can be repaid tomorrow. We have seen the consequences of too much borrowing in Canada and, I can assure you, they must be avoided.

But if it is to be successful, the search for additional resources must be open, equitable and vigorous. All sectors of the economy and all segments of society should be expected to make their fair contribution to the national purpose of enhancing Pakistan's socio-economic infrastructure, and hence its international competitiveness.

Once more resources have been found the key is not simply to spend them, or even to spend them where they are needed, but rather to spend them judiciously and effectively where they

will have the greatest impact: on the development of Pakistan's human resource base. A second focus of the conference, then, is the need for more efficient and effective programming in the social sector. This includes making the current system work better as well as designing and implementing new parts to the system to bring it closer to the people most affected; people far from the capitals of Islamabad, Peshawar, Quetta, Karachi and Lahore: people on the farms and in the villages of rural Pakistan. This need for greater decentralization in Pakistan's social sector is often talked about. It will be up to people like yourselves to bring it to fruition.

Let me conclude with the observation that Pakistan rededicated itself to improving the lives, skills, and abilities of its people last year when it prepared the social action program. This document confirms Pakistan's desire to remove the triple burden of illiteracy, ill-health, and unrestrained population growth, and points to a solution. The challenge will be to follow that lead and prove the gainsayers wrong: to prove that Pakistan is up to the demands of tomorrow's world. It is your challenge! On the basis of the experience gained in the course of forty years of cooperation between our two countries, I believe this is a challenge Pakistan is ready to face.

KEYNOTE SPEECH OF SHAH MAHMOOD QURESHI THE FINANCE MINISTER, GOVERNMENT OF PUNJAB

Hismillah-ir-Rehiman-nir-Rahim

Mr. Ghulam Hyder Wyne, Chief Minister Punjab, Mr. Louis Delvoie, High Commissioner. Canada,
Ladies and Gentlemen,

Assalaaiii-o-Alaikum.

Before I start on my key note address I would like to thank the Honourable Chief Minister for gracing the occasion and finding time to participate in the conference. And I would also like (o bring it on record and thank him for all the support that my department and I have received from him in financial matters. I would also like to thank the Canadian High Commissioner and CIDA in particular for all the support in organising and arranging this conference.

1. INTRODUCTION

The present IJI government has embarked on the path of rapid development and self-reliance. Wide ranging reforms have been implemented including privatisation, liberalisation, and deregulation. The provincial governments have a vital role to play in ensuring that the resulting growth in the national economy is translated into improvements in the economic and social well-being of the people. Provincial governments are responsible for the delivery of basic services like education, health, transport, water supply, irrigation, etc., which have a major impact on the quality of life. Therefore, success of provincial governments in expanding and improving delivery of these services is essential for the process of growth to be combined with greater social justice and welfare.

Tins conference on Resource Mobilisation and Expenditure Planning by provincial governments, with a special focus on Punjab, comes at the right time. It provides an appropriate forum for identifying and discussing the ramifications of the 1991 National Finance Commission award on the nature of inter-governmental fiscal relations in the country and for deriving the implications of this award on the financial health of the provinces and their ability to deliver services in future. We will indeed be fortunate to have at tins

Conference the Finance Ministers of other provinces also. This will enable fruitful dialogue and a common identification of the problems and potential solutions.

We also hope that the recommendations of the Conference will be useful in re-directing and developing our thinking in subsequent years. It is important, therefore, that the deliberations in this conference are carefully recorded and an attempt made to achieve a consensus on the major recommendations.

2. TRENDS IN FINANCES

Let me start first by reviewing the trends in Punjab's finances. There has been relatively slow growth in provincial revenues during the last two decades. One of the major reasons for this is that the federal government has pre-empted the more broad-based and buoyant sources of income. Simultaneously, current expenditures of the provincial government have increased at a faster rate. This rapid increase can largely be attributed to factors which are outside the control of the provincial government, like inflation, high population growth, and rapid urbanisation. The divergence between the growth of revenues and expenditures has led to a situation of chronic revenue deficit not only in the case of the Punjab government, but also, I believe, in the case of the other provinces.

This state of affairs was exacerbated by the delay in the announcement of a new NFC award, which was due in 1979. Some relief was provided in the interim by the federal government through revenue-deficit grants. However, a ceiling was imposed on these grants in 1988-89, which put severe pressure on provincial finances. By 1990-91, the resort by the government of Punjab to over-drafts with the State Bank of Pakistan had approached Rs 200 Crores.

3. IMPACT OF THE NFC AWARD

In 1991 the present government was able to finalise the NFC award. This is indeed a great achievement and highlights the spirit of co-operation which now exists among the provincial governments and the federal government. The NFC award looks generous towards the provinces if we consider the enlargement of the divisible pool, with direct transfers in the shape of net profits on hydro-electricity, royalty and surcharge on gas and oil. But this increase in federal transfers is largely washed out if we allow for the following: first.

elimination of federal revenue deficit grants, second, the need to bring down the overdraft (the SBP), third, the backlog in expenditures on repairs and maintenance following the imposition of a ceiling on revenue deficit grants in 1988-89, and fourth, the Pay Committee award of 1991 which increased the expenditure of all provincial governments and in particular of the Punjab government by almost Rs 300 Crores.

The consequence is that in 1991-92, the first year after the MFC award, the government of Punjab was able to show a revenue surplus of only Rs 174 Crores. The surplus reflected in the 1992-93 Budget is expected to decline sharply primarily because of the Hoods. Our expenditures have gone up and our receipts have dipped. In fact, if present trends continue, we may be back to a deficit situation by the next financial year. By 1995-96, the last year of the current NFC Award, the Government of Punjab could find itself confronted with a revenue deficit. This underscores the acute need for greater resource mobilization and improved expenditure planning.

Some fiscal responses of the federal government in the wake of the NFC award have been unfavourable to the provincial governments. Fiscal effort by the federal government is increasingly being concentrated on taxes outside the divisible pool. In the federal budget of 1992-93, only about a third of the revenues proposed to be generated from taxation proposals are in divisible pool taxes. This is despite the enormous revenue potential that exists in taxes in the divisible pool. Provincial governments must be given an opportunity to formulate proposals for development of divisible pool taxes.

Furthermore, the federal government has shown a tendency recently to reduce development transfers to the provinces. Following the NFC award, SDP allocations have been phased out. In 1991-92, total federal transfers to Punjab, in the form of development grants and loans, have declined to Rs 964 Crores from Rs 1036 Crores in the previous year.

Therefore, the post-NFC scenario necessitates greater self-reliance by the provincial governments on generation of revenue surpluses in the non-development budget for financing development needs. Concerted effort will be needed to restrict growth in non-development expenditures and to mobilise higher revenues. However, additional resource mobilisation will

be meaningful only if non-development expenditures are curtailed side by side. Otherwise, additional resources mobilised would be offset by expenditures on the non-development side, leaving little surplus for development. The policy must be to use revenues from additional taxation primarily for increasing development outlays.

The Government of Punjab has risen to the challenges and imperatives of the Post-NFC era and has already made serious effort to restrain expenditure and raise revenues, as has been evidenced in the last two budgets of 1991-92 and 1992-93. It is the only province to introduce taxation proposals after the NFC Award. Its resource mobilisation effort in taxes, especially in stamp duties, yielded an additional revenue of Rs 75 Crores in the last budget. Also, the growth rate in current expenditure of the Punjab government was 18 percent in 1991-92, as compared to the overall growth rate of such expenditure by the four provincial governments combined of 23 percent.

In an effort to evolve a medium-term policy framework, the Finance Department of the Government of Punjab constituted two committees; one to study the scope for resource; mobilisation and the other for economy in expenditure. I am pleased to report that recommendations of the two committees have been received and have either been implemented already, or are under the active consideration of the Punjab government.

4. EXPENDITURE PLANNING

4.1 Current Expenditure

The Finance Department can only play a recommendatory and regulatory role in the process of provincial expenditure planning. Success can be achieved in economising expenditure and in improving the utilisation of development funds, only if the nation's building departments play a key role in this process. I have already highlighted the fact that unless there is control on the growth of current expenditure, the province will be confronted with a huge revenue deficit in the next few years. Current expenditure already accounts for over two-thirds of the provincial budget and any economy in this area will release significant additional resources for development.

Cornerstones of an expenditure planning strategy must include measures to economise on current expenditure. It will be necessary to study the scope for privatisation of corporations that are either deficit-prone and require large provincial subsidies, or can be run on commercial lines. Also, restructuring and reorganisation of line departments will be required to avoid unnecessary duplication and wastage and to minimise overhead costs. Furthermore, expenditures will have to be made more cost-effective. The basic point is that a rupee saved is equivalent to a rupee earned. Measures aimed at achieving greater cost-effectiveness will include diversion of expenditure from non-productive to productive heads.

Another potential area is the decentralisation of the provision of some services. The Punjab government is currently involved in the provision of services which are essentially the responsibility of local governments, as per the local Government Ordinance of 1979. Examples include health, primary education, water supply, etc. The provincial line departments traditionally have had problems in the transfer of schemes, for maintenance purposes, to the local councils. Development of better modalities for achieving this transition are needed. For example, instead of the current arrangement, the line departments may be motivated to undertake deposit works for local councils if the latter require technical and institutional support. Funding of local development projects could be promoted in selective areas by the introduction of matching grant schemes by the provincial government.

There is also a need for increasing the involvement of the private sector in areas like education, hospitals etc, where significant scope exists for cost recovery by improvement in the quality of services provided. Further, in the case of certain community-based services, like water supply and sanitation, efforts must be made for greater involvement of NGOs. The establishment of provincial Education and Health Foundations is a useful first step in this regard. Proposals for streamlining the operations of these Foundations are welcome.

Cost effectiveness of current expenditures can be enhanced significantly by introducing performance budgeting, which will link budgetary allocations to achievement of physical targets. Also, provincial departments must move beyond annual budgeting to financial projections for three to five years to know, in advance, their financial position in coming years. Some scope also exists for reclassification of budgetary heads. For example, the

increase in expenditures on social sectors is not to be viewed as entirely of a non-developmental nature; rather some of it is investment oriented, as, for example, the salary of a teacher without whom a school building would be non-functional.

On top of all this, there is need for coordination in expenditure planning between the provincial and federal governments. Action by the federal government, either directly or indirectly, results frequently in increased provincial liabilities. It is important that such actions are not taken unilaterally. Recent examples include the Pay Committee Award and increase in food subsidies. In such cases, it is legitimate on the part of the provincial governments to ask for larger subventions from the federal government to finance the additional liabilities.

Debt servicing of federal loans is pre-empting a growing portion of provincial resources. In 1991-92, debt servicing constituted 25 percent of current expenditure in Punjab as compared to 19 percent ten years ago. Part of this burden is because federal government charges heavy interest on loans given by international donors on relatively easy terms. I strongly emphasize (lie need for reducing the profit component in the interest rate charged from the provincial governments on cash development loans from the federal government.

4.2 Development Expenditure

The current level of development expenditure by the government of Punjab is inadequate. Therefore, not only must development expenditure be increased but the share of social sectors, in particular, will also have to be enhanced.

Coupled with the inadequacy of development expenditure is the deterioration in the efficiency of such expenditure, as reflected by the growing inability of projects in the province to yield increments in coverage. For example, government of Punjab has increased its expenditure in real terms on primary education at the annual rate of almost 9 percent over the last twenty years. As compared to this, enrollments have risen by only 5 percent per annum during this period. Reasons for this failure of expenditures to be translated into growth in service coverage are to be found in escalation in unit costs, low priority on operating and maintenance expenditures, inadequate institutional arrangements including lack of

involvement of beneficiary communities and local agencies, and the general lack of recognition that investment programmes must be demand-driven to be successful.

One of the fundamental problems with planning of development expenditure is the tendency to carry too large a portfolio of projects within the provincial ADP. A recent study, sponsored by CIDA, estimates that there are over 2600 schemes being executed currently in (the) social sectors of Punjab. The total cost of these schemes is about Rs 2400 crores. Given the annual allocation of about Rs 400 crores to these schemes, the government of Punjab is executing an investment programme, which is six times the annual allocation. Consequently, the gestation period of projects is too long. This has led to cost overruns, partial implementation frequently, and major lags in the realisation of benefits from investments.

Simultaneously, the tendency to carry too many projects in the pipeline stretches the capacity of the provincial planning machinery and line departments to properly prepare, approve, implement, and monitor schemes. Therefore, one of the basic requirements for proper expenditure planning is discipline in the process of project selection and approval, whereby new schemes are included in the ADP only if adequate provisions have already been made for on-going projects. Also, we must seriously consider the introduction of zero-based budgeting as a mechanism for evaluating investment programmes so as to ensure that only those projects are included which possess a strong economic and social justification.

Finally, there is also a key missing link in the project identification process in the form of medium-term; sector-level investment plans at the provincial level. Such plans are required on the one hand to reflect the overall development priorities and allocations in the five year plans, and on the other hand to set up proper project selection criteria.

In view of the above, development expenditure planning is in need of serious review to make it not only cost-efficient but also cost-effective. This becomes all the more necessary as we gear up to make a big push in the social sectors under the Social Action Programme. Priority must be placed on improving institutional arrangements for delivery of services by enhancing implementation capacity of line departments, exploring the scope for greater involvement of the private sector in the planning and development stages and promoting greater community

involvement in the choice, execution, management, and financing of projects. In the absence of these institutional changes, there is the serious danger that the SAP initiative may not achieve its targets for improvements in social indicators, despite quantum increases in the development outlays for social sectors.

5. RESOURCE MOBILIZATION

Turning now to resource mobilisation, a number of basic issues arise in the context of provincial taxation. These include, first, limited fiscal powers of the provincial governments. Most of the broad-based taxes like income tax, sales tax, and customs duties have been preempted by the federal government leaving provinces only with residual fiscal powers.

Even with the very limited taxation possibilities that are available to the provincial governments, the federal government is not loathe to making inroads into the traditional taxation areas of the provinces — (e.g. recent measures introducing withholding taxes on property and motor vehicles). With the introduction of such taxes, the revenue base of provincial governments is being further eroded. In addition, retail sales tax was given to the provinces as per para 45 of the NFC award. However, the federal government has encroached into this area also and introduced a retail sales tax recently on 21 items, mostly consumer durables.

Second, provincial taxes lack elasticity and buoyancy. As a consequence, revenues from provincial sources do not increase in line with increases in income. An important reason for this is that bulk of the provincial taxes like motor vehicle tax, stamp duty, land revenue, etc. are specific in character.

Despite these limitations, the government of Punjab has tried to mobilise additional resources during the last few years. Provincial own revenues currently contribute 23 percent to total revenue receipts, which is the highest among the four provinces. Also, per capita revenue is the highest in Punjab at 12 percent above the national average. This indicates that the government of Punjab has been making a greater effort to mobilise revenues.

In this context, we appreciate the incentive introduced by the federal government for greater fiscal effort by the provincial governments. Following the 1991 NFC award the federal government has made a commitment that for every rupee generated by a provincial government from taxation proposals it will give a matching development grant of one rupee. The Punjab Government has been the first to avail of this incentive. We have received Rs 75 crores from the federal government as a matching grant to the revenues generated by us from taxation proposals in the 1991-92 budget.

Third, provincial tax administration has not received due attention. The tax collection system is fragmented and lacks innovation. Tax departments perform a multiplicity of functions besides revenue collection. Personnel lack specialization and opportunities for training and upward mobility. There is need for institutional strengthening and human resource development in this area.

Also, to improve record keeping and the quality of assessments, computerisation of provincial tax administration must be given high priority. Some effort has already been made in tills regard. As a first step, computerisation of property tax and MVT systems promises to yield large revenue gains. The Resource Mobilisation and Tax Reforms Commission is supporting us in this area. Also, the Finance Department of Government of Punjab is currently being computerized.

The strategy of resource mobilization from provincial taxation must be based, first, on the principle of progressivity: additional taxation should impose a burden only on the upper income groups. Second, provincial tax reforms must enhance the built-in elasticity of the tax system. Third, priority must be attached to diversification of the revenue base.

User or benefit charges provide a promising area for resource mobilisation. Apart from enabling public agencies to recover the cost of service provided, there are also possibilities for cross-subsidization to meet socio-economic objectives. The government of Punjab being aware of the resource mobilization potential of user charges has begun to slowly introduce user charges in some areas of public sector activity.

The strategy of resource mobilization from user charges should emphasize the reduction in subsidies to economic sectors, with high private returns, to enable more public resources to be diverted to social services. In addition, cross-subsidization should be attempted within social services in line with levels of affordability and willingness-to-pay. We have to understand that if we want a qualitative and a quantitative improvement in services, then we must be willing to pay for the costs at such improvements.

Altogether, we believe that during the next few years it will be essential to mobilize more resources from provincial own revenue sources if a situation of growing revenue deficits is to be avoided. Simultaneously, there will have to be serious attempts at restraining the growth of current expenditure so as to ensure that the resources generated from additional taxation are used primarily for development.

[CONCLUDING REMARKS]

In conclusion, I would like to say that we have tried to keep the format of the conference as informal as possible, with less speeches and more discussions, so that the participants can fully contribute to the deliberations. I wish the conference all the success and look forward to participating in all the discussions.

Thank you.

**INAUGURAL ADDRESS OF H.E. CH. GHULAM HAIDER WYNE
CHIEF MINISTER, PUNJAB**

Bismillah-ir-Rehman-nir-Rahim

Distinguished Ladies and Gentlemen,

In the context of the present day global as well as national economic perspective, this conference is of a paramount importance as economic issues are becoming increasingly important in the lives of individuals as well as nations.

While the world of ten to fifteen years ago was dominated by a few opposing political ideologies the last few years particularly after the collapse of USSR symbolize the relegation of the role of political ideologies to a secondary place. Economics and markets have attained a pivotal position in present day national and international life. Today international relations are based more on economic interests than on political ideologies. In future not only would (he success of any government depend upon the foreign policy adequately reflecting economic considerations but national politics too, would be largely governed by economic policies reflecting rising aspiration and rapidly changing worldwide trends.

Against the rapidly changing world economic environment, this conference would provide a useful forum for discussing aspects of and difficulties to be overcome in attaining economic self-reliance. Earlier in a seminar conducted by the Pakistan Economic Forum, in February, various economic problems facing the Governments and the people were discussed and recommendations were made for evolving an appropriate National Economic Policy framework.

Today's seminar on "Resource Mobilization and Expenditure Planning" in the social sectors arranged by the Finance Department, Government of the Punjab, in collaboration with C.I.D.A., focuses on the economic problems of provinces especially Punjab. Punjab is not only the largest province of Pakistan but is rich in natural and human resources. Therefore,

there is a need for carefully formulating a strategy for achieving self-reliance in the context of existing resources.

I hope, in the light of valuable views of the economic experts participating in the seminar, such recommendations would be formulated which would help the provincial government in mobilizing the resources available at provincial level, and in planning its expenditure, which would not only enhance investments and provincial financial resources but would also be helpful in achieving the objectives of self-reliance.

It must be stated that this seminar is reflective of our current effort to thrash out the economic problems systematically instead of pursuing policies of 'ad hocism'. This considered approach to policy making would hopefully bring about positive results.

Ladies and gentlemen, in the past two years the Government of Prime Minister, Nawaz Sharif, eschewing fostering of false dreams and empty slogans of sympathy with the people, has taken practical steps to really solve the problems of the people, by providing them needed amenities. I am proud of the fact that politically awakened people of Pakistan have supported the Prime Minister Nawaz Sharif in his endeavours towards the achievement of self-reliance. The revolutionary economic policies of the present Government have also been lauded at international level.

Ladies and Gentlemen, In order to achieve high ideals and goals, unflinching commitment and strong resolution are essential, and for that matter one has to brush aside all personal and political considerations. If one allows oneself to be swayed by personal considerations, the chances of success become bleak. In utter disregard of political expediencies and international compulsions, the present Government has risen above narrow sectional group interests and is working towards the progress and prosperity of all the sections of society. Serious efforts have been made to ensure that civic facilities reach the poorest sections of the society, so that acute poverty is alleviated and life made more bearable for those in adversity.

It goes to the credit of the Government that it has, for the first time in the history of the country, activated the democratic institutions and thereby has fulfilled the requirements of

the constitution. The Council of Common Interests has been reactivated, and the sensitive issues relating to apportionment of Indus Water, which had been thrown in the cold storage earlier mainly because of political considerations, have been resolved through consensus by (lie tour provinces of Pakistan. Besides, the meeting of National Finance Commission was convened to resolve the long standing financial controversies among the provinces, thereby ensuring the equitable distribution of national resources. Moreover, the impediments adversely affecting the investment culture have been removed, and the requisite safeguards and protections have been provided to the industrialists and foreign investors. Now the industrial community can no longer complain that red tapism is obstructing its entrepreneurial energies. Furthermore, the present government has confined its policies not only to the affluent class: for the first time in national history, credit facilities have been provided to ordinary citizens. Equal opportunities are available both to people of all classes.

The Government of Punjab has added another feather to its cap by endeavouring to fulfil (lie promise of providing employment to people through its self-employment scheme under the aegis of Small Industries Corporation, Punjab. Similarly the establishment of Punjab Health Foundation and Punjab Education Foundation are steps towards expanding the role of the private sector in providing health and educational facilities for the people.

All these steps are the beginning of the journey. The goal is still for away. But it is satisfying to note that the Government of Prime Minister Nawaz Sharif has determined the goal and progress towards the objectives is continuing with perseverance.

Ladies and Gentlemen, with regard to the forthcoming fiscal year this seminar is being held when the new budget is in the offing. This seminar would help discussion of the problems to be faced in the preparation of the next budget. The imperatives of the National Finance Commission Award of 1991 require that Government expenditures be so planned that the programmes started by the Government, to provide basic amenities to the people, in agriculture, education and social sectors, may be extended further. Recent floods, no doubt, have adversely affected our development projects, but despite financial constraints, the government has made all efforts to bring about normal life in the flood affected areas.

Instead of exploiting the situation politically the government has really helped the flood affected people.

While preparing our next budget an important consideration should be that in view of our limited resources, efforts may be made to economize on non-development expenditure to provide maximum financial resources for the development projects and Social Action Programme. The Social Action Programme sponsored by the present Government is a programme for enhancing development through the provision of health and education facilities to the people. The Government intends to complete this programme by all means: we are determined to do so.

In the context of an adverse international economic situation, and one where foreign aid flows have considerably dwindled, we are endeavouring to achieve economic self-reliance despite many difficulties. Blessed as we are with resources and creative and enlightened brains, attending to solve our own problems endogenously should not be a very tall order. I am confident that by the grace of Almighty Allah and through a careful pruning of expenditures and cautious planning of priorities, resources can be found for carrying on the welfare programmes of the present government.

Towards the end I would like to express my heart felt-thanks to the Canadian International Development Agency for their cooperation and support in sponsoring this conference and my gratitude to his Excellency, the High Commissioner for participating in person on this occasion. His presence in this ceremony speaks of his deep interest in our economic policies in general and social action programme in particular. This is a symbol of true friendship of Canada with the people of Pakistan. To put a country on the path of prosperity is like a long and arduous journey and in order to cover any journey good companions are needed. I hope that with the friendship and help of the Canadian Government and its people the social action programme of the present Government would become a reality.

I, being a Pakistani, believe in determination and action. All Pakistani are part of a courageous mission to build this nation. History provide ample evidence that men of determination have won the support of Allah Almighty and I hope the Prime Minister Nawaz

Sharif's sincere plan of public welfare would become a reality. With this paper, I have great pleasure in inaugurating this confidence.

Thank you.

SESSION II
EXPENDITURE PLANNING

THE IMPLEMENTATION ENVIRONMENT OF THE SOCIAL ACTION PROGRAMME

By

Javed Sadiq Malik

1. INTRODUCTION

This paper addresses some of the significant underlying factors that have militated a more efficient level of social services delivery in the implementation of the Social Action Programme (SAP). Some of these factors are set in our political context while others stem from a compulsively inert bureaucratic outlook. Taken together, they give rise to a set of formidable impediments that have checked the effective filtration of social services down to the local level. The purpose of the paper is not to focus on the technical nature of such impediments but rather to discuss broadly the elements that contribute to a non-supportive environment for better social sector service delivery.

The discussion will focus, first, on the necessity of a programme for social action in Pakistan; second, highlight briefly the major reasons for slow progress in the SAP sub-sectors; and third, scrutinise closely the aspects of implementation in its political and administrative context. As a final shape has yet to be given to the SAP Operational Plan for the Punjab, approaches for better implementation will only be discussed in broad directional terms.

2. THE BASIS FOR SAP

2.1 The focus of SAP

SAP focuses on what are accepted to be some of the most critical requirements for human development, emphasizing on the five strategic sub-sectors of basic education, basic health, nutrition, rural water supply & sanitation and family planning.

The concerns of SAP are by now well documented and need only be discussed briefly. At a first level, it generally emphasises faster progress in the five sub-sectors mentioned. A secondary focus of the programme is on the education and health of the female population owing to the multiple dividends that such investment pays. A further area of concentration is the localization, to the extent possible, of social service delivery to the level of the beneficiaries, preferably by inducting them into the delivery system process. Finally, the SAP

approach envisages an integrated and closely coordinated pattern of mutually enforcing interaction between its various elements as opposed to the unlinked activity of autonomous projects.

The choice of SAP sub-sectors is based on their intimate relationship to human development as also to the fact that there exists between them a mutually compatible relationship so that improvements in one have a definite contribution to the potential of advancement in another. Education raises preventive health consciousness; family planning contributes to improving mother and child health; clean water and drainage prevents disease. Hence the emphasis on an integrated "programme" approach.

Targeting the female population as a priority under SAP has as its basis the influence of women in their role as mothers and home managers. Higher levels of awareness in educated and healthy mothers tend to translate into hygienic domestic practices and the promotion of child education and health. As for beneficiary participation in the social service delivery processes, this is based on the strong current thinking that services are best provided when the individual interest ties up with the general interest and that such a situation best prevails at the level of the community.

2.2 The State of Human Development

Despite an impressive and sustained growth rate, the performance of social indicators in Pakistan has been very poor. Table 1 shows that the GDP growth rate per capita of Pakistan is second only to that of Indonesia.

Table 2 takes a look at some key social indicators and reveals the comparatively poor standing of Pakistan in human development.

3. CONTRIBUTORY FACTORS TO POOR PERFORMANCE

Three major factors have been attributed to failure in Pakistan to adequately address the lethargic progress in social sector advancement: inadequate funding, uncontrolled population growth and ineffective implementation.

TABLE 1
COMPARATIVE GDP GROWTH PER CAPITA
1980-90

			(%)
	GDP Growth	Population Growth	GDP Growth per capita
Egypt	5.0	2.4	2.6
Indonesia	5.5	1.8	3.7
India	5.3	2.1	3.2
Sri Lanka	4.0	1.4	2.6
Pakistan	6.3	3.1	3.2

 Source: World Development Report, 1992.

TABLE 2
INTERNATIONAL COMPARISONS

Indicators	Egypt	Indonesia	India	Sri Lanka	Pakistan
Adult Literacy (%)	44	74	43	87	30
Primary School enrollment (% of age group 1989-90)					
Male	104	120	112	100	49
Female	89	115	81	100	28
Life Expectancy mean 1990 (Years)	60.3	61.5	59.1	70.9	57.7
Calorie supply per capita (% of daily requirement, 1988)	127	120	94	100	92
Access to safe water (% of population 1988-90)	89	58	75	60	55
Infant Mortality Rate (per thou- Scind live births, 1991)	62	61	84	16	94
Maternal mortality (per 10,000 live births, 1989-90)	320	450	460	80	500

Source: UNDP Human Development Report, 1991, 1992
World Bank, World Development Report, 1990
UNICEF, The State of the World's Children, 1993.

3.1 Funding Deficiencies

Pakistan has in the past spent very low percentages of its GDP on education and health. In the fifties and sixties, the allocation for education was no more than 1% of the GDP which is only now approaching about 3%. In health, the situation still remains very poor with about 1% of the GDP being devoted to this sector. Table 3 shows the public expenditure on education and health in Pakistan as compared to some selected developing countries and reveals the low status that has been accorded to these sectors in Pakistan. Within this meager elocation, the share of the primary sub-sector has obviously been much lower which places Pakistan today at the lower end of human development ranking.

3.2 Population Growth

The high population growth rate of Pakistan is evident in the comparative setting amongst other developing countries shown in Table 1. The little advancement managed through the limited allocations to the social sectors have been overwhelmed by our population growth. It is evident that half the growth in income is taken away by the increase in population.

3.3 Implementation Factors

While funding for the social sectors has clearly been insufficient in the past, the sub-optimal use of such investment has further restrained progress in the social sectors. The structure and process of existing delivery system has failed to convert the available input to potential levels of output. This will be our area of concern in the remaining part of this paper. While the discussion takes into account the set of circumstances affecting better implementation in the Punjab the situation is in all likelihood substantially similar in the other provinces of the country.

4. IMPLEMENTATION CONSTRAINTS

Impediments to better implementation have been a consequence of a mix of factors mainly revolving around the inadequacy of structural arrangement for the development function and exacerbated by the distortion of existing processes and procedures meant to promote service delivery.

TABLE 3
PUBLIC EXPENDITURE ON EDUCATION AND HEALTH
AS PERCENTAGE OF GDP

	Education (1989)	Health (1987)
Egypt	6.8	1.1
Brazil	3.7	1.7
Chile	3.6	2.1
India	3.2	0.9
Thailand	3.2	1.1
Pakistan	2.6	0.7

Source: UNDP, Human Development, 1992. 24

4.1 Planning Capacity

To the extent that successful implementation of SAP depends on sound planning, the province is presently disadvantaged by poor planning capacity generally, especially in the departments concerned. While poor planning practices in the past are manifest today in certain basic deficiencies (such as a reliable sectoral data base) the outlook remains bleak owing to a lack of awareness of the continuing problem. Table-4 gives a profile of the planning wings of the departments of Education, Public Health Engineering and Health and brings out the lack of capacity in these departments to undertake sound planning work.

As long as the planning wings are not provided with the required expertise, inputs from them will continue to be routine. Their weakness is a function of the unattractiveness of the job for personnel belonging to the general cadres of the departments concerned. Planning assignments offer limited potential for the exercise of influence and authority that goes with the other executive department functions and are, therefore, hardly ever sought voluntarily. The consequence is a high rate of turnover and the lack of development of a body of expertise and experience that can lend a professional bias to the function of plan formulation.

Institutional strengthening of departments for better planning and monitoring of development activity is an objective of SAP. The ultimate solution to strengthening such capacity may lie in a separate cadre of qualified and trained personnel. SAP offers the opportunity to do so through its stress on institutional strengthening of Government's delivery capacity. This will engage increasing attention in the Punjab in the first year of SAP.

4.2 Decentralisation

The heavy inclination towards the exercise of authority is further evident in the centralised structure of the service delivery organizations even as they operate at the field level. Even where decentralisation exists, its exercise is subject to considerable informal direction from the superior level. For instance the SMO of a Rural Health Centre has never in a general sense exercised fully his administrative and financial powers as this tends to detract from the authority of the District Health Officer. The

TABLE 4
PROFILE OF DEPARTMENTAL PLANNING WINGS

Department	Personnel	With relevant qualification	With relevant training
Education	6	Nil	3
Health	8	3	1
PHE	6	Nil	1

rigidity that such practices introduce in the delivery system has been evident in starvation at the operational levels of adequate and timely supply inputs and in the ineffective supervision of local departmental activity.

The SAP approach in the Punjab makes a conscious effort to bring down the level of every day decision making to the lower formations of the departments concerned. Towards this end, enhanced administrative, financial and technical powers are sought to be passed down to strengthen levels that constitute the cutting edge of service delivery.

4.3 Political Filters

The formal passing down of supervisory powers may not entirely resolve the difficulties of centralization as much would depend on the extent to which they are allowed to be exercised with independence. We are aware of the misgivings likely to arise within the administrative levels presently exercising such powers and the fact that in bureaucracy higher levels can exert substantial influence over subordinates, formal decentralized arrangement notwithstanding. Nevertheless, there remains considerable potential for better administration of services if the realm of decision making at levels closer to the beneficiary level is enlarged.

There will also remain the problem of decisions going through political filters owing to the deep interest politicians have developed in development in their local areas. Any prospect of enhanced funding is not unnaturally viewed as further opportunities to build local support. It would be unrealistic to expect, therefore, that the additionality of the SAP funding for local projects would be insulated from local political attention.

In recognition of the fact that it may be difficult to eliminate political choice altogether the proposed approach is to circumscribe such discretion as far as possible within a criteria based framework. For instance, while choice of location for primary schools has been allowed in (the investment programme for 1992-93, the choice is restricted to selection from defined number of schools in a constituency, each of which meets the Education Department's criteria for the opening of new schools. Similarly, while the district Development Advisory Boards of each district (comprising MNAs and local body representatives) have been inducted into, for example, the selection process for water supply and drainage schemes, the choices must adhere to the Public Health Engineering Department's criteria for new project locations.

TABLE 5

**TURNOVER OF LADY HEALTH VISITORS IN
ONE OF THE ADMINISTRATIVE DIVISIONS OF THE PUNJAB**

Total Strength in Division	Number of Postings in the last 2 years	Frequency of Postings	
		Number	Turnover rate
349	70(20%)	2	4
		13	3
		21	2
		34	1

TABLE 6
NUMBER OF RHCS, BHUS AND WATER SUPPLY SCHEMES
IN THE PUNJAB

	1988-89	1989-90	1990-91	1991-92	1992-93
Rural Health Centres	241	269	280	283	287
Basic Health Units	1544	1825	2065	2174	2216
Water Supply Schemes	885	1025	1201	1371	1775

low level despite the landscape of the Punjab being dotted with structures meant to serve as outlets for social services. The staff and equipment is equally underutilized owing to lack of attention on the development of systems within which their use would be optimised.

A major reason for this has been the propensity of both the bureaucrat and the politician to focus more on the inputs to the development process with only a vague concern for the output. Within the input effort, the emphasis again has been on the tangible as opposed to its intangible components. And even in the case of physical targets, scrutiny of progress has largely been restricted to assessment of the allocated amounts spent rather than on the quality of the work. This narrow fixation on the part of the bureaucrat stems from his inclination to reduce a complex process to readily identifiable targets to facilitate demonstration of achievement. Physical inputs then become targets in themselves to the exclusion of performance indicators.

For the politician, physical structures are clear and immediate manifestations of political commitment. They reflect tangible fulfillment of promises. Delivery problems are less important than the more prominent and readily observable aspects of facility creation.

SAP hopes to bring about a modification in the expansionist approach by, first, emphasizing on the consolidation of existing facilities through the filling in of the missing deficiencies in the existing structures to equip them for better service. Such deficiencies would include, for example, the provision of water, electricity, boundary walls, latrines etc. to basic health and primary education units. Secondly, there is considerable emphasis on rehabilitation such as in the case of water supply schemes functioning at sub-optimal levels or education and health units in a state of major disrepair. Thirdly, the investment programme caters substantially to supplies and critical consumables, especially in the health sector without which physical facilities are incapable of providing the necessary services. To be able to eventually provide for this kind of recurrent expenditure on a sustainable basis, the allocations for supplies in the investment programme will have to be on a declining basis during the SAP period of 5 years, which means that transfer of funds to the SAP subsectors from within the regular recurrent budget will have to make up the gap on an increasing basis. Only if resources can be freed from tertiary levels of health and education by increasing user charges and affecting economies can such a shift take place. Again, an important element involved in a decision

of this nature is that of political will. Lastly, we are stressing a great deal on putting into place arrangements conducive to better operations through the existing physical facilities. In the health and population welfare sectors, the plan is to integrate the existing facilities through a referral linkage and to provide a better supervisory framework through decentralization. In education, teacher availability and reduced absenteeism are areas of focus sought to be achieved through a combination of local level supervision and incentives. In water supply & sanitation, systems for preventive maintenance, better collection and reduction of per capita cost through service extension are part of the operational plan.

4.5 The Recurrent Budget

A difficult area in SAP, we concede, is the present and future inadequacy of the non-development budget to sustain the level of increased investment proposed to be made in the social sectors. To the extent that there remain deficiencies in such availability, better implementation prospects of the programme will suffer. With the expansionist tradition having paid limited dividends, SAP envisages consolidation and enhanced effectiveness of the existing system by, inter alia, exploring avenues of increased financial support in the non-development sphere.

In fact the shift in resources is envisaged at three levels: from the non-SAP to the SAP sectors; from the development to the recurrent budgets; from the tertiary to the primary level. While the first shift is clearly the most major, it will be most easily achieved owing to the broad nature of sectoral funding. In fact such a shift is a part of the 8th Five Year Plan. The shift of resources from development to non-development presents greater difficulties as trimming down the former does not mean a correspondingly higher availability in the other owing to the quite different sources of funding for the two in the provincial budget. Development funds emanate basically as development loans from the Federal Government to the provinces and can not be used as budgetary support measures for recurrent expenditures. Shifts within the recurrent budget, therefore, carry the only prospect of providing sustainable support from within the government system. And to provide more for the starved primary levels of the social sectors, it means raising resources from the tertiary levels that carry a higher potential for resource generation and that presently reflect a heavy subsidy pattern.

A shift from the tertiary to the primary level offers the biggest challenge in view of the fact that the process involves either withdrawing subsidy on an existing component of a service (such as the decision that indoor hospital patients will arrange for their own food) or increasing charges for services earlier provided free or at low charge. The challenge comes first in the taking of the decision and secondly in ensuring that it is implemented efficiently. The former in view of its unpopular aspect, again requires political will. The latter requires an improved system of collection.

It is evident that increased availability of recurrent funding in the SAP sector will depend mainly on changes brought about for resource mobilization in the other sectors. The important point here is that SAP cannot be planned effectively within the SAP sectors alone.

In recognition of the narrow potential of generating adequate resources from the tertiary levels, there has been much talk about inducting the private sector, NGOs and the community itself into local development efforts. The lack of profit possibilities in social sector services in our rural areas has kept the private sector away from investing in areas where both the demand and the capacity to pay is lower than in the urban areas. Urban based NGOs have also generally been shy to operate in remote rural areas while hardly any rural NGUs exist. Ultimately, it appears, much will depend on the degree to which the community can be involved in the local development process, but this option again presents a major challenge which we will now discuss.

5. THE QUESTION OF COMMUNITY PARTICIPATION

Community participation presupposes community organization and it is in the organizational process that the challenge lies. There is now considerable emphasis by the potential donors on the implementation of SAP through community based systems, especially in the area of water supply and drainage. The Planning Division has joined in this refrain and the 8th Plan now envisages water supply operations as being run on a full cost recovery basis by the community.

While there is little doubt that community managed operations in water supply would be both economical and efficient, it is the very first step of organizing the community that is the stumbling block.

First, social services have never been an attractive proposition for community organization as they promise no immediate and material return. Secondly, the reluctance on the part of the community to organize and manage social services becomes even more pronounced when the services are being provided either free or at low cost by the government elsewhere. Thirdly, government departments have neither the capacity nor the inclination to engage in the community organization exercise (In fact, the authority syndrome militates as much against this kind of decentralization as it does against the prospect of departmental decentralization). Fourthly, communities have little incentive to manage facilities where the personnel concerned are not under their control and form part of the government administrative structure.

Careful thought has to be paid to these aspects of community participation; mere harping on the theme will not do. In our opinion the expectation that departments will be able to dovetail their implementation proposals within a community organization framework is unreal. Community organization is as much a specialized function as the specialized areas of departmental activity. It cannot be envisaged as an ancillary option that can be put into place by those concerned with the technical delivery mechanism of SAP.

The community participation approach will have to incorporate two important elements. First, separate investment programme with organization as the core objective will need to be put to place. Secondly, a clear, definite and unambiguous transition programme for government withdrawal from certain services, such as water supply, will have to be decided upon and designed in a phased manner.

The National Rural Support Programme (NRSP) is a step in the direction of investment in Organisation. Its operations towards this objective will focus on attracting the community to organize itself around activities that are closest to their material needs, which are most likely income generating in nature. The expectation is that once a community assumes the shape of an organized entity, it will be easier to move an existing organization into social services development and management. Attempting to organize a community around a pre-determined project amounts to approaching the issue from the wrong end. It is the nature of the project that is going to determine community organization. It follows that it has to be one community's own choosing. Furthermore, the organization process requires input from experienced or trained personnel functioning in pursuit of the sole objective of

organization. The NRSP approach is clearly on sound lines. This approach can be made a part of SAP but will require investment exclusively devoted to community organisation which may not in the short run necessarily include any activity with a direct relationship to the SAP subsectors.

Communities will continue to remain wary of taking over social sector facilities as long as they can get the service either free or at low cost from the public sector. Two steps would need to be taken to make communities think seriously about self-management. User charges need to be introduced or raised and a time frame needs to be set within which the government will withdraw from the management of certain services such as water supply. A higher level of user charges and their strict and efficient collection will reduce the attraction of insisting on a government managed system that charges too low and allows delinquency. Setting up a phased transition plan will give little choice to the communities but to organize themselves to ensure continuity of services.

6. CONCLUSIONS

Success in SAP's implementation will be influenced by a number of factors which constitute the set circumstances in which it will begin its five year phase as a part of the 8th Plan. Prominent amongst these are low professional capacity of Government organization, limited decentralization, inadequate recurrent funding and the lack of involvement of extra-governmental institutions, especially the community. This set of factors will contribute to a non-supportive environment for effective implementation of SAP. Most of them are not susceptible to short term solutions. In fact, effort at reform, change and improvement in the case of some of them lies outside the focused area of SAP activities. Yet they impinge strongly upon the quality of SAP operations. The efforts for improving our social indicators, then, call for an effort to bring about qualitative change in the overall context of SAP operations.

Our approach is to take steps towards whatever changes can be brought about in the short run and to plan for change in more difficult areas over a period of time. Decentralization within the administrative system is a measure that can be undertaken in the short term and this will form part of the operational plan's component for the first year of SAP. We plan to give more powers to the health and education personnel serving at the local level. Ensuring

effective use of decentralized powers, however, can not be achieved as easily and, as discussed earlier, measures are proposed to be taken to minimize discretionary areas of interference.

Moving from an expansionist to a consolidation approach will form an immediate step in all tors of SAP. But adding quality enhancement elements for better service delivery would involve additional measures such as better supervision, training, accountability and increased [liability of operational funds.

Fur enhanced recurrent expenditure, short term measures include making up past neglect through provision in the investment resource transfer to the primary sector on a more sustainable basis. The latter would mainly involve mobilization of resources from the non-SAP sectors and would mean taking policy decisions on charging for tertiary level services.

SAP holds a weak attraction for the private sector and NGOs in view of its rural bias. Institutionally, funding is available to NGOs through the Punjab Education Foundation and to private entrepreneurs through the Punjab Health Foundation to set up education and health facilities. While the Health Foundation is just taking off, experience shows that there has not been much of a response for the setting up of primary level education facilities through the education Foundation, especially in the rural areas.

Community participation as an additional alternative in the non-government realm has already been discussed. While the setting up of community organization is a long term process, attempts to induct community level workers into SAP operations will be made for more efficient provision of services. For instance, a programme is being designed to recruit village based personnel, male and female, train them in the areas of family welfare as well as basic medication, provide them basic equipment and let them function as community health workers under a supervisory linkage with the BHUs. In the water supply sector, selected areas where -led representatives show interest are proposed to be taken up to introduce community management under incentive scheme. For the long term, however, an NRSP types approach seems inescapable which is under consideration.

It is expected that with the initiation of some of the steps, the implementation prospects for SAI' will improve. While a five year time span may not be enough to bring about a complete transformation in the delivery process, it is a period that can be constructively utilized to give a sound grounding and direction for the planning and implementation of social sector efforts as we move into the next century.

INVESTMENT STRATEGY AND EXPENDITURE REQUIREMENTS FOR SOCIAL DEVELOPMENT

By
Dr. M. Ayniil Hasan

I. INTRODUCTION

The prospects of an emerging modern developing democratic welfare state are innumerable: but deficiencies are also evident. Neglects in the areas of social services (e.g., education, basic health, public health etc.), in many developing countries, have been considered responsible for this inadequacy. However, the OECD Report (1985, p.60) on "Social Expenditure" noted:

If there is the political will to implement the necessary changes, not only can the quality of these services be improved but also there might be further redistribution, including the alleviation of poverty, as the incidence of low education and health standards, which are associated with inequality and poverty, is reduced.

In fact, a positive association between sustained economic growth and government spending in the social sector is now being demonstrated by many economists. In a recent study, Nancy Birdsall (1993) found that Pakistan's economy could have achieved 25 percent higher per capita income in 1985 had the primary school enrollment rates in 1960 been as high as that of Indonesia (at 67 percent) rather than the 30 percent rate that existed in Pakistan. Not only that, Birdsall's research further established a profound propitious relationship between investment in female education with lower rates of infant mortality and fertility.

Public spending in social sectors can thus play a critical role in enhancing the standard of living as well as quality of life of the people, particularly the poor people. **However, given limited resources, government needs to design expenditure policies efficiently and effectively to achieve its short-term and long-run targets.** In this context, the World Development Report (1991, p.11) noted:

Government must spend more, and more efficiently, on primary education, basic health care, nutrition, and family planning. That requires shifts in spending priorities; greater efficiency and better targeting of expenditures, and in some cases greater resource mobilization.

In view of the above considerations, and given that, both federal and provincial governments in their 1992-93 budget document, for the first time, have made explicit commitments to accelerate the process of improving the coverage, quality and effectiveness of the social sectors in the country in the form of a three year (1993-95) Social Action Program (SAP). the purpose of this paper is threefold:

- a) Analyze whether the existing public expenditure pattern meets the objectives of improving the access to and the quality of services delivered by the social sector institutions of Punjab.
- b) Derive the implications for inter- and intra-sectoral allocation of resources between sectors and also between recurring and development expenditures.
- c) Identify the major areas of wastage and then delineate an effective and efficient investment strategy with a view to promoting greater cost effectiveness for social services.

While analyzing the strategy of investment for the social sector, a public expenditure model was developed.¹ The model has been used to answer some of the major issues in social sector planning - **should the expenditures be target driven** (reflecting the social welfare implications), or **constrained by implementation capacity, or governed by considerations of cost effectiveness, or be undertaken in response to demand.**

In order to keep a broader and long-term perspective, we have designed the model in such a way that it not only caters to the needs of the SAP (1993-95) but also extends to the end of the perspective plan period, 2003, and covers all social sectors including those forming part of SAP. This type of long-term modelling will enable an assessment of the viability of the perspective plan targets in the social sectors. Furthermore, since the figures for budget allocations are now available, we also compare these with the ones generated by our model

1. Details of the model are available from the author on request.

in order to analyze the discrepancies between then and subsequently make appropriate recommendations for change in the expenditure priorities of GO Punjab.

2. EXPENDITURE ALLOCATIONS AND ITS IMPLICATIONS

In this section, we first briefly present an analysis of actual allocations of current and development expenditures and the adequacy of development expenditure in relation to the Seventh Five-Year Plan targets. This is followed by the targets for the Perspective Plan (1988 to 2003) with a view to highlight the physical infrastructure required to achieve the desired targets. Then, with the aid of the estimates of expenditure needs to meet targets, the implications for future allocation and implementation strategy are derived.

2.1 Trend in the Level and Composition of Expenditure

Current expenditure by GO Punjab on social sectors is estimated at Rs 13.7 billion for 1991-92, representing 37% of total current expenditure. This share is expected to increase in 1992-93 to 40 %. The major component of expenditure is education, with a share of 77%, followed by health at 17 %. Within education, the dominant share of 56% is that of primary education while, in health expenditure, hospitals consume almost 82% of the sectoral budget.

In development expenditure, the total outlay on the social sectors was Rs 4.5 billion in 1991-92, equivalent to 43% of the provincial ADP. Sectoral shares are 27% for education, 42% for public health (water supply and sanitation) and physical planning and housing and 30% for health. Within the education sector, 13% of the development allocation has been made to primary education and 34% to secondary education. In the health sector, the largest share at 25% has been given to the rural health program followed by 24% for medical education and training and 23% for construction of hospitals.

The analysis of the trend in development expenditures is a useful exercise in the sense that it provided a better understanding of the distribution of expenditures allocated to individual services within the social sector. In the next section, we discuss the adequacy of development expenditures in the social sector in relation to the Seventh Five-Year Plan targets.

2.2 Adequacy of Development Expenditures in Relation to Targets

Although there has been some increase, at least in the initial stages of the Seventh Five-Year Plan (1988-93), in the development allocation for most of the social sector, these need to be analyzed with regard to the extent of achievement in relation to the targets in the Seventh Five-Year Plan. Such an analysis will help us make recommendations as to the amount of additional expenditures that will be required.

Table I presents the results of the extent of the shortfall of the development expenditures in relation to the Seventh Plan targets for GOPunjab² during the plan period (1988-89 to 1992-93) for the three important services of the social sector, namely, education, health, and public health services.

An analysis of Table 1 reveals that, in the basic health sector, the actual development expenditures, in real terms, are likely to be 73% of the Seventh Plan target. On the other hand, the expected achievement in the education sector is only 41 percent. This large shortfall is likely to occur even after allowing for the quantum jump in allocations in 1992-93 due to SAP.

As for the physical planning and public health services, the development expenditure is likely to be about 68% of the target. Altogether, total development expenditure by GO Punjab is estimated at 65% of the Seventh Plan requirements. This implies that within the available resources, the provincial government has attached higher priority to allocations for health public health and physical planning and housing and a lower priority to education.

2.3 Perspective Plan Targets and Required Changes

Development expenditures by the GO Punjab in 1992-93 are not based on any targets for enrollment ratios, health and water supply coverage, etc. As such, the rationale behind these allocations is not clear. We have, therefore, determined the expenditure

2. The provincial target is taken as the national target multiplied by the population share of Punjab province as provincial ADPs are largely allocated on a population basis.

TABLE 1**ADEQUACY OF DEVELOPMENT EXPENDITURE BY GOVERNMENT
OF PUNJAB IN RELATION TO SEVENTH PLAN TARGETS**

	1988-89	1989-90	1990-91	1991-92 (R)	1992-93 (B)
Education					
Current Price	1195	1218	1152	1230	3100*
Constant '87-88 Price	1101	1054	888	872	1978
Cumulative Total					5893
Target					14425 (41%)
Health					
Current Price	1268	1300	1350	1380	1740*
Constant '87-88 Price	1168	1126	1041	978	1110
Cumulative Total					5423
Target					7465 (73%)
Public Health & Physical Planning					
Current Price	1742	1551	1750	1890	3120*
Constant '87-88 Price	1604	1343	1349	1340	1991
Cumulative Total					7627
Target					11226 (68%)
Total					
Current Price	7450	8100	9000	10500	13858*
Constant '87-88 Price	6861	7014	6939	7445	8841
Cumulative Total					37100
Target					57084 (65%)

* Including SAP allocations.

SOURCE: i) Seventh Five Year Plan, Planning Commission, COP.
ii) Annual Development Program, Government of Punjab.

requirements which are consistent with the attainment of long-term targets as embodied in the national perspective plan (1988-2003). This will enable us to analyse the extent to which the actual allocations are consistent with these requirements. We first discuss the national perspective plan targets in relation to the benchmark figures (1991-92) for three key social sectors, namely, education, health and public health. We also discuss the provincial targets separately wherever they are different from the national levels. In order to comprehend the size of the social sector inputs (in physical units) viz., school, hospital, basic health units (BHUs), etc., that will be required to achieve the proposed plan targets in the social sector, we further discuss the total incremental changes necessary in these inputs up to the end of the plan period. Knowledge of the physical incremental change will also enable us to shed light on the viability of these target figures as stipulated in the perspective plan. Table 2 reports the benchmark and perspective plan targets, while Table 3 summarizes the size of the total incremental changes required in the social sector inputs.

In the case of basic social services e.g., primary education (both male and female), rural water supply and sanitation (RWSS), and urban water supply (UWS), the plan proposes a 100% coverage in these facilities as shown in Table 2. It is interesting to note that the enrollment target rates for males are significantly higher than the corresponding female rates. Comparing these target figures with the benchmark values, it is clear that the differences between them are quite large in most cases. This is particularly true for females at all levels of school in which case it would require at least a 5% or more annual compound growth rate (ACGR) in schools in order to achieve the desired perspective plan enrollment targets. In fact, for female middle schools at the national level, over 11% ACGR would be required to achieve the target. The ACGR figure required for increase in coverage by rural sanitation is even larger at over 15.7 percent.

Before discussing the actual expenditure requirements and their ensuing financial implications in achieving the perspective plan targets in the social sectors, we first examine the physical magnitude of the annual incremental changes in these services. A comparison of these magnitudes with the historical values will enable us to comprehend whether the pace at which the facilities provided in the past will be adequate enough to sustain and execute the plan. This obviously will provide us with information on the implementation capacity of the present machinery in the provincial

TABLE 2
NATIONAL TARGETS AND BENCHMARKS
FOR THE PERSPECTIVE PLAN

	Bench-Mark 1991-92	Perspective Plan Target 2002-2003
EDUCATION *		
(Enrollment Rate)		
Primary	60.1 %	1 00 %
Male	75.0 %	100 %
Female	44.1 %	100 %
Middle	29.5 %	57 %
Male	38.4 %	57 %
Female	20.0 %	57 %
High	21.0%	40 %
Male	28.2 %	40 %
Female	13.2 %	40 %
HEALTH		
Hospital Bed ** (No.)	1506	1000
Rural Health Centre(No-)	553	One per union council ***
PUBLIC HEALTH		
(Population Coverage)		
Rural Water Supply	44.0 %	100 %
Urban Water Supply	85.0 %	100 %
Rural Drainage	12.0 %	60 %
Urban Sanitation	55.0 %	100 %

*Estimated Figures

**Population per bed

***Number of existing union councils In 1991.92 is 4467.

Sources: I) Seventh Five Year Plan, 1988-93 and Perspective Plan, 1988-2003 .

ii) Social Action Programme, Planning Commission, COP.

TABLE 3**QUANTUM INCREMENTAL CHANGES REQUIRED IN SOCIAL
SECTOR INPUTS TO ACHIEVE PERSPECTIVE PLAN TARGETS IN PUNJAB**

Sectors\Years	1991-92	2002-2003	Cumulative Increase	Average Annual Increase (1991-92 to 2002-03)	(Number)
					Cumulative% Increase 1991-92 to 2002.03)
EDUCATION					
Primary School Male	32154	55339	23185	2108	72 %
Primary School Female	29661	56260	26599	2418	90 %
Middle School Male	7059	11477	4418	402	63 %
Middle School Female	4740	10975	6235	567	132 %
High School Male	4462	15344	10882	989	244 %
High School Female	1750	5924	4174	379	239 %
Inter College Male	61	108	47	.4	77 %
Inter College Female	50	108	58	5	116 %
Degree College Male	111	111	0	0	0 %
Degree College Female	77	77	0	0	0 %
Vocational Training College	221	326	105	10	48 %
Polytechnic College	21	40	19	2	90 %
Teachers Training College Male	25	32	7	1	28 %
Teachers Training College Female	9	32	23	2	256 %
HEALTH					
Extended Immunization Programme*					
	2.0	13.6	11.6	1	571 %
Basic Health Unit: Rural	2465	2757	292	27	12 %
Health Centre: Rural	296	2757	2461	224	831 %
Hospital Bed	29254	89034	59780	5435	104 %
PUBLIC HEALTH					
Water Supply : Urban*	17.7	33.0	15.3	1	86 %
Water Supply: Rural*	19.8	56.1	36.3	3	1 84 %
Drainage Scheme: Rural*	7.5	33.6	26.2	2	351 %
Sewerage Scheme: Urban*	11.5	33.0	21.5	2	188 %

*Ppopulation covered in millions.

line departments. We analyze in Table 4, the implementation capacity three years prior to SAP and then compare it with the SAP Phase I years (1993-95) requirements. Estimates from the model reveal that the new primary school construction program will have to be expanded by almost 40% in the case of boys. Similarly, the rate of construction of new rural health centers will have to increase by over four times and, in case of hospital beds, by almost seven times.

When the percentage target figures in Table 2 are translated into physical units, we get the magnitude of quantum jumps required to achieve the stated perspective plan targets. Examining the size of such incremental changes, as reported in Table 3, it is clear that annually, on average, 2108 male primary schools and 2418 female primary schools will be needed to achieve the 100% enrollment targets by 2002-2003.

As for the upper levels, the number of female high schools will have to increase almost two and a half times the benchmark level (1750), while for female middle schools an increase of over 130% will be required from 1991-92 to 2002-2003 to achieve the targets stated earlier. In basic health, the number of rural health centers (RHCs) will have to show an eight fold increase while the increase in the number of hospital beds is over 100 percent. Further, 292 basic health units (BHU) will have to be constructed to meet the target. With an existing 19.8 million population coverage, the plan target anticipates to provide rural water supply (RWS) to an additional 36.3 million people by the end of year 2003. Rural drainage schemes (R.DS), on the other hand, will have to cover 26.2 million more people by the end of the planned period.

It would appear that the required rates of expansion generally in the social sector inputs to achieve the perspective plan targets in the province of Punjab are likely to stretch implementation capacity to its limits, leading to leakages and increases in unit costs. In particular, the cumulative increase required is high in the case of female high schools, rural health centers and rural water supply and sanitation. Our model shows that in some instances, namely, primary school for females, middle schools, male high schools and rural basic health units, the rate of implementation is adequate to achieve the targets. The basic question which arises at this stage is the feasibility of achieving such large increases given resource and implementation capacity constraints.

TABLE 4
ANNUAL CHANGE REQUIRED IN SOCIAL SECTOR INPUTS*
IN PUNJAB

(Number)

Sectors\Years	HISTORICAL			REQUIRED		
	1989-98	1990-91	1991-92	1992-93	1993-94	1994-95
EDUCATION						
Primary School Male	1082	1122	1164	1627	1709	1796
Primary School Female	2102	2296	2508	1777	1884	1997
Middle School Male -	391	418	446	319	333	348
Middle School Female	406	455	510	376	406	438
High School Male	462	538	625	530	593	664
High School Female	152	170	191	205	229	256
Intermediate College Male**	-1	-1	-1	3	3	4
Intermediate College Female**	-3	-2	-2	4	4	4
Degree College Male	3	4	4	0	0	0
Degree College Female	4	4	4	0	0	0
Vocational Training College	0	0	0	8	8	9
Polytechnic College	1	1	1	1	1	1
Teachers Training College Male	0	0	0	1	1	1
Teachers Training College Female	0	0	1	1	1	1
HEALTH						
Basic Health Unit : Rural	214	241	271	25	25	26
Health Centre: Rural	13	14	15	67	82	100
Hospital Bed	437	444	451	3115	3447	3814

* Data on annual Incremental coverage by urban and rural water supply and sanitation schemes was not available for 1989-90 to 1991 - 92.

** Negative change is due to upgradation of Intermediate colleges to degree colleges.

Source: i) Development Statistics Punjab.

2.4 Development Expenditure Requirements

Fable 5 presents estimates of development expenditure (DE) requirements for the social sectors in constant 1991-92 millions of rupees. According to the model, required development expenditure in the social sectors of Punjab is approximately Rs 9.3 billion in 1992-93. This is expected to increase rapidly in real terms (at 1991-92 prices) at the rate of almost 10% per annum and approach Rs 23.4 billion by the terminal year 2002-03 of the perspective plan. Within this overall allocation, the cumulative sectoral share is 24% for education, 29% for health *and* 47% for public health (water supply and sanitation).

The largest share of development expenditure within the education sector at 50% will have to be devoted to primary education and 44% to high school education. Within the health sector, the highest priority (72%) will have to be accorded to the construction of hospitals followed by rural health centers (28%). Urban water supply will claim almost 39% of the allocations to public health followed by 38% for rural water supply and sanitation.

In terms of the overall shares of investment in the different plan periods, about 6% will be during the remainder of the Seventh Plan (1992-93), 36% in the Eight Plan (1993-94 to 1997-98) and 58% in the Ninth Plan (1998-99 to 2002-03). Sectoral priorities will increasingly shift towards health if the perspective plan targets are to be met by the end of the Ninth Plan.

2.5 Recurring Expenditure Requirements

Table 6 reports recurrent expenditure requirements of the social sectors of Punjab for attainment of the perspective plan targets. These requirements increase in real terms from Rs 14.4 billion in 1992-93 at the annual rate of 8% and approach almost Rs 30 billion by 2002-03. This implies a major buildup in recurring liabilities for sustaining the provision of social services in the province.

Within social sector recurring expenditures, the bulk (68%) will be devoted to education followed by health with a share of almost 25 percent. These two sectors are

TABLE 5
ESTIMATES OF DEVELOPMENT EXPENDITURE
REQUIREMENTS IN SOCIAL SECTORS OF PUNJAB
(at 1991-92 constant prices)

Sectors	(Rupees in Million)					
	1992.93	1993-94	1994-95	Average Annual		Cumulative Total 1992-93 to 2002. 2003
				8th Plan 1993-98	9th Plan 1998- 2003	
EDUCATION						
Primary School Male	625	656	689	726	929	8901
Primary School Female	741	785	832	885	1184	11089
Middle School Male	175	183	192	201	250	2430
Middle School Female	207	223	241	262	383	3429
High School Male	414	463	518	587	1028	8487
High School Female	160	179	200	226	393	3256
Intermediate College Male	18	19	20	22	28	267
Intermediate College Female	21	22	24	26	36	329
Degree College Male	0	0	0	0	0	0
Degree College Female	0	0	0	0	0	0
Vocational Training College	42	44	46	47	56	560
Polytechnic College	56	59	63	67	89	836
Teachers Training College Male	5	5	5	5	5	56
Teachers Training College Female	9	10	11	13	22	184
Sub-Total Education	2472	2649	2840	3064	4406	39824
HEALTH						
Extended Immunization Programme	0	0	0	0	0	0
Basic Health Unit: Rural	44	45	45	46	48	512
Health Centre : Rural	352	431	528	674	1859	13020
Hospital Bed	1820	2013	2228	2490	4130	34920
Sub-Total Health	2216	2489	2801	3210	6037	48452
PUBLIC HEALTH						
Water Supply : Urban	2079	2199	2327	2470	3276	30809
Water Supply : Rural	1179	1296	1425	1581	2539	21777
Drainage Scheme: Rural	328	377	432	504	1000	7850
Sewerage Scheme: Urban	994	1094	1204	1338	2163	18499
Sub-Total Public Health	4580	4966	5388	5893	8978	78935
GRAND TOTAL	9267	10104	11029	12168	19421	167212

TABLE 6
ESTIMATES OF RECURRENT EXPENDITURE REQUIREMENTS
FOR SOCIAL SECTORS OF PUNJAB

(at 1991-92 constant prices)

Sectors	(Rupees in Million)					
	1992-93	1993-94	1994-95	Annual Average		Cumulative Total 1992-93 to 2002- 2003
				8th Plan 1993-98	9th Plan 1998- 2003	
EDUCATION						
Primary School Male	3237	3401	3573	3763	4816	46131
Primary School Female	2986	3165	3355	3568	4773	44687
Middle School Male	1038	1085	1134	1188	1482	14387
Middle School Female	697	753	812	882	1292	11565
High School Male	675	735	822	931	1632	13473
High School Female •	257	288	321	363	633	5238
Intermediate College Male	169	178	187	198	256	2436
Intermediate College Female	141	151	162	174	248	2250
Degree College Male	291	291	291	291	291	3203
Degree College Female	202	202	202	202	202	2222
Vocational Training College	625	648	671	696	831	8259
Polytechnic College	61	64	68	73	97	912
Teachers Training College Male	70	71	73	75	84	861
Teachers Training College Female	28	31	35	40	70	577
Sub-Total Education	10459	11062	11707	12443	16706	156202
HEALTH						
Extended Immunization Programme*	15	17	21	25	60	440
Basic Health Unit: Rural	504	509	514	520	547	5835
Health Centre: Rural	267	327	400	511	1408	9859
Hospital Bed	2166	2397	2651	2964	4961	41572
Sub-Total Health	2952	3250	3586	4020	6931	57706
PUBLIC HEALTH						
Water Supply : Urban	574	607	642	682	904	8505
Water Supply : Rural	166	183	201	223	358	3070
Drainage Scheme: Rural	67	77	88	103	205	1607
Sewerage Scheme: Urban	193	213	234	260	420	3595
Sub-Total Public Health	1000	1080	1166	11268	1887	16777
GRAND TOTAL	14411	15392	16459	17731	25524	230685

characterized by high levels of labor-intensity in comparison to other social sectors. The share of primary education within the education sector is estimated at 58 percent. Running of hospitals is expected to account for over 72 percent of the recurring allocation to the health sector.

2.6 Equity Consequences of Public Expenditures in Social Sectors

The Findings of the previous sections suggest that a substantial amount of public expenditure has to be incurred in the education, health and physical planning and public health services in order to improve the socio-economic conditions of the province. In fact, in this context, Helena Ribe et al (1991, p.ii), while preparing a report on SAP, writes:

... access to basic health and education in recent years... remain inadequate... as a result, indicators for life expectancy, infant mortality, and illiteracy, continue to lag behind... . Newly built preventive health and primary education facilities are often underfunded and understaffed...

In order to alleviate the sorry state of social conditions and before undertaking large public expenditures, one has to ensure that this spending has the desired effect on the population.

In a recent paper, Aisha Ghaus (1991) argued that the expenditures incurred by different levels of government on social services may have different effects on the society based on equity grounds. In her extensive study, she (1991, p.92) noted:

The incidence of provincial and municipal government service-related expenditure benefit is progressive (pro-poor) in Karachi and as such the public expenditure policy is instrumental in redistributing real incomes in the city. Among the most pro-poor provincial expenditures... are transport and primary education followed by medical care... . In the case of the municipal government, expenditures on primary education, public health and roads... benefit the lower income households.

It appears that the government expenditure policies aimed at improving social services should be designed carefully to provide more jurisdiction to lower levels of governments in the provisions of some basic amenities.

2.7 Employment and Training Needs

The model also estimates the annual creation of additional jobs for teachers, doctors and nurses resulting from the plan's operation. When the plan is implemented, our estimated results suggest that a total of almost 150,000 jobs will be created for primary school teachers. About 62,000 jobs will be opened up for middle school teachers while for high school teachers, the job opportunities will be almost 125,000. As for doctors and nurses, the new positions opened are in the order of about 20,000 and 23,000 respectively.

There are at least two important implications of the above discussion that may have long term ramifications on the economy and the plan. First, the plan will create jobs directly in these sectors and this should also have depending on the size, a multiplier effect on the macro economy at large. The second aspect pertains to the need for training programs to prepare trained teachers, doctors and nurses in order to achieve the target. This aspect has to be carefully evaluated and looked into before one can expect the plan to have positive effects. It is clear that the training capacity for social sector personnel will have to be expanded dramatically. The model automatically throws forward the infrastructure needs and expenditures required to train these large numbers of new entrants for maintaining current standards.

2.8 Implications

In terms of share in annual budgetary requirements, recurring expenditure actually dominates with a cumulative share of over 58% as compared to the share of 42% for development expenditure. This is a seldom emphasized aspect of the growth of the social sectors. Much of the focus has been on development financing. Very little attention has been devoted to providing an adequate revenue cover on a continual basis to sustain the provision of these services. This bias is clearly visible within the context of current programming.

Altogether, given the required rapid growth rates in real expenditures, both development and recurring, and the resulting jump in social sector expenditures in Punjab as a percentage of the gross regional product, the basic conclusion is that the perspective plan targets are not feasible in some of the segments of the social sectors. It is highly unlikely that resources in the public sector, either domestic or foreign, will increase at a rate fast enough to sustain the nired program of investments and recurring outlays. We have demonstrated earlier that.

in physical terms, it will also be difficult to increase the implementation capacity of some line agencies at the required rate and to train the required number of sector personnel. Clearly, the targets have to be scaled down to bring them within the achievable range, given projections of the likely level of sector resources and feasible implementation rates.

3 EFFICIENCY AND COST EFFECTIVENESS IN THE SOCIAL SECTOR

The previous sectors highlighted the level and type of expenditure requirements for the social sectors to achieve the perspective plan targets. However, it is essential that, given the macro resource constraints which confront the public sector at all levels in the country, a conscious effort also be made to increase the efficiency in the utilization of available resources.

The issue of cost effectiveness of expenditures in the social sectors is, therefore, of considerable importance. It will not only help in making resources go further in achieving the target for social indicators but will also strengthen the case for lobbying for higher allocations to these sectors if it can be shown that the additional funds made available are likely to be utilized effectively. We view cost effectiveness as either achieving greater output from a given allocation of resources or a reduction in cost of achieving a given output or in the more efficient utilisation of built infrastructure. This takes us into an examination of relationship between costs and outputs, areas of wastage, investment planning, alternative delivery mechanisms and recurring versus development expenditure.

3.1 Costs and Outputs

One of the basic issues in the context of delivery of social services is the rate of conversion from expenditures to system outputs. There are reasons to conclude that currently the delivery system for social services in different parts of the country has serious defects. In the education sectors, for example, growth in real expenditures has not been matched by corresponding growth in enrollments and eventually in the output from the system. This is highlighted in Table 7 which shows clearly that the growth rates of real expenditure (development and current) in Punjab was significantly higher than the growth rate of enrollment at the primary and secondary levels of education during the decades of the 70s and 80s. For example, real expenditures on primary education are estimated to have increased at the rate of 8.4 percent per annum while the growth rate of enrollments was only 5.0 percent.

In (he case of secondary education, the growth rate in real expenditures was 9.3% and the growth rate in enrollments, 5.3 percent. This divergence in growth rates implies that the degree of cost effectiveness has been declining in the education sector over time.

3.2 Areas of Wastage

Despite the limited resource availability for the social sectors, the delivery system for social services is also characterized by a high level of wastage. Perhaps the best examples of this are in the sectors of education and water supply. In the former case, the basic measures of wastage is the continuation ratio or the dropout rate.

Intimates of the net continuation ratio at the primary and secondary levels by gender in the urban and rural areas, respectively, of Punjab and Pakistan are presented in Table 8. A clear pattern is visible in these ratios. They are generally low for the rural areas for girls. For example, only about 29% of the girls enrolled in primary school and 25% in secondary schools in Punjab complete their education. The remainder drop out prior to completion.

The generally high dropout rate can be attributed to several factors including poverty, high opportunity cost of education, negative attitude especially towards girl's education and low motivation among parents to educate their children, particularly in rural areas. This again suggests that there is a need to improve the environment in schools by provision of better facilities, enhancement in the number and quality of teachers, improvement in the availability of books and class room equipment, and in the relevance of the curriculum from the viewpoint of job-creation skills.

TABLE 7
GROWTH IN PUBLIC EXPENDITURE*
ON EDUCATION AND ENROLLMENTS IN PUNJAB**
FROM 1970-71 TO 1991-92

	Annual Growth Rate of Real*** Public Expenditure	Annual Growth Rate of Enrollments	Ratio of Growth Rates
Primary Education	8.4%	5.0%	0.59
Secondary Education****	9.3%	5.3%	0.56
College Education*****	2.1%	6.5%	3.09

 *Both development and recurring expenditure.

** Growth in enrollment is calculated from 1972-73 to 1991-92

*** Deflated by the implicit CDP deflator.

**** Combined for middle and high schools.

***** Combined for arts and science colleges.

Sources: i) Central Bureau of Education.

ii) Annual Development Programs, Government of Punjab.

TABLE 8**NET CONTINUATION RATIOS AT PRIMARY AND SECONDARY LEVEL
BY GENDER AND REGION, 1984-85**

		(Percentage)
	PUNJAB	PAKISTAN
PRIMARY		
Urban		
Boys	68	62
Girls	47	50
Rural		
Boys	58	42
Girls	29	28'
SECONDARY		
Urban		
Boys	64	76
Girls	59	58
Rural		
Boys	30	35
Girls	25	18

Source: Central Bureau of Education.

in the context of water supply, substantial wastage is indicated by the high level of system losses in the process of distribution. For example, in Lahore alone, water system losses are estimated at over 25 percent. This is a reflection of not only poor designing and construction but also of inadequate operations and maintenance. Cost effectiveness of investments could be greatly improved if such losses could be reduced.

In the rural areas, the provision of water supply had been enhanced initially by the Five Point Programme of the Junejo government and more recently by the Tameer-i-Watan Programme. These programmes have largely been executed through elected representatives at the national and provincial levels. The basic problems with such programmes is the absence of adequate institutional arrangements for operations and maintenance. Most of the schemes have been executed through the provincial line departments, which have been unwilling to take on subsequent O&M responsibilities due to lack of mandate or resources. "The local councils have generally been excluded from the process although they are the logical choice for performing these functions. The consequence is that many of the recent investments made in expanding the coverage of water supply have failed to yield full returns.

A survey conducted in 1989 as part of the preparation of the Strategic Investment Plan for Water Supply and Sanitation in Punjab revealed that almost 40% of schemes of fairly recent vintage were either not operating or functioning only at partial capacity due to lack of proper O&M. This represents a major wastage of public funds and indicates that perhaps the highest returns could be generated by relatively small investments in rehabilitation of these schemes coupled with better institutional and financial programs for subsequent O&M. As a whole, this highlights the need for a change in priority away from capital expenditure towards expenditure on operations and maintenance. This point has been forcefully made in the recent human development report by the UNDP in Pakistan. Higher O&M allocations will ensure the sustainability and full yield of investments already made.

An in-depth analysis of the pattern of recurring expenditure highlights a number of major problems regarding the cost effectiveness in the social sectors. First, the share of pay and allowances is generally very high and there is very limited provision for purchases of durables, repairs and maintenance, commodities and services, etc. Second, the overhead component of expenditure appears to be high. Third, evidence of 'social employment' being pursued by the provincial government is indicated by the large share of supporting staff.

especially in the lower grades. The level of remuneration of key sector personnel like doctors, engineers, teachers, technicians, nurses, etc., is generally very low in relation to the private sector. Thus, the cost effective strategy in this context may be to limit growth in employment and perhaps even reduce the number of staff in supporting jobs especially in the lower grades. Instead, more funds should be devoted to improving the remuneration package for key sector personnel to ensure their continuation in government services, to avoid part-time employment elsewhere and generally to raise motivation and morale. This would also contribute significantly to improving the delivery capability of the sector. This takes us the discussion ' investment programming and project cycles.

4. INVESTMENT PROGRAMMING

There are certain aspects of investment programming undertaken by GO Punjab specifically in the social sectors which mitigate against effective utilization of resources. A case study approach of the ADP of GO Punjab for the fiscal year 1991-92 reveals that there were over 2.600 schemes being executed in the social sectors. The total capital cost of these schemes was about Rs 24 billion, with the cost of ongoing schemes estimated at Rs 13.1 billion and the cost of new schemes, Rs 10.9 billion. Given the total ADP allocation of about Rs 3.3 billion for these schemes, this implies that the GO Punjab is carrying a portfolio of projects equivalent to almost eight times the annual allocation. On the average, therefore, it appears that a typical scheme in the social sectors takes about eight years to complete.

The long gestation period of the projects is due to the nature of investment programming by the provincial government. The basic tendency is to approve too many schemes which stretch ' only the implementation capacity but also imply that a given amount of funds is spread over a large number of projects and, therefore, each project gets a smaller allocation. This tendency can be attributed largely to the politicization of the project approval process. Involvement of elected representatives at the district level and at the provincial level implies ' ii competing claims of different regional interest and pressure groups can only be reconcile a large number of projects being sanctioned, with each project receiving reduced •: ins.

The long period taken to complete a typical social sector project is not a reflection of the underlying complexity of construction in most cases, except perhaps for hospitals, high mils rural health centers or large urban water supply schemes. Primary and secondary

Second, rural health centers, rural water supply schemes, etc., can generally be executed within one to two years subject to the availability of funds. However, examination of Table () reveals that the average allocation, even for primary schools, is only about 45 percent of the total capital requirement. Furthermore, there is large variation in allocations. Some projects were given funds in 1991-92 equivalent to less than 1% of the cost while some projects received almost 40 percent. The difference in allocations appears to be largely arbitrary and probably a reflection mostly of the influence in provincial line departments of the potential beneficiary groups.

There are many deleterious consequences of the over-programming of investments by the provincial government. The need to carry too many schemes in the ADP means that the project preparation, design and execution capacity are stretched to their limits. This inevitably has implications on the quality of implementation. Also, the fact that schemes take so long to complete implies that there are significant cost overruns. The inflation in costs of materials and labor in the intervening period implies that the cost estimates in the original PC1 are inadequate to complete the schemes. This leads either to revisions in the PC1 which cause further delays or to only partial implementation of the schemes, thereby limiting the benefits flowing from the investments. Further, the staggered implementation of projects reduces the present value of benefits.

Altogether, there are serious problems with investment programming by GO Punjab. The tendency to carry too large a portfolio of projects will have to be limited by prescribing the maximum share of the ADP that can be allocated to new schemes in any particular year. In no sector should this share exceed, say, 10 percent. In 1991-92, the government of Punjab allocated as many as 95% to new schemes in primary education and 54% in secondary education in the presence of a large number of unfinished projects.

There is need also to depoliticize the process of approval and allocation of investment funds. This has not only led to a proliferation of schemes but also to investment choices that have not been made on the basis of some efficiency criteria but on

TABLE 9
TOTAL COST AND ALLOCATION IN 1991-92 TO SCHEMES
IN THE SOCIAL SECTORS OF PUNJAB

Sector/Sub-sectors	Status	Total No. of Schemes	Total Cost	ADP Allo- cation for 1991-92	Average % Allocation of Cost	(Rs. in Million)
						Min...Max Allocation % of Cost
Education						
Primary	On-going	7	242	110	45.5	10.2.....57.6
	New	33	5184	53	1.0	0.3.....100.0
Secondary	On-going	210	508	192	37.8	0.9.....100.0
	New	73	324	225	69.8	10.0.....100.0
Teachers Education	On-going	3	14	7	50.0	23.9.....92.3
	New	2	8	3	37.5	27.3.....75.0
College	On-going	46	283	89	31.4	5.0.....84.5
	New	27	140	29	20.7	5.0.....100.0
Technical	On-going	10	100	33	33.0	17.8.....87.0
	New	7	179	16	8.9	5.0.....50.0
Special	On-going	8	34	16	47.1	17.8.....82.5
Miscellaneous	On-going	12	174	120	69.0	5.9.....100.0
	New	12	279	270	96.8	40.0.....100.0
Scholarship	On-going	5	30	12	40.0	23.3.....100.0
	New	4	55	55	100.0	100.0.....100.0
Health						
Gen. Hospital	On-going	120	1738	268	15.4	0.3.....100.0
	New	59	701	49	7.0	0.5.....100.0
Medical Education	On-going	47	4292	256	6.0	0.3100.0
	New	13	186	64	34.4	5.4.....100.0
Stipend	On-going	28	79	79	100.0	100.0.....100.0
Miscellaneous	On-going	32	313	59	18.8	5.1.....100.0
	New	6	3410	3	0.1	0.03.....33.0
Rural Health - Programme	On-going	105	1338	288	21.5	0.3.....100.0
	New	43	148	57	38.5	5.5.....100.0
Special Institution	New	10	195	12	6.2	0.4.....67.8
Rural Water Supply	On-going	1569	2711	852	31.4	0.3.....100.0
	New	4	9	0.4	4.4	2.2.....10.0
Urban Water Supply	On-going	89	950	77	8.1	0.03.....4.9
	New	7	72	3	4.2	0.04.....5.0
Manpower & Training	On-going	13	120	18	15.0	0.4.....9.9
	New	2	25	4	16.0	1.2.....10.0
Social Welfare	On-going	7	20	10	50.0	2.9.....6.6

Source: Annual Development Programme Punjab, 1991-92

considerations of regional equity or lobbying pressures. An intermediate solution would be for the provincial line departments to prepare a portfolio of projects which satisfy certain selection criteria and possess a minimum economic justification. Politicians could then choose from within this short list of projects.

In order to get some insight into the process of project selection, the next section is devoted to a discussion on project cycles.

4.1 The Project Cycle

The project cycle has five stages - identification, preparation, approval, execution and monitoring. Each stage has a number of problems which affect the degree of cost effectiveness and efficiency in the delivery of services.

Project Identification: Identification of individual projects is expected to be consistent with the live-year plans in which broad sectoral objectives and targets are set essentially at the Federal level by the Planning Commission. Within this framework, provincial governments primarily engage in the preparation of annual development programs which are a compendium of individual projects/programs. Consistency between project choices and overall sectoral allocations remains an elusive goal.

There is, in fact, a lack of medium-term sector level investment plans at the provincial level the presence of which could minimize the problems created by the politicization of the project identification process. If, in fact, the sector investment plans could generate a short list of projects, then efforts could be made to limit the choice of politicians from among these projects. In the absence of this, project identification will be the consequence largely of lobbying efforts with no guarantee that investments sanctioned are economically or socially justified.

A good example of sector investment planning is the recently prepared Strategic Investment Plans for Rural Water Supply and Sanitation for each of the provinces. These emphasize sustainability, community involvement, cost recovery and appropriate technology choice and are based more on a realistic assessment of future institutional absorptive abilities and financial resources and less on attainment of targets. They also lay down the criteria for

selection of schemes. Implementation of these plans could greatly streamline the project identification process and contribute to more effective service delivery.

Project Preparation: This stage of the process usually involves the preparation of PC 1 s, and in the social sectors largely without reference to feasibility studies. Thus project benefits and costs are not estimated accurately.

Project Approval: It is estimated that each project requires a number of stages before approval. Delays are inherent. The planning and development department of the provincial government is stretched to its limits because of the preparation of too many new schemes for approval. Consequently, the quality of project appraisal is poor and very little effort is made to optimize the allocation of investments.

Project Execution: The basic problem is the phasing of investments. Actual allocation of funds to individual projects/programs is primarily determined by the overall availability of resources and bears little relationship to the scheduling of capital expenditures proposed in the PC Is. this leads to long delays in execution, cost overruns and frequently only partial implementation.

Project Monitoring: This is one of the weakest components of the project cycle. Departments are generally expected to submit project completion reports (PCIV). However, there is no post-completion inspection in the field by an independent agency of the quality and degree of implementation or of subsequent operations. This therefore results in the absence of criteria to introduce cost effectiveness checks at the project approval stage. The establishment of independent project monitoring and evaluation units is a prerequisite for introducing a degree of accountability on the part of the executing agencies. There is a need to establish appropriate management information systems like the National Education Management Information System (NEMIS) and Health Information System (HIS) which will help greatly in monitoring performance of individual projects.

Altogether, there is considerable scope for improving the project cycle to enable identification of better projects, improved quality of project preparation, timely and proper approval and efficient implementation. This will require institutional strengthening and technical assistance to the line departments and also to the Planning and Development Department of GOPunjab and development of other delivery mechanisms.

4.2 Alternative Delivery Mechanisms

The two main line departments executing schemes are the Works Department and the Public Health Engineering Department. The Education and Health Departments also have an engineering arm. However, there are major limits to the implementation capacity of these departments and a rapidly expanded investment program runs the risk of lending itself to delays in implementation and/or higher unit costs. There is evidence that this has already happened.

One option is the involvement of private sector consultants and contractors taking on greater responsibility for project preparation and execution, and the line departments supervising and monitoring. The scale of the work should induce such private sector participation, especially by reputable firms. The development program could be partitioned into district level packages spread over three years. The size of the work then is likely to be sufficient to create economies of scale and the generation of adequate profits. In the short run, involvement of the private sector in the planning, design and implementation of social sector schemes can bring in the badly needed professional expertise for development of the sector.

There is also a scope for involvement of beneficiary communities directly in financing, managing and operating schemes. The most promising areas for such involvement are primary education and water supply and sanitation. The benefits of community participation are numerous. These include, first, the possibility of contributions both in cash and in kind to capital and recurring costs thereby reducing public sector outlays. Second, community involvement in the identification of schemes is likely to make public investments more responsive to demand. Third, local beneficiary involvement in the management of services could improve the sustainability of investments and ensure proper operations and maintenance. High priority will have to be attached in coming years to development of NGOs and community based organizations to take on increased responsibilities in the social sectors, especially in the rural areas. This brings us to the analysis of alternative strategies for developing a social sector delivery programme.

5. RECOMMENDATIONS

In this paper we have developed an investment plan for the social sectors of Punjab which is pragmatic in character and based on cost effective approaches. Wherever feasible, this plan aims to achieve long-term service coverage targets as contained in the perspective plan of

GDP In oilier sectors, it limits investments to the attainable implementation rates and projected levels of resource availability. In this context, the issue of cost effectiveness is extremely important. In the following, we highlight the implications of the investment plan followed by our recommendations in the areas of cost effectiveness.

INVESTMENT PLAN

5.1 Level of Development Expenditure

In 1992-93, the proposed plan envisages a total development outlay of over Rs 9 billion on social sectors by GO Punjab. The actual allocation (ADP + SAP) is Rs 8 billion. Therefore, future allocations will have to be increased.

5.2 Level of Recurring Expenditure

The Plan also implies a buildup in recurring liabilities for sustaining the provision of social services in the province. In terms of share in annual budgetary requirements, recurring expenditure actually dominates with a cumulative share of almost 60% as compared to the 40% share of development expenditures. This is a seldom emphasized aspect of the growth of the social sectors. Much of the focus has been on development financing. Very little attention has been devoted to providing an adequate revenue cover on a continual basis to sustain the provision of these services, 'this bias is also visible within the context of current SAP programming.

The estimated growth rate required in recurring expenditure by GO Punjab on the social sectors is 8% per annum (in real terms). Historically, the recent growth rate (from 1988-89 to 1991-92) exhibited by these expenditures is about 4.5% per annum. Therefore, it will be necessary to enhance this buoyancy in expenditures on the social sectors. Over time, the share of the health sector in the recurring budget will also have to be increased significantly.

5.3 Support from Federal Government and Donors

Changes in provincial expenditures priorities within the ADP in favor of social sectors can be induced if there is a commitment on the part of the federal government and donors to match the higher allocations. This will not only orient the provincial government more toward social sectors but also enable a sizeable increase in investment outlays in these sectors. The principle of matching grants by the federal

government and donors has already been accepted in the first year (1992-93) of SAP investment programming and there has been a strong response from GO Punjab. But while the former has made an explicit allocation for this purpose in the current budget, commitments by the latter are not yet known.

COST EFFECTIVENESS

5.4 Resource Allocation in Education Sector

Mere expansion in the number of schools is unlikely to lead to a proportionate increase in enrollments. The problem will simultaneously have to be tackled on the demand side, especially in the case of girls. Resources may be utilized more efficiently if more and better teachers are provided leading to an improvement in the quality of instruction.

5.5 Reduction in School Dropout Rates

Dropout rates from schools are generally high in the rural areas and among girls. This again suggests that there is need to improve the environment in schools by provision of better facilities, enhancement in the number and quality of teachers and in the relevance of the curriculum from the viewpoint of job-creation skills.

5.6 Reduction in System Losses

Water system losses are generally high (e.g., over one-fourth in Lahore). This is a reflection not only of poor design and construction but also of inadequate operation and maintenance. Cost effectiveness of investments could be greatly improved if such losses could be avoided. The highest returns could be generated by relatively small investments in rehabilitation of these schemes coupled with better institutional and financial programs for subsequent O&M. As a whole, this highlights the need for a change in priority away from capital expenditure towards expenditure on operations and maintenance.

5.7 Reappropriation within Social Sector Budgets

There is a strong case for enhancing significantly the share of non-salary heads especially for books and materials in the total recurring education budget of the GO Punjab. The overhead component of the health sector budget is also high and there appears to be some scope for trimming it and diverting the resources to directly

service related expenditures. Within the Public Health Engineering Department (PHED) budget, there is too large a share of costs on O&M of rural schemes. Efforts must be made by PHED to transfer schemes following development to the local councils or village level community based organizations.

5.8 Limits to Social Employment Policy in Lower Grades

Evidence of a policy of 'social employment' being pursued by the GO Punjab is indicated by the share of over 15% of employees in BPS 1 in the social service departments. Bulk of these consist of office peons and other supporting staff. In addition, the number of junior clerks in BPS-5 also appears to be high. Therefore, a policy of limiting recruitment into these grades ought to be followed.

5.9 Higher Status and Remuneration to Key Sector Personnel

A basic problem is the low remuneration of critical sector personnel. The provincial government is in direct competition with the private sector for many of these skills and if the motivation and performance level of such personnel is to be improve (thereby enhancing system delivery), then a policy of enhancing their grades will have to be followed. As such, grades of key technical staff like school teachers, doctors, nurses, hospital technicians, draftsman, sub-engineers, etc., should be raised. In addition, there is a case for introducing a special allowance for service in rural areas to induce better teachers and doctors to work in the villages of the province.

5.10 Depoliticization of the Project Selection Process

There is need to depoliticize the process of approval and allocation of investment funds. This has not only led to a proliferation of schemes but also to investment choices that have not been made on the basis of some efficiency criteria but on considerations of regional equity or lobbying pressures. An intermediate solution would be for the provincial line departments to prepare a portfolio of projects which satisfy certain selection criteria and possess a minimum economic justification. Politicians could then choose from within this short list of projects.

5.11 Preparation of Provincial Medium-Term Sectoral Plans

The lack of provincial medium-term sector level investment plans is a major missing link in the project identification process. Such plans must be prepared to reflect, on

the one hand, the overall development priorities and allocations in the national five-year plans and, on the other hand, define appropriate project selection criteria which could ensure that projects identified have adequate justification.

5.12 Design of PCIs

The general format of PCIs also does not enable proper project analysis in specific areas within the social sectors. It is necessary that sub-sector specific PCIs be designed with a greater focus on performance indicators and quantification of benefits.

5.13 Project Allocations

Actual ADP allocations to approved projects must bear a close relationship with the schedule of capital expenditure proposed in the PCIs. This is necessary to avoid implementation delays, cost overruns and frequently only partial implementation.

5.14 Allocation to New Schemes

The tendency of GO Punjab to carry too large a portfolio of projects will have to be limited by prescribing the maximum share of the ADP that can be allocated to new schemes in any particular year.

5.15 Project Monitoring and Performance Measurement

Departments are generally expected to submit project completion reports (PCIV). However, there is no inspection in the field by an independent agency of the quality and degree of implementation. The establishment of independent project monitoring and evaluation units is a prerequisite for introducing a degree of accountability on the part of the executing agencies. There is also no database relating to performance measures. There is a need to establish appropriate management information systems to monitor performance of individual projects. Proposed initiatives like the National Education Management Information System (NEMIS) and Health Information System (HIS) will help greatly in achieving this objective.

5.16 Involvement of Private Sector

Greater involvement of the private sector consultants and contractors is recommended to take on increasing responsibilities for project preparation and execution in the social sectors. Line departments could then play an essentially supervisory and monitoring

role. The scale of the work should, however, be large enough and financially attractive to induce this private sector participation, especially by reputable firms. As such, the development program in a particular sub-sector could be partitioned into district level packages inclusive of schemes for say, the next three years, and competitive bids invited for these packages. The size of the work then is likely to be sufficient to create economies of scale and generate adequate profits.

5.17 Community Participation

Community involvement in the identification of schemes is likely to make public investments more responsive to effective demand and increase cost recovery. Also, local beneficiary involvement in the management of services could improve the sustainability of investments and ensure proper operations and maintenance. High priority must be attached in coming years to development of NGOs and community based organizations to take on increased responsibilities in the social sectors, especially in the rural areas.

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SUMMARY OF DISCUSSION

Mr. Gliulam Qadir, Planning and Development Department, observed that the paper by Aynul Hasan suggests a strategy for the health sector contrary to that of the 8th Plan which emphasises primary health and prevention (which is certainly more cost effective), and that [the paper neither provides guidelines for future budgeting nor does it present an analysis of causes for high costs. While agreeing with the observations about lack of implementation capacity and procedural bottlenecks, he suggested that to assess local demand the articulation by elected representatives was perhaps the only viable option available currently.

Mr. Mohammed Ishaque, Senior Chief, Planning and Development Department, while agreeing with the observation also stated that the fault lay in the large portfolio and the consequential lack of resources, both time and human. He recommended enhancing planning capacity within the social sector departments and stated that the lack of management information systems and bench mark data gaps also needed to be overcome. He disagreed with the suggestion to divert resources from primary education because saturation had not yet been attained, nor had the quality of education been improved.

The Finance Minister then observed that Planning and Development Department had appointed Planning Officer at the District Level and that information of available infrastructure had already been collected at the constituency level through the elected representatives, the local councils and the District administration.

Mr. Ishaque rebutted that the District Planning Officer was an untrained individual. His idea was to strengthen the line department capacity and that the data base referred to needed updating periodically. Commenting further he said that for community participation, the term "community" needs to be defined precisely.

Dr. Abdul Wahab, Director, Institute of Business Administration and Dean Faculty of Business Administration, University of Karachi, commented that while some improvement has been achieved in the social sectors over the last few decades, the basic issues remained the same. He suggested that lessons learned from failure or the lack of success should form the basis for planning and be in consonance with the principles of cost effectiveness. He pointed

to problems with the conventional strategies which ignored needs of the consumer, emphasised substitution rather than improvement, expansion instead of consolidation.

Kamran Rasul, Commissioner, Gujranwala Division was the first of many who pointed out that the past expansion of physical infrastructure without the lack of support facilities and resources to operate them was the basic cause of failure. He recommended that the future policy should be for consolidation and selective expansion with greater emphasis on sustainable development. He felt that this would meet the cost effectiveness criteria suggested in Aynul Hasan's paper.

Mr. Hasan Nawaz Tarrar, Deputy Secretary, Finance Department stated that SAP in its present form is basically an interventionist programme even though it is based on perceived needs. While community participation is the major theme, he felt that communities would not be able to afford the operations and maintenance costs nor would government. He therefore suggested that the costs should be shared between local councils and the community, and that NGOs and CBOs should be given a legal cover within which they could operate.

Dr. Ghulam Qadir, World Bank commented on the fact that a lot of the expenditure incurred, both development and recurring, was wasteful in character. He supported the need for introducing cost effectiveness and performance budgeting in the planning process so that this could be curtailed. He also felt that a system of accountability needed to be developed.

Mr. Wamiq Zuberi, Editor, Business Recorder stressed on the need to decentralise the provision of services and said that local governments should be responsible for delivering social sector services and that they should be provided the resources needed. He also agreed with the need to introduce user charges, but felt that this would yield results only if the user felt that the money was effectively used. He cited the example of donations to Abdul Sattar Ehdhi in a society which is averse to paying taxes. This, he said, was because the people saw the benefits of their contributions. He said that willingness-to-pay would be enhanced if governments can correct themselves, by doing away with wasteful expenditure and all the pomp and show.

Dr. Masoom Abidi, Editor, The News stated there seems to be an implicit superimposition of a western development model on a traditional society. He agreed with the need to mobilise

indigenous resources and stressed on planning within the framework of scarce resources and consolidating a number of functions into one umbrella department, such as amalgamating ill and education.

Mr. Muzaffar Ghaffar, Consultant stated that there was a need to stop experimenting with delivery mechanisms and to improve on existing modalities. He agreed with the need to establish first the demand and then arrange for delivery and stated that this should be linked to user charges. He suggested that to encourage female education in the rural areas, the fees collected from girls should be put into a dowry fund from which the dowry for those girls completing their education be funded. This he hoped would increase female participation in education.

Anwer Kamal, Advocate commented that the introduction of NGOs, without careful planning of modalities and monitoring, would represent unplanned development which is certainly not the desired objective.

Zulfiqar All Shah, Ex-Secretary Finance, Government of Punjab stated that imputing that enrollment is directly correlated to expenditure is an oversimplification by Aynul I lassan. He suggested that the reasons for lack of corresponding growth in enrollment needed detailed research. Referring to Malik's paper he stated that the rapid expansion in physical assets would mean a corollary increase for recurring expenditure, and if this aspect was overlooked in the budgeting process he felt that we are doomed to bankruptcy in the very near future.

Commenting on sites donated by beneficiaries for infrastructure projects he stated that this was the result of an urban bias in development planning, as "in kind" contributions are not required from urban beneficiaries. He also pointed to a still active but unimplemented decision for devolution of primary education to Local Councils and said that this was the result of agitation by the school teachers. He also commented on the fact that the Constitution does not demarcate the responsibilities of local governments and this results in the centralisation of all authority which was the root cause for failure in the delivery of services. He strongly recommended devolution but with the necessary resources for it.

Mr. Qaiser Zulfikar, farmer from Khanewal, felt that in the absence of an alternative the elected representatives were still the best hope for determining the demands voiced by the

population. He agreed with the perception that there was a surfeit of wasteful expenditure in government citing the example of excessive fleets of vehicles, creation of new administrative districts etc.

Mr. Moliammad Afzal Shah, Chief (Agriculture), Planning and Development Department felt that the discussions were focusing only around SAP when they should be more global in character related to issues generally of resource mobilisation and expenditure planning. He stated that the social sector, particularly SAP, services were historically the domain of local governments and that higher tiers had taken these over following the planned dislocation of local government institutions. Unless reversion takes place now, he felt that devolution in the future would not be practicable.

SESSION III
RESOURCE MOBILISATION BY
PROVINCIAL GOVERNMENTS

PROVINCIAL GOVERNMENT RESOURCE MOBILISATION

By

Hafiz A. Pasha

1. INTRODUCTION

The 1991 NFC award has put the onus on provincial governments of self-financing any revenue deficits during the tenure of the award. Prior to this award, the general practice had been for the federal government to give grants to cover any resource gap in the current account of the provinces. In addition, given the macro-resource constraints confronting the country and the large size of the national budget deficit, the federal government is unlikely to be in a position to increase significantly in real terms the Annual Development Programme allocations to the provinces in coming years. Therefore, resource mobilisation from own revenue sources has assumed greater importance if provincial governments are to continue generating surpluses in their non-development budget and raise the level of their development expenditure primarily from such surpluses.

The objective of this paper is to analyse the scope which exists for higher provincial resource mobilisation, in the context of Punjab. Section 2 of the paper gives the trend in the revenue receipts of the government of Punjab and highlights the changes in the share of provincial own tax and non-tax receipts. Section 3 covers provincial tax revenues and discusses the major issues relating to provincial taxation. It presents a strategy for resource mobilisation, within the context of which some detailed proposals are presented for higher revenue generation. Section 4 analyses non-tax receipts and focuses specifically on user charges. The scope for mobilisation of revenues from such charges is also discussed.

2. COMPOSITION OF REVENUE RECEIPTS

Table 1 highlights the composition of revenue receipts of the government of Punjab. The importance of provincial tax and non-tax revenues has been declining over time, from about 29 percent in 1984-85 to 23 percent in 1991-92 after the 1991 NFC award which led to a large increase in divisible pool transfers. Within revenues generated by the Punjab government, the share of taxes is 60 percent and that of non-tax sources,

TABLE 1
COMPOSITION OF REVENUE RECEIPTS
OF GOVERNMENT OF PUNJAB

(Rs in Million)

	1984-85	1990-91	1991-92	1992-93	ACGR**
	A)	(R)	(R)	(B)	(%)
Provincial Own Tax Receipts	1844	4649	5325	6236	16.4
Provincial Own Non- Tax Receipts	1952	3423	3588	4034	9.1
Divisible Pool Transfers	6308	18673	28721	32339	24.2
Non-Development Grants	3120	2661	1162	2139	-13.2
Total*	13227	29404	38796	44746	16.6

SHARES (%)

Provincial Own Tax Receipts	13.9	15.8	13.7	13.9
Provincial Own Non- Tax Receipts	14.8	11.6	9.2	9.0
Divisible Pool Transfers	47.7	63.5	74.0	72.3
Non-Development Grants	23.6	9.1	3.0	4.8
Total*	100.0	100.0	100.0	100.0

* Totals may not add up due to rounding.

** Annual Compound Growth Rate between 1984-85 and 1991-92

A = Actual, R = Revised, B = Budget.

Source: Annual Budget Statement, Finance Department, Government of Punjab.

40 percent. The former have shown relative dynamism, with an annual growth rate of over 16 percent. Non-tax revenues have experienced only modest growth of about 9 percent per in. The basic conclusion is one of increased dependence of Punjab government on federal transfers and the need, therefore, to increase the component of financing from own revenue

3. TAX RECEIPTS

3.1 Allocation of Fiscal Powers

Taxes with the federal government have been explicitly specified in the 1973 Constitution within these sources certain exceptions have been identified which consequently fall within -lie purview of provincial governments. These include the tax on agricultural income, capital gains tax on immovable property and taxes on the purchase or sale of services (excluding railway, sea or air transport). The 1991 NFC Award (in para 45) explicitly hands over the responsibility of collection of a retail sales tax to the provinces. In addition, provincial governments have retained the power to levy the following taxes: excise duties on alcoholic liquor, opium and narcotics; tax on professions, trades and callings; tax on immovable property: land revenue; tax on motor vehicles; stamp duties; entertainment taxes etc.

It is estimated that in 1990-91, 88 percent of the tax revenues were generated by the federal government and 6 percent each by the provincial and local governments respectively. In terms of the share in expenditure, 68 percent is incurred by the federal government, 28 percent by the provincial governments and 4 percent by the local governments. Therefore, provincial expenditure is almost five times the revenue collected from own sources. This highlights the fundamental imbalance in the allocation of fiscal powers in Pakistan. The resource gap of provincial governments has been covered by the flow of funds from the divisible pool of federal taxes and by revenue-deficit grants.

3.2 Provincial Taxation Structure

The primary sources of provincial revenue consist of taxes on physical and financial assets. The largest revenue earner is *stamp duties* which is levied on most civil, judicial and commercial documents. The biggest share of revenue within stamp duties is generated from property transactions (duty rate of 8 percent of sale value). Specific rates of duty are charged generally on affidavits, mortgage deeds, rent agreements, bills of lading, securities, bonds,

bills of exchange, promissory notes, debentures, etc. The rates of duty are generally low and have remained unchanged for a long period of time.

The *property tax* is levied by the provincial government of Punjab on urban immovable property. This tax is shared with the local governments, such that only 15 percent of the revenues (net of costs of collection) are retained by the province. The tax is charged on the annual rental value (ARV). As shown in Table 2, the tax rate in Punjab ranges from 20 to 25 percent. Under the rules, the property tax cadastre is expected to be updated every Five years. Punjab has been able to adhere to this schedule although the reassessments have not been market-based and generally involve an ad-hoc increase of 5 to 10 percent only in ARVs. As a consequence, the ARVs currently bear little relationship to the market rental values. A study by Gliaus (1991) reveals that only about one-tenths of the values are currently being captured by the provincial excise and taxation department, especially in the case of owner-occupied properties. Numerous exemptions have also been granted by size (plots below 100 sq. yards or threshold level of ARV), or by type of owner (government, widows, orphans, etc.). These have eroded the tax base further, and have meant that only about one-thirds to one-half of the properties assessed actually pay tax.

The other tax on physical assets is the *motor vehicle tax*: (MVT). It is levied on owners, largely at specific rates on seating or engine capacity in the case of buses, and laden weight in the case of trucks and other heavy vehicles. Agricultural tractors/trailers, special purpose vehicles (ambulances, school buses, etc.) and the National Logistics Cell (NLC) vehicles are exempt from the MVT. As shown in Table 2, tax rates in Punjab are somewhat below those in NWFP, similar to those in Sindh and higher than rates in Balochistan. Upward adjustments in the rates are infrequent, with the last revision in 1981. In addition to the MVT, the province also levies a registration fee on new vehicles. This is specific in character, and ranges from Rs 200 for motor cycles to Rs 1,500 for buses and trucks.

The above three taxes on assets are essentially charged from tax payers in the urban areas. In rural areas, a tax, the *land revenue*, is levied on the owners of agricultural

TABLE 2
PROVINCIAL TAX RATES IN PAKISTAN

	SINDH	PUNJAB	NWFP	BALUCHISTAN
STAMP DUTY (on urban properly sales)	8%	8%	8%	8%
MOTOR VEHICLE TAX				
Motor Cycle	Rs 52 - 68	Rs 52 - 68	Rs 52 - 80	Rs 25 - 50
Cars/jeeps/Wagons	Rs 480-600	Rs 384-1000	Rs 400-600	n.a
Rickshaw	Rs 400	Rs392	Rs 400	Rs 330
Taxi	Rs 520-660	Rs 520	Rs 520	Rs 520
Trucks	Rs 376-2828	Rs 376-2828	Rs 400-3000	Rs 320-1848
Buses (per seal)	Rs 98-150	Rs 88-168	Rs 120-168	Rs 16
REGISTRATION FEE (by type of vehicle)	Rs 125-1500	Rs 200-1500	Rs 100-1000	n.a
PROPERTY TAX Commercial/Industrial	20% - 25%	20% - 25%	15% - 20%	10% - 15%
EDUCATION CESS (per worker)	Rs 100	Rs 100	Rs 100	Rs 100
ENTERTAINMENT TAX (on cinema)	75%	65%	50%	n.a
HOTEL TAX (per room per day)	Rs 10-50	7.5%	7.5%	n.a
PROFESSIONAL TAX (on individuals)	Rs 150	Rs 100	Rs 100	n.a
PADDY FEE (per quintal)	Re 1	Rs 1.5	n.a	n.a

Source: Excise and Taxation Departments of Provincial Governments.

land. The tax base, as prescribed in the 1967 Land Revenue Act, is the net produce of land. However assessment is generally on a presumptive basis. These assessments are very outdated as there has been no primary land settlement survey after 1974. The rate of land revenues varies from barani and irrigated areas, and by size of holding. Exemptions include barren or uncultivated land and small land holdings (12 acres of irrigated and 25 acres of barani land). The tax base has been significantly eroded since 1982 when a blanket tax exemption was given to all Sunni Muslims following the introduction of *ushr*.

The next category of provincial taxes consists of taxes which are levied essentially in the nature of excise duties on services (with federal government having fiscal powers in the manufacturing sector). Three taxes fall in this category - the electricity duty, the entertainment tax and the hotel tax. The *electricity duty* is levied at varying rates by consumer on an ad valorem basis and is collected by WAPDA. The *entertainment tax* applies to movies, theatrical plays, etc. It was originally in the nature of a (seating) capacity tax and has recently been linked on an ad valorem basis to admission fees. The *hotel tax* is levied on larger hotels, with higher tariffs, on billings at the rate of 7 1/2 percent. The federal government also charges an excise duty on hotel services and this has led to problems of double taxation.

Among the minor taxes, the provincial government also levies the equivalent of a small, flat income tax called the *professions, callings and trades tax*. In principle, this tax is applicable to all those engaged in gainful employment, including professionals, traders, factories commercial establishments and contractors. For professionals, the rate in Punjab is 100. In the rural areas, potentially significant sources of revenue currently are the *cotton* and the *paddy fee*.

As far as the incidence of provincial taxes is concerned, recent estimates by Pasha and Ghaus (1991) are that the burden is, more or less, progressive in character. This can be expected, given the high share of taxation on ownership of physical and financial assets. This has the implication that development of provincial taxes will increase the equity of the tax system as a whole.

3.3 Trends in Revenues

Provincial tax revenues are projected at Rs 6.2 billion during the current financial year, as shown in Table 3. Provincial taxes which are direct in nature like the land revenue, urban immovable property tax, transfer of property tax and the tax on professions, trades and callings collectively contribute about 17 percent to tax revenues. This share has been falling, from over 26 percent in 1984-85.

As highlighted earlier, the largest provincial tax is stamp duties. Historically, the motor vehicle tax has been the second most important source of revenue. It is expected, however, that in 1992-93 revenues from land revenue will exceed those from the MVT for the first time. This is a reflection not only of the lack of buoyancy in the latter source but also of improved fiscal effort in the former tax. The share of land revenue (largely from mutation fees) at 11 percent in Punjab is significantly higher than that in the other three provinces combined of less than 5 percent. This indicates that the burden of provincial taxes on rural households in Punjab is higher.

The degree of skewness in the provincial taxation structure is demonstrated by the fact that out of the eleven major taxes, the three biggest sources (stamp duties, MVT and land revenue) collectively account for as much as 76 percent of total tax revenues. The two other taxes with a share in excess of 5 percent are electricity duty and cotton fees. Both these taxes have shown relatively fast growth.

Altogether, the annual growth rate of provincial tax revenues is estimated at about 16 percent between 1984-85 and 1991-92. The corresponding growth rate in the Gross Regional Product of the province is also 16 percent. This implies that the provincial tax to GRP ratio has remained stagnant over time.

3.4 Issues in Provincial Taxation

Limitation of Fiscal Powers; It has been argued that there is very little scope for provincial resource mobilisation because taxes, with large and relatively buoyant tax bases, like import duties income and corporation tax, excise duties and sales tax have been pre-empted by the federal government. The taking over of the sales tax, in particular, by the federation soon after partition has been cited as a major encroachment on provincial fiscal powers.

TABLE 3**TRENDS IN TAX REVENUES OF GOVERNMENT OF PUNJAB**

(Rs in Million)

	1984-85	1990-91	1991-92	1992-93	Share in	ACGR**
	(A)	(R)	(R)	(B)	1991-92 (%)	(%)
DIRECT TAXES*	481	790	926	1000	17	9.8
Income Revenue	166	501	587	641	11	19.8
Capital Gains Tax	129	--	--	--	--	--
Transfer of Property Tax	110	150	170	172	3	6.4
Property Tax	46	99	125	138	2	15.4
Tax on Professions, Trades & Callings	30	40	44	49	1	5.6
INDIRECT TAXES	1363	3859	4399	5236	83	18.2
Stamp Duties	581	1903	2897	3159	54	25.8
Motor Vehicle Tax	301	576	607	628	11	10.5
Electricity Duty	127	839	304	346	6	13.3
Cotton Fee	80	225	240	240	5	17.0
Entertainment Tax	191	169	175	176	3	-1.2
Provincial Excise	25	88	116	124	2	24.5
Tax on Hotels	7	21	29	30	1	22.5
Others	51	38	31	533	1	-8.6
TOTAL***	1844	4649	5325	6236	100	16.4

A = Actual, R = Revised, B = Budget.

* Given in descending order of revenue in 1991-92 by type of tax.

** Annual Compound Growth Rate between 1984-85 and 1991-92

*** Totals may not add up due to rounding.

Source: Annual Budget Statement, Finance Department, Government of Punjab.

It needs to be emphasised, however, that within existing sources, the scope for generating revenues has not been fully exploited by the provinces. The issue of taxation of agricultural income, a provincial subject, remains unresolved. Capital gains tax on immovable property which falls within provincial fiscal powers has been abolished and substituted by a stamp duty. This substitution has led to significant revenue losses, created serious distortions in the property market and meant that the provinces have not fully benefited from the tremendous boom in real estate values during the 80s. Also, the federal government has been limited constitutionally to the levy of a sales tax only on goods and not on services. The latter has been left to the provincial governments, who have been slow in exploiting the vast potential that exists in taxation of fast-growing services like telecommunications, banking insurance, etc. Instead, the federal government has tapped substantial revenues in recent years in these sources by extending the coverage of excise duties.

The 1991 NFC award has also handed over the responsibility of retail sales taxation to the provinces. The federal government has encroached in this area also by recently introducing such a tax on 21 items, primarily consumer durables. The provinces have not yet taken any steps towards implementation of retail sales taxation due perhaps to problems of lack of documentation and high number of small outlets, implying high resulting costs of collection. Altogether, it appears that while provincial governments in Pakistan have been granted limited fiscal powers they have failed to even exploit effectively the sources available to them.

Buoyancy of Revenues: As highlighted earlier, the slow rate of growth of provincial revenues has been attributed to the low elasticity of the provincial tax bases. Akhtar (1990) demonstrates that this is actually not the case. Her estimates of the relevant buoyancy coefficients, as shown in Table 4, highlight the fact that tax base to GDP buoyancy coefficients are in excess of or close to unity in the case of most taxes, except the motor vehicle tax. The basic problem, in fact, appears to be low tax revenue-to-tax base buoyancy coefficients in the case of stamp duty, entertainment tax and property tax. This can be attributed largely to the presence of specific tax rates. In the case of property tax, the statutory rate is ad valorem in character, but has effectively become specific because of lack of proper reassessment of ARVs. Therefore, the buoyancy of the provincial tax system can be enhanced by either making the tax structure ad valorem in nature or by periodically indexing the rates to inflation.

TABLE 4
BOUYANCY OF MAJOR PROVINCIAL TAXES

Tax	Tax Base	Tax Revenue to Tax Base Buoyancy	Tax base to GDP Buoyancy	Tax Revenue to GDP Buoyancy
Stamp Duty	Gross Domestic Product	0.75	1.00	0.75
Motor Vehicle Tax	National Stock of Vehicles Weighted by Tax Rates	1.97	0.51	1.00
Entertainment Tax	Expenditure on Recreation	0.58	1.04	0.60
Electricity Duty	WAPDA & KESC Income from Sale of Electricity	0.70	1.55	1.10
Property Tax	Value Added from Urban Ownership of Dwellings	0.31	1.15	0.35
Tax on professions And Callings	Non-agricultural GDP	1.45	1.07	1.55
Total Provincial Tax Revenues	Gross Domestic Product			0.62

Source: A study of Provincial Finances by Shamshad Akhter, World Bank Resident Mission in Pakistan, 1990. 83

3.5 Resource Mobilisation from Taxes

We have demonstrated above that significant revenue-raising potential exists in the provincial tax system, as the full range of available fiscal powers has not yet been exploited and in the case of many taxes, tax rates are very low and have not been enhanced for a long period of time. We have also concluded that the low buoyancy of provincial taxes is not due to any inherent problem of slow growing tax bases but because of reliance on specific tax rates and inadequate fiscal effort in mobilising more resources.

Therefore, the strategy of resource mobilisation from provincial taxes must attempt to make revenues more dynamic either by reforms leading to a transition from specific to ad valorem taxes or by resort to a policy of indexation of tax rates to inflation. Also, there is clearly a need to develop more revenue sources to broad base the taxation structure and more effectively link revenues to the growth in the regional economy.

Within the context of this overall strategy, we have identified a number of proposals for mobilising resources which score highly on the following criteria:

Equity: the extent to which the burden of the additional taxation falls on the more well-off households.

Economic Efficiency: the extent to which the proposal distorts behavior and creates dead weight losses.

Simplicity: the degree to which the proposal is easy to administer by the provincial tax departments.

Costs of compliance: the extent to which the proposal imposes compliance costs on tax payers.

Elasticity: the extent to which proposal contributes to enhancing the built-in elasticity of the tax system.

Legal Constraints: whether the proposal requires any legislative enactment or changes in existing law.

Scope for Evasion and Corruption: the degree to which revenues from the proposal are arable to evasion and corruption.

Rvenue-Raising Potential: the quantum of additional revenues likely to generated by the proposal. These proposals are described below:

Stamp Duty: Examination of the composition of revenues from the tax has revealed some structural problems. There is over-dependence currently on collections from property transactions. This needs to be reduced and a higher proportion of revenues generated from other instruments. In fact, the overall rate (over 10%) of taxation on property sales is too high. This has led to large-scale under reporting and evasion and inhibited proper titling and development of the property market. There is a need for reduction of the rate of stamp duty (from 8% to about 4%)'.

Simultaneously, to compensate for any loss of revenues, the flat rates on financial instruments should be enhanced, for example, on rental contracts from Rs 10 to Rs 100. Corresponding increases in rates can be achieved for articles of memorandum, partnership deeds, security bonds, share certificates, etc.

Motor Vehicle Tax: The modest growth rate in revenues of about 10 percent can be attributed largely to the specific rates of this tax, which have not been enhanced for some lime. Consequently, revenues from this tax currently finance only about half the O&M cost of the inter-urban road network in the province.

We recommend, first, that the registration fee component of the tax be made ad valorem in character and charged at the rate of 1 percent of the landed price of imported vehicles or of (he sale price of domestically assembled vehicles. This proposal has a progressive incidence because the additional tax burden will fall largely on owners of vehicles. It is likely to have minimal distortionary effects given the very small tax rate. Also, bills of entry are available for assessment of tax liability on newly imported vehicles and revenues are likely to be buoyant because of the ad valorem nature of the tax and fast growth in the stock of vehicles.

1. Especially after the re-introduction of the capital gains tax on immovable properties.

Second, Government of Punjab may double on average the Oat rates of MVT on existing vehicles over the next five years, with a differentially higher rate of enhancement on trucks with high axle loads. It is necessary, however, that tax rates be harmonized among the provinces, given the mobile nature of the tax base.

Urban Immovable Property Tax: This tax is one of the most underdeveloped sources of revenue in the country. However, higher yields from this tax will mostly benefit local governments. Therefore, proposals for development of this tax are discussed in the paper on Local Government Resource Mobilisation, which is being presented later in the conference.

Electricity Duty: This tax has proved to be one of the more buoyant sources of revenue in the province. It is essentially in the nature of a sales tax. Therefore, an attempt must be made through a policy of gradual escalation of rates to approach the standard general sales tax (GST) rate in Pakistan of 12^{1/2} percent. Regressivity of the impact can be limited by exempting smaller consumers.

Tax on Professions, Trades and Callings: This tax is a simple, flat rate provincial equivalent of the federal income tax. Revenues could be increased initially by handing over collection responsibility in the case of individual and corporate taxpayers to the federal income tax department. The provincial excise and taxation department can concentrate on collecting PCT tax from persons outside the income tax net.

We now turn to proposals for new taxes within existing fiscal powers.

Vacant Plot Tax: A significant new source of revenue to provincial governments which is worthy of consideration is vacant plot tax. Currently, it is estimated that over 150,000 developed plots are lying idle in Lahore. This reflects the rampant speculation that is currently taking place, largely with black money. The vacant plot tax will not only discourage this speculation but it may also fetch sizeable revenues. It is proposed to levy this tax on plots above 120 square yards which remain undeveloped after three years of allotment, at rates ranging from Rs 5 to Rs 10 per square yard per annum.

Capital Gains Tax: The capital gains tax on urban immovable property was abolished by the provincial governments in 1985-86. Prior to this, the tax had been the most buoyant and

progressive source of revenue. The abolition of this tax was accompanied by an increase in the rate of stamp duty (from 6 percent to 8 percent) on property sales. The basic merit of the capital gains tax, as opposed to the stamp duty, is that it only taxes increments in value resulting from a transaction. As such, we recommend that the capital gains tax be re-introduced. The stamp duty rate on property sales can then be brought down from 5 percent to 4 percent.

Retail Sales Tax: As mentioned earlier, the retail sales tax has been transferred to the provinces in the 1991 NFC award. Given implementation difficulties, the provincial government may, as an initial step, examine the scope for levy of a presumptive sales tax on larger outlets in commercial centres of the bigger cities of the province.

Agricultural Income Tax: Last but not the least, we have to consider the case for introduction of an agricultural income tax. However, imposition of such a tax remains a very contentious issue in Pakistan. Arguments in favour and against the levy of the tax have been summarized in Qureshi (1987) and Naseem and Akhlaque (1992). It is clear that an agricultural income tax of the conventional type will be very difficult to administer by the provincial tax administration (Board of Revenue). If the issue of whether the rural sector is undertaxed or overtaxed can be resolved, then the feasible strategy appears to be to use the kind revenue system as a surrogate for AIT. This would justify the enhancement of rates of revenue in the province. However, for this to yield more revenues there will simultaneously have to be more effective collection of *ushr*, to prevent a large-scale erosion of the land revenue base.

4. NON-TAX RECEIPTS

Table 5 gives the summary picture of non-tax receipts of the government of Punjab. These are projected at about Rs 4 billion in 1992-93, with modest growth of only 9 percent per annum. Bulk of the contribution is by user charges. Receipts from the economic sectors account for 55 percent and these from the social sectors, 21 percent. The other significant source of income is law and order receipts, with a share of 9 percent. We focus our analysis mostly on user charges.

TABLE 5
NON-TAX RECEIPTS OF GOVERNMENT OF PUNJAB

(Rs in Million)

	1984-85	1990-91	1991-92	1992-93	Share in	ACGR
	(A)	W	(R)	(B)	1991-92 (%)	(%)
Profites of Electricity	--	--	100	110	3	--
Income from Property & Enterprises	66	241	100	210	3	6.1
Receipts from General Administration	44	83	83	89	2	9.5
Law and Order Receipts	176	295	317	336	9	8.8
Receipts from Economic Sectors*	1211	1794	1967	1985	55	7.2
Receipts from Social Sectors*	337	683	764	1037	21	12.4
Other Receipts	118	326	255	268	7	11.6
TOTAL**	1952	3423	3588	4034	100	9.1

* Based on a reclassification of the following sectors — community services, social services and economic services.

** Totals may not add up due to rounding

Source: Annual Budget Statement, Finance Department, Government of Punjab.

4.1 Trends in Revenues

Table 6 indicates that, in Punjab, revenue receipts from irrigation services, in absolute nominal terms dominate the receipts over the other sectors. As far as the trend in the other economic actors is concerned, revenues from works and agriculture, though relatively small in magnitude when compared to the dominant irrigation service, seem to have grown (on an annual basis) faster than the other remaining sectors. It is important to note that services from forestry also generate relatively large revenue receipts for Punjab but display a slow growing trend in revenue receipts.

Trends in revenue receipts from social services of Punjab are presented in the lower half of Table 6. Social services are divided into four broad categories, namely, public health, health, education and public works. Education services are further subdivided into university/college, professional/technical College, secondary school, primary school and other.

Education services yield the largest revenue receipts among the social sectors and these receipts have been rising rapidly, although the growth rate has moderated somewhat in recent years. The trend in the revenue receipts of all sub-sectors within the education sector has been a rising one as well. Revenues from health services have also shown fair growth.

It is worth noting that the budgeted receipts for the fiscal year 1992-93 from public health services are expected to rise to Rs 241 million which amounts to a tenfold increase from the previous fiscal year, 1991-92. Such a colossal increase in public health receipts is contemplated due to a recent decision by the Punjab government to entrust responsibility for maintaining rural water supply and sanitation schemes to the Public Health Engineering Department (PHED). Through user charges, PHED anticipates generating Rs 102.8 million and Rs 115.8 million respectively from water supply and sanitation schemes. Although the above analysis generally indicates rapid growth in revenue receipts from both the economic and social services, these trends in receipts alone are not adequate to provide enough information to comprehend the extent to which these public revenues finance the expenditures incurred by the provincial government. This is dependent upon the level of user charges and (the) net balance between revenues and expenditures.

TABLE 6
TRENDS IN REVENUE RECEIPTS FROM USER CHARGES OF
GOVERNMENT OF PUNJAB

(Rs in Million)					
Sectors/Years	1984-85	1990-91	1991-92	1992-93	
ACCR	(A)	(R)	(R)	(B)	(%)
ECONOMIC SECTORS					
Agriculture	125	224	241	241	8.6
Animal Husbandry	36	71	83	94	12.7
Forestry	127	209	226	226	7.5
Irrigation	771	985	1087	1087	4.4
Works	63	199	235	241	18.3
Others	89	106	94	96	1.0
Total Economic Sectors*	1211	1794	1967	1985	6.4
SOCIAL SECTORS					
Public Health	21	23	24	241	35.7
Health	45	112	121	127	13.8
Education	149	415	444	494	16.2
University/College	44	81	90	89	9.2
Professional/Technical	3	8	11	10	16.2
Secondary	55	111	111		9.2
Primary	36	75	81	75	9.6
Others	10	147	152	208	46.1
Others	146	133	175	175	2.3
Total Social Sectors**	337	683	764	1037	15.1

* Based on a reclassification of the following sectors — community services, school services and economic services.

** Including Community Services excluding Works.

Source: Annual Budget Statement, Finance Department, Government of Punjab.

4.2 Extent of Cost Recovery

The extent of cost recovery is defined as the ratio of revenue receipts to the recurring expenditure of the government in a given sector. These cost recovery ratios have been calculated for both economic and social services of Punjab and are reported in Table 7.

It is interesting to note that, of all the economic sectors considered, only forestry services show a reasonably high recovery ratio of over 87 percent in 1991-92. In the largest revenue-yielding service, irrigation, the cost recovery ratio is about 39 percent only and has been declining significantly over time. Cost recovery ratios for animal husbandry and works are low.

Cost recovery performance of the social sectors across all services, in general, is very poor. The overall recovery ratio for education is less than five percent. Even in university/colleges and professional/technical institutions, where graduates are expected to get higher future economic returns, cost recovery ratios are no more than twelve percent.

Although the public health sector (e.g., water supply, sanitation, etc.) has shown some increasing trend in the cost recovery ratio, it is at best, still below the thirty percent level during the period considered. This figure, however, is expected to increase to 73 percent in fiscal year 1992-93. The cost recovery ratios for basic health services have remained stagnant at below six percent.

The overall analysis manifests a relatively poor performance of cost recovery. For most of the economic services (e.g., agriculture, animal husbandry and irrigation), where the principle of pay-for-what-you-get is most appropriate, the accomplishment of cost recovery has not been satisfactory. As for the social sectors (e.g., health and education), the situation is even worse. We turn now to a description of some of the reasons for the low cost recovery.

4.3 Causes of Low Cost Recovery

In a recent study on resource mobilisation and taxation reforms, Husaini (1991) has cited the following reasons for low cost recovery in irrigation and agricultural services at the provincial level:

TABLE 7
COST RECOVERY RATIO BY SECTOR IN PUNJAB

Sectors/Years	1984-85	1990-91	1991-92 (R)	1992-93 (B) (%)
ECONOMIC SERVICES				
Agriculture	14.7	27.4	29.8	27.7
Animal Husbandry	23.1	19.7	20.5	21.8
Forestry	90.7	85.5	87.3	84.8
Irrigation	57.0	54.1	38.9	34.8
Works	10.5	16.9	17.5	11.2
SOCIAL SERVICES				
Public Health	58.3	26.1	21.8	73.0
Health	5.7	5.7	5.2	3.9
Education	4.4	4.6	4.2	3.9
University/College	10.0	9.2	11.7	7.4
Professional/ Technical	1.1	2.2	1.6	1.4
Secondary	6.7	4.7	4.3	3.7
Primary	2.2	1.6	1.4	1.1

Source: Derived from Annual Budget Statement.

Absence of a consolidated Agency: One of the major reasons for low cost recovery in the case of irrigation services has been absence of a unified agency for the provision and assessment (or collection) of such services to users. Due to the lack of coordination between agencies providing the service and those that are assessing and collecting the revenues from the users, there seems to be a practice of concealment, under-booking and under-reporting of areas under irrigation by users to Patwaris. This has consequently led to substantial leakages in revenue receipts.

Compliance Laxity: The second important reason for the large divergence between public receipts and revenues is lack of compliance to assessment schedules, *supervision*, monitoring accountability and cross-checking practices.

Outdated User Charges: It has been argued that the water rates charged to users are seldom revised to reflect the increasing operation and maintenance (O&M) costs of the service. On many occasions, revisions have been made on an ad-hoc basis.

Besides these three broad reasons, there are other factors which have also contributed to the low cost recovery in the economic services provided by the public sector. For example, there is very little incentive (or, for that matter, in some cases, even a disincentive) for the primary assessor to put a concentrated effort in properly assessing and collecting revenues. It has been noted that, for Patwaris and Tappedars, rewards and remuneration for extra efforts are so small, that is not worth their time.

There are similar explanations for the low degree of cost recovery in social services. First, levels of fees/user charges for services such as education, health and water supply are low and have not been revised upwards frequently. This has perhaps been motivated by the concern, on the part of government, to facilitate access to these services to poorer households. However, given that demand for services like high school and college education is higher among middle and upper income groups, this has meant that payments are considerably below average affordability levels. Also, the very limited degree of cost recovery has reduced the availability of resources for social sector maintenance and development. A better policy might be to raise user charges and thereby increase the level and quality of provision of these services. The resulting increased access would be of greater benefit to low income households.

Second, collection efficiency of charges is poor because of the incentive environment that line departments face. Revenues do not accrue directly to the collecting department but are credited to the general treasury. Departments also believe that if they collect more than the stipulated amount, this will lead to a corresponding cut in their grants, resulting in very little net improvement in their resources. Also, since funding comes from provincial budgets departments know that they have residual access to this source. They are therefore under no pressure to generate their own resources to self-finance any deficits.

Third, collection mechanisms are crude and underdeveloped. For example, drinking water charges are either flat rate or linked to ferrule size at most locations. There is no link between payments and the level of consumption. In schools and colleges, there is a tendency to demand payment of all the fees up front at beginning of the year. This exacerbates the problem of affordability.

We examine next the scope for resource mobilisation from user charges.

4.4 Resource Mobilisation from User Charges

The basic strategy of resource mobilisation from user charges must be to raise levels of cost recovery in economic services, like irrigation, where private rates of return are high, implying potentially high willingness-to-pay of consumers. This will enable diversion of public resources to social services where equity considerations dominate and where subsidies can be justified in the presence of externalities and generally high social returns.

We have evaluated proposals for enhancing user charges in terms of various criteria relating to equity, importance of pricing for allocative efficiency, and level of private and social returns from the service.

Consistent with our earlier conclusions, application of the criteria indicate generally higher rates of cost recovery for economic services, especially for irrigation and forestry. Within social services, we recommend that the degree of cost recovery be highest for water supply followed by secondary and college education and the lowest for health services and primary education. However, cost recovery targets may initially have to be on the conservative side

in recognition of the political and administrative limits to the extent to which there can be escalation in user charges.

We also emphasise that from the viewpoint of acceptability by consumers of these increases, there should be a policy of differential rates of enhancement and cross-subsidisation within a particular service to allow for considerations of affordability, equity and the likelihood of resistance. As such, irrigation charges should be increased at different rates by the size of the farms. Within college and high school education, a pragmatic approach would be to enhance fees at the points of entry or exit rather than during the period the education is being received. This strategy will minimize student protest. Accordingly, significant additional revenues could be generated by levy of application fees (none at present), and increase in examination and certificate fees especially in the cases of private students. Increases in tuition fees should be relatively modest initially. Similarly, in the context of health services, the largest increase initially should be attempted in the charges for operations, special tests and for private wards.

Simultaneously, efforts will have to be made to improve collection mechanisms. In water supply and sanitation, tariffs may be linked to annual rental values of properties (especially after a comprehensive market-based reassessment). Ability-to-pay could be enhanced by allowing payments in installments. In addition, line departments may be given a greater incentive to collect user charges by allowing them to retain a portion of the revenues and by ensuring that budgetary allocations do not decline in proportion to the increase in revenues.

5. CONCLUSIONS

Implementation of the above mentioned proposals for resource mobilisation from provincial taxes and user charges could significantly improve own revenues of the government of Punjab in the next few years. We believe that it is realistic to target for generation of additional revenues annually from taxation proposals of Rs 1.5 to Rs 2 billion in the forthcoming provincial budgets. Given the matching grant from the federal government of a corresponding amount, this will generate additional resources annually for the province of Rs 3 to 4 billion. By 1995-96, provincial own revenues will be higher by over Rs 4.5 to Rs 6 billion over projected levels. This will not only avert the possibility of the province going back to a deficit

situation but coupled with a strategy of restraining growth in current expenditure it could enable a quantum jump in the level of development expenditure.

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PROBLEMS IN RESOURCE MOBILISATION IN PUNJAB

By

Imtiaz A. Cheema

1. INTRODUCTION

The institutional responsibilities of the provincial governments have grown in size over the years substantially both in development and maintenance particularly in the social sectors. So much so that over 55% of the development expenditure is borne by the provincial governments while 25% is financed by the federation and 20 percent through the local councils. The problem of the provincial government is further aggravated by the fact that recurring expenditure on projects completed through development budget is to be borne by the provincial government on the non-development side. Thus the overall expenditure of the provincial government in Punjab has increased very rapidly while income from different sources has not caught up with this rapid increase. Resultantly the financial position of the provincial government has deteriorated over the years.

The reasons generally advanced for this deterioration are slow moving receipts from the provincial taxes, rising debt service and decline in the share of development expenditure in the total expenditure. Due to these reasons the provincial government has faced rapid increase in over-draft from the State Bank of Pakistan during the last couple of years. The situation has, however, changed with the 1991 NFC Award. The NFC Award of 1991 has been acclaimed to be the most historic event in the provincial finances in the last 15 years. It has led to a sizeable jump in provincial revenues in 1991-92 and thereafter. As such it is likely to have a significant bearing on the provincial government's financial behaviour. The past behaviour of provincial government indicates that higher federal transfers generally had significant stimulatory effect on provincial expenditure and a negative effect on their fiscal efforts. The increase out of divisible pool taxes by the federal government under the new NFC award is likely to result in 16 percent additional funds for the government of Punjab as a result of expansion in the size of the divisible pool. The amount is expected to be quite substantial resulting in balancing the existing deteriorating financial position but only for a short period of time as withdrawal of non-obligatory grants, requirement of reduction in overdrafts, additional expenditure on pays of large number of employees and cut-back of development transfers from the federal government will eat up most of the additional amount

coming from the NFC award. With the present pace of its own provincial resources, the Punjab Government is likely to be once again in deficit in the next few years. Thus there is urgent need for improving its own resources so that the apprehension of facing greater financial deficit in the coming years can be overcome by the provincial government.

The basic objective of this paper is to quantify the level of fiscal effort by the provincial government and to diagnose the problems for low provincial tax receipts. The overall growth in the provincial receipts in the country during the last decade has been of the order of 13 percent. The growth of revenue receipts in Punjab, about 16 percent is much faster than the oilier provinces. This is due to the relative buoyancy of the provincial economy and higher fiscal effort by the provincial government. But this increase in revenue still falls short of increase in expenditure which has grown at a faster rate of over 18 percent. There has been a tendency on the part of the provincial governments not to make much effort to mobilise their own resources any further due to fiscal policies of the federal government. The major problems of the provincial government in improving its resources are due to following main reasons:

- i) Nature of taxation structure.
- ii) Existing constitutional allocation of fiscal powers.
- iii) The impact of Islamization process on the provincial taxes.
- iv) Incentive environment.
- v) Lack of buoyancy in provincial taxes

The above problems are discussed below to identify the reasons and suggest measures to improve the present deteriorating situation.

2. NATURE OF TAXATION STRUCTURE

The primary sources of provincial revenue consists of taxes on physical assets like the property tax, motor vehicles tax, stamp duty and land revenue and of taxes which are essentially levied in the nature of duty on services like the electricity duty, entertainment duty and hotel tax. The nature of most of these provincial taxes is quite inelastic. Provincial taxes have generally increased at a low rate. Exception exists in the case of a few levies like stamp duty which has increased at a fast pace during the last 5 years or so but its growth has now

been retarded largely due to slump in real estate business. It is necessary that not only the present shape of taxes is changed but further avenues are also tapped to mobilise further resources. It is suggested in this regard that taxes on physical assets like property tax and for vehicle tax should be re-designed and rates of stamp duty should be reviewed to make room for the introduction of capital gains tax. There is vast scope to levy some more taxes services which can only be exploited with the prior approval and will at the political level.

3. EXISTING CONSTITUTIONAL ALLOCATION OF FISCAL POWERS

Taxes and duties are levied by the federal and provincial governments in accordance with law within their respective spheres as defined in the constitution. The existing constitutional provisions allocate major and buoyant taxes to the federal government like income and corporate taxes, customs duty, excise duties on production of goods and sales tax. The residuary fields of taxation have relatively narrow bases and low elasticity. In these circumstances the provincial expenditure has outgrown the provincial receipts by a large margin.

This difficulty can be over come if some taxation fields with good potential are allocated to the provinces. Sales Tax was originally a provincial tax and is still being administered by the State Governments in India. It would improve the revenue potential of provinces quite substantially if whole of the levy with its vast potential at import, export, production, wholesale and retail sale level is transferred to the provinces.

4. THE IMPACT OF ISLAMISATION ON PROVINCIAL TAXES

The process of Islamization has also adversely affected the provincial tax receipts in a big way. The provincial governments have been divested of their authority to levy duty on manufacture and sale of liquor in general under the Prohibition Order which also declared betting tax as illegal. Both these levies were comparatively of a very buoyant nature and receipts of these levies would have grown at a fast pace by now. Further the introduction of Ushr in the agriculture sector has also deprived the provincial government of its legitimate land revenue. After careful analysis, it is estimated that loss of revenue on account of Islamization process is of the order of 200/o of the total tax potential of the provincial government.

5 INCENTIVE ENVIRONMENTS

Incentive environments have not been conducive to greater fiscal effort by the provinces during the last decade or so. In particular, the adhoc nature of inter-governmental fiscal relations, which have evolved in the absence of NFC Award, whereby the provinces have had residual access to deficit grants from the federal government has led to profligacy in expenditures and slackening of fiscal effort. As a consequence of 1991 NEC Award, this altitude on the part of the provincial government has to be changed. The required change in attitude cannot take place over-night as it will required the full support of political structure und (he legislature.

6. LACK OF BUOYANCY IN PROVINCIAL TAXES

The existing provincial taxes lack elasticity and buoyancy primarily due to the reason that there is no linkage between revenues and inflation as these are mostly based on specific rates. There is every justification to fix the rates of such taxes on ad-valorem basis. The classic examples in this regard are the prevailing rates of Cotton Fee and Paddy Husking Tax. The existing rate of cotton fee was fixed at Rs 2/- per maund which worked out to around 3% of the market price of cotton. Now, after the lapse of two decades the rate of cotton fee is the same which works out to about 0.5 percent of the prevailing market rate of cotton. Similarly, the existing rate of paddy husking tax at paisas 1.50 per Kg has no relevance to the present market price of paddy. Such specific rates have affected the provincial government in two ways (i) the revenue receipts have not grown with the rising prices and (ii) the cost of collection on such levies continues to rise due to increase in pay and allowances and other expenditure on collection. The cotton fee and paddy husking tax are levied on the cotton ginning factories and paddy husking units. There is every reason to review these rates and fix them on ad-valorem basis like 2 to 3 percent of the market price of the produce. It is, however, widely misunderstood in this regard that revision in rates of cotton fee and paddy husking tax will effect the grower and that is the main reason that the proposal to revise these rates has not been approved for presenting it before the Legislature. The proposal to revise (lie rates of these two levies has the potential of improving the provincial receipts by a good margin of Rs 400 million per annum. It is high time that the rates of these two levies and possibly certain other items are revised to correlate them to inflation for tlie benefit of provincial exchequer.

It is clear from the foregoing, that relatively bigger and more buoyant taxes are with the Federation. Taking over of sales tax by the federal government soon after partition has affected the provincial resources in a big way over the years. The sales tax in Pakistan is presently being levied at the import or manufacturing stage. There is need to introduce sale tax at the whole-sale or retail sale level to be levied and administered by the provincial governments. This will certainly become a major source of revenue if properly thought out and implemented. It is also felt in this regard that existing resources available to the provinces have not been fully exploited. There is need to introduce new taxes to improve the existing insufficient resources. The item of sales tax available to the federal government according to the constitutional provisions is restricted to goods. The levy of sales tax on services is, thus, outside the purview of federal government. The provincial government is certainly competent to levy sales tax on services but somehow or the other the provincial governments have been slow in moving to introduce such taxes on different services except on entertainments and hotels. In the meanwhile the federal government has moved ahead and introduced a number of new levies in the fields of telecommunications, banking, insurance, etc. under the cover of excise duty but these are essentially in the nature of sales tax on services. This looks to be an encroachment on the provincial sphere of taxation specifically left open for the provincial governments. The difficulty of the provincial government in this regard arise from two factors i.e. (i) the major and relatively buoyant taxes are with the federation and (ii) where the provincial government has some major field of taxation reserved for it, the federal government has encroached upon it and levied some taxes or duties in the same broader field. It is of vital importance that federal government withdraws its taxes which have been levied on items not specifically mentioned in the Federal Legislative List of the Constitution so that the provincial government may levy and collect such taxes.

7. PROBLEMS IN EXPLOITING THE EXISTING RESOURCES FULLY

Although the existing tax resources of the province lack elasticity and do not have a broad base still it is felt that the existing resources have not been fully exploited. This has been primarily due to the reason that provincial tax administration has not received due attention for development because of extreme dependence on federal transfers. Since the collection of taxes is relatively low, therefore, the cost of collection is also comparatively high. The two major departments dealing with the provincial tax receipts are the Excise and Taxation

Department and the Board of Revenue. The sphere of Excise and Taxation Department is restricted to mostly taxes of urban nature and independent Administrative Department has been established for the purpose since last 20 years. The personnel of the department are not well trained professionals as they lack in-depth pre-entry training. Further, the department having some enforcement functions on the Excise side suffers from lack of cohesion between the two wings. It is of utmost importance that the staff allocated on Excise side should not be transferred to Taxation side. This purpose can only be achieved if separate cadre for the Excise Wing is established and staff below the rank of Excise and Taxation Officers are not inter-changeable in the two Wings.

The position of Board of Revenue is much worse as due to multiplicity of functions priority given to tax collection by the field organisations under the Board of Revenue is relatively very low. The efforts of the Board of Revenue on the revenue side are mostly restricted to the rural areas. However, the levy of stamp duty and registration fee which in most part is urban based is being dealt by personnel who are not at all professionally trained for the purpose. The posting of Extra Assistant Commissioners and Tehsildars as sub-Registrars on part time basis certainly does not help in good tax administration particularly when record of urban property is not available with them. This has certainly hampered the growth of true potential of the major levy of Stamp Duty and Registration Fee on the sale of immovable property particularly in urban areas. In the changed circumstances where no further financial assistance is expected to come from the federal government, the provincial government has to fall back on its own resources. It is worthwhile to propose in this regard that a specialised Provincial Taxation Service may be established to look after all the urban as well as rural taxes and duties. The measure is likely to go a long way in improving and exploiting the existing revenue resources of the province to the maximum possible extent.

The existing level of human resources available to the Tax Departments can be very well imagined by the fact that total strength of the Excise and Taxation Department is of the order of 3,100 personnel out of which only 96 are in BPS-17 and above. In the matter of tax assessment and collection it is of utmost importance that relatively senior level officials are entrusted with the job to minimise the chances of connived evasion. In the matter of income-tax and other similar levies, most of the work is handled by the officers in Grade-17 and above. The manpower available to the federal government revenue departments is quite large

with a very heavy top as compared to the provincial tax departments. It is, thus, important (from the revenue and general administration point of view) that the number of posts in Grade-17 and above are increased so that the level of responsibility and conduct can be improved for better dealings with the tax-payers.

In the matter of exploitation of existing resources it is very important that the rates and mode of different levies remain under constant review so that these can be brought up to date and the rates can be changed to suit the existing circumstances in respect of each and every levy. Unfortunately this cannot happen unless it has the support of Legislature and political will against the tax-payers who have a growing tendency to agitate against any increase in the existing taxes. In the case of property tax for instance, the government of Sindh has not been able to carry out five yearly re-assessment operations in Karachi for the last 25 years. The reassessment operations in Punjab are being carried out in all the Rating Areas after every five years by rotation. The levy of property tax is essentially a tax of civic nature and it is felt in this regard that every citizen who owns a property in the urban area which may be of a very modest status should pay something to the exchequer for the maintenance of civic amenities available to him.

This basic philosophy of the levy has not been accepted in Pakistan where more and more individuals claim exemption on one or the other pretext. Number of exemptions available to assesseees of property tax are really large and in some cases uncalled for. The existing assessments of the owner-occupied property units are very low and need to be revised. But whenever this proposal is taken up there is great resentment from the vocal urban class of property owners who are not willing to allow increase in their assessment or tax burden. Similarly most buoyant of the taxes available to the provincial exchequer i.e. the Capital Gains Tax on the sale of immovable property which was levied under an item specifically excluded from the Federal Legislative List of the Constitution could not be sustained and was abolished in 1986 under pressure from the vested interest. In this perspective of things it is of utmost importance that political support is accorded to the exploitation of existing resources fully so that substantial improvement can be made in the existing tax receipts.

8. IMPARTING BUOYANCY TO THE EXISTING LEVIES

The existing provincial levies generally lack buoyancy and elasticity but there are certain areas where the existing levies can be made more buoyant to improve the receipts quite substantially. Few of the measures proposed in this regard are indicated below:-

- i) Rate of levies may be changed from specific to ad-valorem as far as possible.
- ii) Rate of Cotton Fee and Paddy Husking Tax may be reviewed and correlated with the existing market rates of the two items.
- iii) Rate of Motor Registration and Transfers Fees should be correlated with the price of the vehicle.
- iv) Rates of Motor Vehicles Tax may be increased by a margin of at least 50%.
- v) Assessment of owner-occupied properties may be increased by a margin of 50% in general. Property tax may be levied in new rating areas and also introduced for Industrial and Commercial Units being built outside the existing rating areas.
- vi) Service charges and non-tax receipts in the social sectors like education, health, irrigation etc. may be made reasonable and correlated with the recurring cost which has increased tremendously over the years.

9. PROBLEMS IN DEVELOPING NEW RESOURCES

As discussed earlier the provincial governments are handicapped in developing new resources as most of the major fields of taxation have been allocated to the federal government. Further where certain items fall in the residuary powers of the provincial governments but were not fully developed by them, the federal government has encroached upon their authority and levied some taxes which do not fall within their specified domain. It is proposed in this regard that sales tax on services like telecommunications, banking, insurance etc. levied by the Federal government under the cover of excise duty may be discontinued and the provincial governments may be authorised to levy and collect sales tax on such services. Similarly, federal government is competent to levy excise duty on manufacturing/ production of goods but it has certainly encroached upon the provincial field by levying excise duty on services

provided in the hotels and restaurants. These hotels and restaurants are not engaged in the manufacturing of goods. Thus, the levy of any tax on services provided in Hotels under the cover of Central Excise Duty does not have proper legal cover.

The difficulties of the provincial governments have been further aggravated by the federal government with the introduction of advance income-tax, wealth tax and capital value tax on properties and motor vehicles as the collection of all these levies has been entrusted to the functionaries of the provincial government. Due to increase in the tax burden of the same assesseees it is no more feasible for the provincial government to increase the existing tax rates of its taxes on these items. The measure is also likely to discourage the payment of provincial taxes as in some of the cases the burden of the levy introduced by the federal government is much more than the basic taxes levied by the provincial government. This is certainly going to result in default and avoidance of these taxes due to increased burden. It is necessary that more coordination and exchange of information between the federal and the provincial tax machinery is established to ensure that no potential assessee is allowed to escape the tax net. But at the same time the provincial tax officials should not be over-burdened by entrusting the responsibilities of collecting tax on behalf of the federal government. The federal government may make its own arrangements for collection of taxes levied on properties and motor vehicles.

The basic conclusion from the above discussion is that the existing resources of the provincial government are not only limited but also lack necessary buoyancy and elasticity. The potential of these taxes are certainly insufficient to meet the every increasing expenditure of the provincial government. There is, however, good potential of improving revenue receipts of the provincial government by (a) fully exploiting the existing items of taxation, (b) by imparting buoyancy to the maximum possible extent and (c) developing new avenues of taxation. It is of vital importance in this regard that the federal government agrees to restrict itself to the items specifically allocated to it under the Federal Legislative List and does not encroach upon the provincial spheres of taxation. Sales tax at the retail level on selected luxury items may be levied by the provincial government which can be developed into a major tax in the years to come. The difficulties in improving the resources of the provincial government can be overcome to a large extent if a specialised tax machinery is established in the province and entrusted with the exclusive job of assessment and collection of taxes.

Functions of general administration, land management and drug enforcement may be entrusted to a separate machinery which may not have anything to do with the assessment and collection of taxes. This will help in improving the professional level of tax administration in the province which is of paramount importance for resource mobilisation in future.

SUMMARY OF DISCUSSION

Mr. Mohammad Ishaque, Planning and Development Department, said that the development projects should not just be considered a burden on the provincial exchequer. He argued that a closer link should be developed between benefits which accrue from development projects and user charges. He mentioned that due to lack of political will this close link has not generally been developed. He suggested that at the end of every financial year not only should the expenditure on a development project be accounted for but also income that has accrued from it.

Dr. Nadeem-ul-Haq, International Food Policy Institute, commented that the emphasis in the conference has been on revenue generation and the sources of income from the government. However, it is important to consider various distortionary effects of taxation also. How the relative price structure can be distorted, through taxation, is something which should be taken into account.

Mr. Kaiser Zulfiqar Khan, farmer from Khanewal pointed out the defects in the assessment of abiana which is based on total cultivated area even if that area is irrigated through private tube wells or through rainfall.

Mr. Zulfiqar Shah, Ex-Finance Secretary, Government of Punjab, said that the problems in provincial resource mobilisation and potential solutions are well known. The basic problem is the lack of political will to implement the remedies. Significant scope exists for mobilisation of higher revenues if only the politicians have the will to implement proposals and exploit the existing sources.

Tariq Sultan, Secretary Finance, Government of Punjab, pointed out that even if not visible in proportionate terms, province of Punjab has put in a revenue generating effort. He said that while analysing the revenue raising potential of provincial taxes, the elasticity and not buoyancy coefficients are more relevant. He was of the opinion that the levy of agricultural income tax alongwith ushr is double taxation. Further, he pointed out that rigorous collection of ushr will not benefit the provincial government as it is not part of the provincial consolidated fund. Also, the use of ushr fund is limited. Therefore, one has to be very clear that out of the two options which option should be taken.

He further pointed out that since the assessment of abiana and the service providing (running lie canal and the provision of canal water) agencies are the same, much scope does not exist for under booking, under reporting and concealment of information for the purpose of assessing abiana as mentioned in **Hafiz Pasha's** paper.

He also against the use of provincial tax machinery for collection of federal taxes on mimon tax bases. He disagreed with the logic that since provincial governments get 80 percent of the proceeds of withholding income tax the provincial government will be the major beneficiary of any additional revenues accruing from such a linkage. He said that since a larger share of the revenues accrue from Punjab, other provinces are going to benefit. He I that the effect of collecting federal taxes is that provinces own receipts have contracted.

Mr. Wamique Zuberi, Business Recorder, suggested a shift of provincial tax structure from taxation of assets to taxes on financial transactions. He also supported the levy of provincial tax on services.

Mr. MuxaHar Ghaffar, a consultant, suggested the introduction of accrual based, double entry accounting system so that the system of accountability and knowledge of the financial position of the government is developed. He highlighted the burden debt servicing is putting is and our future generations and, therefore, suggested a ten year withdrawal programme from all kinds of development aid. He suggested a levy of tractor and trolley registration fees. He further argued for the formation of a task force to look into the reasons for the underdevelopment of property tax. He suggested the levy of nominal user charge on education ani.1 health and a review of stamp duty rates on financial assets.

Mr. Tariq Binori, SDP1, suggested the establishment of the Provincial Finance Commission on lines of the National Finance Commission. He argued that a very important issue in resource mobilisation is of tax administration which has direct implications on the willingness pay. He argued in favour of levy of user charges, even on social services. He, however, emphasised the need of linking user charges to some form of decentralisation and efficiency improvement in administration so that people are ready to pay.

Mr. Shilhid Kardar, Systems Ltd., suggested that a loans commission be formed which should look at the borrowing requirements of the federal government and provincial government. He also raised the question of delivery mechanisms for social sectors. He said that per capita expenditure on health in Pakistan and Sri Lanka is the same but the quality of services is radically different. He highlighted problems associated with administering and institutionalising ad valorem as opposed to specific taxes. Finally, he argued that 12 1/2 percent sales tax on electricity is high and will affect the cost of inputs.

Dr. Abdul Wahab, Director IBA, argued that ad valorem taxation will increase corruption. He instead suggested annual revision of specific rates.

Replying to some of the comments/questions **Hafiz Pasha** said that the intent of introducing withholding taxes was not to introduce new taxes but to use existing collection machinery to collect an existing tax better. He pointed out that withholding income tax on motor vehicles has had no visible impact on the collection of motor vehicles tax. As far as the advance wealth tax on properties is concerned, Punjab government has only recently made some movement in this regard. Therefore, an adverse impact on revenues is not likely to have taken place because the tax has not been implemented in the province. He said that since it is clear that provincial governments are reluctant to help the federal government in collecting an existing tax, we should attempt the other approach which is to use the data base which is being computerised by the provincial E&T departments and collection should be directly by federal income tax and wealth tax departments. He pointed out that the actual share that Punjab is getting through the divisible pool in income tax exceeds what is collected from the province as income tax. Therefore, if this mechanism is implemented properly, Punjab would be a net gainer.

He argued that wealth tax is one of the most under exploited taxes in Pakistan and if economic efficiency is taken into consideration then we will have to gradually move away from taxes on production and income towards consumption and wealth in the country. He, finally, pointed out that there exist ways, through standard valuation lists etc, of administering ad valorem tax structures, without introducing severe problems of corruption.

Replying to some queries addressed to him **Mr. Imtiaz Cheema** said he agrees that provincial government has been slow in tapping some sources outside the Federal Legislative List. He

also conceded that potential exists for enhancing higher revenues from existing sources. He emphasised that the provinces will have to, sooner or later, levy a sales tax at the retail sales level, lie further said that tax on cotton ginning and paddy husking is low and its burden is not on growers. He felt that a switchover from specific to ad valorem rates in these cases is feasible and will not pose problems that cannot be overcome.

In his concluding remarks, the chairman of the session, Mr. Shah Mahmood Qureshi who looks over from Mr. Sardar Zulflkar Ali Khan Khosa, Minister of Irrigation and Power, said that the discussion has been very rich and we have heard some very valid comments.

SESSION IV
RESOURCE MOBILIZATION BY
LOCAL GOVERNMENTS

LOCAL GOVERNMENT RESOURCE MOBILISATION

By

A. F. Aisha Ghaus

I. INTRODUCTION

Local governments are a neglected tier of government in Pakistan despite the fact that they are responsible for the delivery of basic social services like water supply, sanitation, preventive health, etc. The enhanced priority for development of social sectors must, therefore, imply a higher priority for development of the local government system in Pakistan.

However, a number of key issues will be need to be resolved relating primarily to the sharing of functions and fiscal powers between provincial and local governments. This will require an examination of the pros and cons of the decentralisation of different social services from provincial line departments to local councils and how such a decentralisation programme can be financed. It is the objective of this paper to begin to look at alternative institutional arrangements for delivery of basic social services and the scope for expanding the role of local government either through self-financing by higher local resource mobilisation or by greater support from higher levels of government.

Section 2 of the paper presents an overview of local fiscal powers and functional allocations. Section 3 briefly describes the composition of local revenue sources and expenditure patterns while section 4 identifies some of the key issues in local resource mobilisation. Finally, section 5 presents the revenue raising potential of local governments.

I.I Overview

The allocation of functions and fiscal powers to local governments is specified in the Local Government Ordinances of the provinces. By and large, the distribution of fiscal powers is heavily influenced by the nature of the regional economy. The main revenue source of the district council is a tax on goods 'exported' by the area while the most important revenue generating instrument for the urban councils is a tax, octroi, on goods 'imported' into the area. An examination of the tax structure of the local councils also reveals that some of the more buoyant taxes of a local nature, have been pre-empted by the provincial government.

Local councils are responsible for the provision of some basic services in Pakistan. Table 1 presents the legislative allocation of functions and functions actually performed by local councils. Some of the major local responsibilities include water supply, solid water disposal, drainage, fire fighting, roads and street lighting, primary education, health care, etc. However, the provincial government is either solely or partially involved in the provision of some of these services. The involvement of the local councils in the provision of the latter two services, for example, is currently limited because of financial and institutional constraints. As such, these services continue to be the principal responsibility of the provincial government. The actual participation of rural local councils in the development and maintenance of services is even more limited.

By and large, there appears to be a direct relationship between the level and range of the functions performed by the local government agencies and city size. In large cities, considerable diversification is observed in the role of local governments, which in addition to obligatory functions have also taken on some optional functions. The presence of specialised agencies, like development authorities and WASAs, has enhanced local development capacity. Municipal governments in small cities and rural areas have been relegated largely to performing only a few basic functions.

On the whole, there is a basic imbalance between the range of functions that local governments can perform and the fiscal powers granted to them. The former are very extensive, while the latter are very limited. Consequently, most local councils, especially those in the smaller cities and rural areas, discharge only a few of the basic functions. This has necessitated continued involvement of provincial line departments, in the provision of 'local' services especially in the rural areas.

2. COMPOSITION OF REVENUES AND EXPENDITURES

2.1 Sources of Revenue

Local governments in Punjab derive their income from various tax and non-tax sources. Bulk of the revenues, about 61 percent, are generated through taxes (see Table 2). In

TABLE 1
LEGISLATIVE AND ACTUAL ALLOCATION OF
LOCAL FUNCTIONS

Legislatively Local Functions		Actual Allocation of Functions
Curative Health	?	
Land Development	?	Provincial Government
Primary Education	?	
	?	
Rural Development	?	
Preventive Health	?	Provincial/Local Governments
Water Supply, Drainage and	?	
Sewerage	?	
	?	
Link Roads	?	
Intra-urban Roads	?	Local Governments
Street-Lighting	?	
Solid Waste Management	?	
Fire Fighting	?	
Parks, Playgrounds	?	
	?	

Source: Local Government Ordinance, 1979.

TABLE 2
COMPOSITION OF LOCAL COUNCIL INCOME
IN PUN JAB, 1990-91*

	URBAN AREAS		RURAL AREAS	
	Rs in Million	Share (%)	Rs in Million	Share (%)
TAX RECEIPTS	2894	65	608	48
1 Taxes on the Movement of Goods [Octroi/Export Tax]	2172	49	164	13
2 Taxes on Property [Property Tax/Tax on Transfer of Property]	350	8	304	24
3 Other Taxes	372	8	140	11
Non-Tax Receipts	1046	24	512	40
1 Licences and Fees	463	10	184	15
2 Water Rates**	78	2	2	1
3 Other Non-Taxes***	505	12	326	24
Total Revenue Receipts	3940	89	1120	88
Non-Tax Receipts	487	11	148	12
1 Development Grants	70	1	10	1
2 Other	416	10	138	11
Total Receipts	4427	100	1268	100

* Projected beyond 1985-86 (from the NCRD) data base on the basis of historical trends.

** Income only of the local councils and not of specialised agencies like the WASAs.

*** Including non-development grants

Source: Based on projections of NCRD Data.

1990-91, the estimated share of taxes in urban and rural areas was 65 and 48 percent respectively.

Urban Councils: Analysis of the composition of local council income reveals that octroi tax is the single largest source of revenue for urban local councils. In 1990-91, total collection from octroi was estimated at Rs 2.2 billion, accounting for almost 49 percent of total receipts of urban local councils. Other important taxes for urban areas include property related taxes, namely, urban immovable property tax and tax on transfer of property (TTP). The former is an annual tax on property rental values while the latter is charged on the total value of the property at the time of sale/transfer. These together account for about 8 percent of total urban receipts with higher revenue significance in bigger cities which have metropolitan/municipal corporation status.

The revenue contribution of non-tax sources is higher in smaller councils (municipal and town committees) where the tax base is relatively narrow and the tax structure relatively underdeveloped. Non tax receipts accounted for 24 percent, about Rs 1 billion, of total local council income in Punjab in 1990-91. Revenue contribution of non-tax receipts is highest for town committees where almost 49 percent of total revenue receipts accrue from such sources.¹

The generally low level of direct cost recovery of service provision is striking in the case of local councils. The concept of self-sustained provision of municipal services is, by and large, limited to only two services namely, water supply and solid waste. These user charges are generally low and restricted to the larger urban councils only. Water rate is perhaps the only user charge levied by all urban local councils in the province.

In the case of larger cities the development capacity of the local council is supplemented by specialised agencies, namely, the development authorities (DAs) and the water and sanitation agencies (WASA). Bulk (75 to 90 percent) of the income of the former is generated through sale of land, which is the primary function performed by these agencies. Similarly, the primary source of income of WASAs is water rates charged for the provision of water supply.

1. Does not include specialised agencies.

in recent years, water agencies in the province have been able to recover more than 75 percent of their recurring costs.

Rural Councils: Among the important rural taxes are tax on transfer at property (TTP), export tax and local rate. TTP revenues accounted for 24 percent of total receipts of rural local councils in the province. Its revenue contribution in 1990-91 was estimated at over Rs 300 million. Export tax yield was Rs 164 million, representing a share of 13 percent. Because of the current low export tax rates and limited coverage the revenue potential of these taxes is largely unexploited in Punjab. In other provinces particularly Sindh the export tax constitutes an important source of income to the local councils.

Non-tax revenues are also of significant importance to district councils with a share of about 40 percent. These revenues are generated from a multitude of smaller sources like licences and fees, grants in aid from higher levels of government, etc. Capital receipts account for about 12 percent of total revenues with development grants making only a marginal contribution to total revenues.

As a whole, major differences exist in per capita revenue among the different local councils of Punjab. Urban local councils have almost eight times the per capita revenue of rural local councils. Within the former, per capita revenue of metropolitan/municipal corporations is three times higher than that of municipal/town committees.

2.2 Expenditure Patterns

Following a discussion on municipal revenues we turn now to the expenditure side of local councils. Total expenditure incurred by the local councils in Punjab is estimated at Rs 6.9 billion in 1990-91. In relation to the regional economy, the share of total expenditure is 1.2 percent of the Gross Regional Product (GRP). Out of this Rs 4.3 billion or 62 percent is recurring in nature, indicating that a substantial proportion of total expenditure incurred by these governments is on operating and maintaining the existing network of services.

The pattern of recurring expenditure of local councils in Punjab is presented in table 3. The table shows that a substantial share, 19 percent, of total recurring expenditure is on general administration. The important sectors, as reflected by their share in total

TABLE 3
LEVEL AND PATTERN OF EXPENDITURE OF
LOCAL COUNCILS (COMBINED)*
OF PUNJAB, 1990-91**

EXPENDITURE S	RECURRING EXPENDITURE		DEVELOPMENT	
	Level (Rs in Million)	Share (%)	Level (Rs in Million)	Share (%)
General Administration	834	19	--	--
Primary Education	486	11	98	4
Sanitation	1036	24	306	12
Medical Care	204	5	62	2
Water Supply & Drainage	346	8	625	25
Roads and Street Lighting	340	8	1028	40
Others	1060	25	438	17
TOTAL	4306	100	2584	100

* Excluding development authorities and water and sanitation agencies.

** Based on extrapolation of trends revealed by the NCRD data upto 1985-86

Source: NCRD Data Base

recurring expenditures are sanitation and primary education, accounting for 24 and 11 percent the total expenditure respectively. 'Others' sectors include services like social welfare, fire –fighting, gardens, parks and playgrounds, animal husbandry, etc. These collectively account about 25 percent of total recurring expenditure of local councils in Punjab. Medical care sector accounts for 5 percent of recurring expenditure, mostly by the larger councils like the LMC.

Within development expenditure, the largest sector is roads and street lighting, with share approaching 40 percent. Next in importance are water supply and drainage and sanitation with share of 25 percent and 12 percent respectively. The involvement in development of primary education and curative health is limited, with a combined share of 6 percent.

3. ISSUES IN LOCAL RESOURCE MOBILISATION

A number of important issues arise in the context of local government finances. These include:

3.1 The Role of Local Government

During the last two decades there has been a growing centralization in the performance of government functions in Pakistan. This has largely been caused by an imbalance between the legislative allocation of functions and fiscal powers, as a consequence of which lower (provincial, local) levels of government have not had the financial resources to discharge all (their responsibilities. While the provincial governments have abdicated most of their responsibilities in the Concurrent List of the Constitution to the federal government, a whole range of municipal functions in practice are being performed by provincial governments, especially in the rural areas and smaller towns. This includes functions like preventive and curative health, primary and secondary education, land development, farm-to-market roads, water supply, drainage and sewerage.

the NFC Award of 1991 has, however, removed most of the imbalance between the federal and provincial governments in the allocation of revenues. This has been achieved by the large once-and-for-all expansion in the divisible pool of taxes. Therefore, it is now an appropriate time for reversing the process of centralization that has occurred. Provincial governments could begin to play a more active role in discharging Concurrent List functions and hand over

the essentially municipal functions to local governments. However, a number of key issues need to be

resolved: Which are the prime candidate services for decentralization? How will resources be augmented at the local level to enable such a process of decentralisation? Do the local councils have the institutional capability to perform more functions? How responsive will different levels of government be to a programme of decentralisation?

As noted above, the urban local councils have been charged by the LGOs with the performance of large number of regulatory and service provision functions, most of which are in the nature of compulsory functions. However, while the larger local councils have made an attempt to perform most of the prescribed functions, smaller councils have had difficulty even in discharging the basic compulsory functions, because of resource and institutional constraints. Therefore, as starting point any program of decentralisation must be designed to ensure that local councils can at least perform adequately their compulsory functions according to the LGOs.

Decentralisation is justified if it can be demonstrated that there is an increase in efficiency in the provision of a service either by cost reductions or by enhancements in the quality of service, through greater accountability and more effective administration or if there is greater beneficiary involvement in financing. One of the strongest arguments in the favor of decentralisation of the provision of urban physical infrastructure is that local councils are ultimately responsible for maintenance of such infrastructure even if the initial development is by a provincial line department or a specialized agency. Therefore, if the local councils are also involved in the stages of project design, financing and execution, the prospects of a smooth transition from the development to the maintenance stage is likely to be greater. Moreover, local councils are likely to have a better knowledge of the needs and preferences of citizens. As such, their involvement is likely to ensure that development schemes more accurately reflect effective demand. This will increase the willingness to pay on the part of beneficiaries for both capital and recurring costs and, wherever necessary, provide greater scope for community participation.

On the basis of these considerations, the strongest case for decentralisation in the context of service-related functions appears to be in the areas of water supply, sewerage and sanitation, primary education and basic health as these are typically the most important services which are currently handled by the provincial line departments on behalf of the local bodies.

However, for the success of such a program there is clearly a need to enhance the financial resources of the local councils. This will require not only a higher level of resource mobilisation from existing sources but also new methods of increasing the resource availability to these government units through revenue sharing transfers, matching grants etc. This takes us into other issues in resource mobilisation.

3.2 Limitation of Fiscal Powers

Fiscal powers of the local bodies are enumerated in the LGOs of Punjab. Some of the relatively more broad-based and buoyant taxes of a local nature, like stamp duty, capital gains tax, motor vehicle tax, property tax, tax on professions, trades and calling and entertainment tax, are either not included in the local bodies' fiscal powers or have been pre-empted by the provincial governments. However, local governments have been vested with considerable powers to levy user charges like drainage rate, conservancy rate, lighting rate, parking fees and betterment tax. In addition, there exists the option to levy a surcharge on any tax levied by provincial government. Local councils have not yet seriously explored and exploited this option.

3.3 Fiscal Autonomy

Local taxes can only be levied or enhanced/reduced if prior sanction has been obtained from the provincial government, which has the power to decrease, suspend or abolish any tax. Also, proposed changes in tax rates or structure have to be published to invite public comments. Objection to the proposed tax measures are heard by the Finance Sub-committee of the council in public. This procedure is not followed by other levels of government. Given that local taxation proposals are also legislated by elected representatives at the local level the case for greater fiscal autonomy is strong.

Basically, the approach of the provincial government should not be one of the physical control but of bringing about desired changes in behaviour of local councils through incentive schemes like matching grants, etc.

3.4 Inter-governmental Fiscal Relations

Local governments, unlike other tiers of government in the country, are, by and large, self-financing entities. While the higher tier of government (the provincial governments) largely

rely on federal revenue transfers, local councils, more or less completely generate their revenues. This is a reflection of the pattern of inter-governmental fiscal relations in the country whereby local governments have been largely excluded from revenue sharing arrangements (except in the case of property tax) and from access to grants and borrowing earlier from higher levels of government or from domestic capital market. This has avoided degree of financial profligacy but has limited investment to the level attainable by self-icing. The consequence is that expansion and improvements in the level of service provision are largely undertaken by the financially stronger metropolitan and municipal 'rations which are in a better position to exploit the limited fiscal powers. Smaller councils which have narrow tax bases and limited fiscal capacity are in general able to spend less and undertake only minor development works.

To negate the affects of differences in local fiscal capacity on provision of services across jurisdictions, inter-governmental fiscal transfers are widely used internationally. Table 4 shows that inter-governmental transfers (which may include revenue-sharing transfers or grants) account for a significant proportion of local revenues. In the case of some of the major cities in the region like Calcutta (India), Chittagong (Bangladesh), Tehran (Iran), and Colombo (Sri Lanka), flow of funds from higher levels of government are over 40 percent of local government revenues. As compared to this provincial transfer to local councils in Pakistan is only 12 percent of local receipts. This proportion is even lower for the province of Punjab, at about 9 percent. Therefore, a case can perhaps be made for enhancing the magnitude of flow of funds from higher levels of government to local councils in the country.

In fact, the case for higher revenue sharing flows to local councils can further be strengthened on the ground that, as already mentioned, the provincial governments

TABLE 4
INTERNATIONAL COMPARISON OF THE
SIGNIFICANCE OF INTER-GOVERNMENTAL TRANSFERS*
IN LOCAL GOVERNMENT FINANCES

City/Country	Year	Intergovernmental Transfer as % of Local Government Revenue
1 Chittagong, Bangladesh	1983	41.7
2 Dhaka, Bangladesh	1983	34.6
3 Jakarta, Indonesia	1981	39.1
4 Tehran, Iran	1974	45.2
5 Colombo, Sri Lanka	1982	42.6
6 Manila, Philippines	1975	30.0
7 Mexico City, Mexico	1982	26.3
8 Nairobi, Kenya	1982	24.7
9 Bangkok, Thailand	1977	39.6
10 Seoul, Republic of Korea	1983	22.0
11 Madras, India	1979	13.7
12. Calcutta, India	1982	54.9
13 Faisalabad, Pakistan	1986-87	6.5
14 Lahore, Pakistan	1986-87	22.1
15. Punjab Province, Pakistan	1985-86	9.1
16. All Pakistan	1985-86	12.0

* Includes revenue sharing, grants (both development and non-development) and Loans.

Source:

1. Roy W. Bhal and Johannes F. Linn, 1992, "Urban Public Finance in Developing Countries" A World Bank. Published by Oxford University Press.
2. National Centre for Rural Development (NCRD) Data Base.
3. Metropolitan Corporation Lahore and Municipal Corporation, Faisalabad, Budgets.

have pre-empted some taxes which are either local in nature or fall in local Fiscal powers.

3.5 Incidence of Existing Taxes.

One of the basic issues in the context of existing taxes is that of incidence. The incidence of urban local taxes by income groups is presented in Table 5. The table shows that the burden taxes as a proportion of income is somewhat progressive in Punjab while it is clearly .c in NWFP. This implies that in Punjab and Sindh the proportionate burden of taxes increases nominally for higher income households, being the highest for the middle income households, while the opposite holds true in the case of NWFP.

The lack of progressivity of local tax burden is primarily because of the distribution of octroi revenues across income groups. The table shows that octroi is clearly regressive in Punjab and NWFP while its incidence is almost neutral in Sindh (due to dependence on taxation of international imports). The regressivity of octroi revenues can be attributed to the rate structure of octroi tax on the one hand, and the commodity-wise composition on the other. The burden of octroi is relatively high on basic commodity groups like food and clothing as compared to non-essential items like consumer durables which are typically subject to very rates. For example, as shown by Pasha, et al. (1987), in the case of motor cars the rage effective octroi, as a percentage of the wholesale price of the commodity, is only 0.04 'cent whereas for basic items like rice and chilies, it is 0.4 percent and 0.8 percent respectively. Also, substantial variation in effective rates exists among items within a particular commodity group, and there is a tendency for rates to be higher for items consumed the lower income groups.

Moreover, commodity-wise composition of octroi revenues shows that, particularly in the case of the smaller city, the largest contribution to octroi revenues is by food items (see Table 6). This makes the octroi tax generally regressive and perhaps more so in the smaller cities and town [Pasha et al (1986)]. Potentially, of course, the local tax structure could be more balanced in terms of incidence if the share of property tax in revenues could be increased significantly. However, the scope for achieving this is limited in the smaller cities.

TABLE 5
INCIDENCE OF URBAN LOCAL TAXES BY
INCOME GROUPS, 1985-86

	Octroi revenues as percent of income	Property tax as percent of income	Total taxes'' as percent of income
PUNJAB	1.63	0.26	1.89
Lower	1.78	0.00	1.78
Lower Middle	1.66	0.12	1.78
Upper Middle	1.69	0.49	2.18
Upper	1.49	0.48	1.94
SINDH	2.24	0.34	2.58
Lower	2.30	0.00	2.30
Lower Middle	2.29	0.21	2.50
Upper Middle	2.29	0.63	2.92
Upper	2.24	0.44	2.68
N.W.F.P	1.42	0.14	1.56
Lower	2.15	0.00	2.15
Lower Middle	1.42	0.98	2.15
Upper Middle	1.55	0.09	1.64
Upper	1.13	0.26	1.39

* Include Octroi and property tax revenues which account for more than 90 percent of total urban tax revenues.

Source: Ghause A. and Hafiz A. Pasha [1991]

TABLE 6
COMMODITY-WISE COMPOSITION OF OCTROI
IN SAMPLE CITIES

	Lahore Metropolitan Corporation (1985-86)	Raiwand Town Committee (1988-89)
Food and Drinks	18.0	63.5
Smoking and Washing Items	3.0	--
Textiles, Wearing etc.	13.3	5.6
Medical, Pharmaceutical	10.4	*
Lighting and Fuel	6.1	*
Building Material and Furniture	10.0	*
Iron and Metal	7.2	*
Animal and Animal Products	7.4	9.8
Conveyance	5.2	*
Others	19.4	21.1
TOTAL	100	100

 * Included in others.

Source: Case Study of Jinswar Maintained by Octroi Departments.

In case of rural taxes, perhaps the most controversial tax, as far as incidence is concerned, is the export tax. It is argued that since the tax is at the point of exit, its burden is exported to other districts. It is further argued that because of this phenomenon the local council has an incentive to enhance export tax rates and, therefore, there exists the rationale and the need for provincial regulation and model tax schedules. These arguments are perhaps true for commodities where the prices are not fixed and the burden of taxation is shifted forward to the consumers. However, in the case of goods like agricultural commodities, where the prices are fixed by the government, it is unlikely that the incidence of the tax is transferred to districts other than the one where the tax is levied. It is important that this tax be developed in such a way that the burden of the tax is largely localized.

3.6 Tax Administration

Three mechanisms are being used currently for collection of municipal taxes. The First is the provincial tax machinery consisting essentially of the Excise and Taxation Department (ETD) and the registrar of Stamp Duties in urban areas and the Board of Revenue (BOR) in the rural areas. The property tax and tax on transfer of property are collected by the first two while responsibility for the collection of local rate rests with BOR. The second collection mechanism is a more conventional one in which the municipal governments' own taxation department has the responsibility of collection of smaller taxes like advertisement tax, vehicle tax, cinema tax, etc. Non-tax sources like water rate, rents from properties etc. are also collected directly by municipal tax departments. The third mechanism that is unique to local governments is private contractors. Much of the revenue collection including that of octroi, export tax, most licenses and fees, has been auctioned to private contractors by local councils.

The justifications generally offered for provincial collection (with revenue sharing) of municipal taxes are, first, that sophisticated procedures are involved in the assessment of liabilities of some taxes. These procedures are perhaps beyond the capabilities of local taxation departments, especially in the smaller jurisdictions. This is the justification given for assumption of the responsibility for property tax collection by the provincial governments, which retains 15 percent of the proceeds (net of collection charges) before transferring revenues to the local governments. Second, there is a perception that local fiscal effort is limited by greater vulnerability to local political influences.

However, property tax continues to be one of the most underdeveloped taxes in Pakistan. Estimates show that currently only about 14 percent of the potential tax base is exploited in Punjab. This can largely be attributed to the problems/issues that arise in the context of property tax administration. These include, first, the lack of extension of rating areas. Property tax is generally collected from those cities/towns which are declared as rating areas by the provincial excise and taxation department. Currently, most of the municipal corporations and municipal committees have been declared as rating areas, while most town committees remain exempt. In the latter, given the smallness of the jurisdictions, it is felt that revenues would not be adequate to justify the costs of collection. It is not surprising, therefore, that town committees account for only 3 percent of the national tax collection while their share in urban population is 16 percent.

Overtime, as population grows, it can be expected that smaller jurisdictions will get declared as rating areas and new residential neighborhoods in existing rating areas included in the tax net. Municipal governments frequently voice the complaint that provincial governments are slow in extension of rating areas, implying significant foregone revenues. Clearly, an effort must be made by the latter, first, to extend the rating area within a city, more or less, simultaneously with an expansion in municipal limits and, second, to identify an explicit cut-off point of population beyond which all cities/towns would be declared as rating areas, without exception.

Second, there is the problem of inadequate assessment methods and low frequency. The revenue raising potential of the property tax depends primarily on the frequency of reassessments of rental values and on the level of efficiency of assessment formulae in capturing market values of properties. Rules specify that reassessments should take place at least once every five years. In Punjab, there has been an attempt to maintain this frequency but the measurements have not been market-based and instead relied primarily on ad-hoc enhancements. The assessment formula for imputed property rental values, in particular, fails to capture true market values. Furthermore, there is a ceiling on the maximum enhancement in assessed values of owner-occupied properties. The above factors along with various exemptions currently allowed have led to significant leakages in the potential tax revenues, which for the province of Punjab is estimated to be over 3 billion [Ghaus, et al., (1991)].

Estimates show that about half of the leakage in property tax is due to underassessment of rental values, 29 percent due to the inability of the provincial government to extend rating arranges while another 17 percent is due to various exemptions currently allowed (Ghaus, et al., (1991)].

The reluctance of the provincial government to adequately develop the tax raises the Fundamental issue whether the responsibility for collection of property tax should continue to rest with this level of government or should this function be decentralized down to the municipal level once again. The basic reason generally given for lack of development of the property tax is that given the high revenue share (85 percent) handed over to the local councils, provincial governments have very little incentive to collect higher revenues as the net gain to them is very small in relation to the high political costs.

The other important issue in the context of municipal tax administration relates to privatisation of revenue collection. As already mentioned, much of the revenue collection, including octroi and most licences and fees has been auctioned to private contractors by local councils. In this arrangement supervision responsibilities for collection are privatized while the staff continues generally to be of the local council. The contractor is appointed on the basis of a competitive auction whereby the council gets a commitment for revenue from the tax in advance. Contracting of revenue collection has contributed to higher revenues and ensured a greater certainty of municipal income.

However, it should be noted that the contracting system can only function properly, if there is adequate market transparency. Privatization of octroi (or any other tax) works effectively only as long as the bidding process for appointment of contractors remains competitive. There is some evidence that cartels of contractors have been formed and jurisdictions are being allocated among members of these cartels. This is reflected in the significant slowing down in the growth rate of octroi revenues and the difficulty that many local councils in Punjab are having in achieving the minimum growth target (of about 10 percent per annum) through the auctioning process.

3.7 User Charges

An efficient pricing policy is generally a prerequisite for an adequate provision of service. However, the concept of self-sustained provision of municipal services is yet to be fully

developed in Pakistan. By and large, user charges are limited to a few services the most important of these being water supply. However, water rates do not really operate as a user charge because payment by metering of sales, except to bulk consumers, is largely nonexistent in Pakistan. Instead water rates are charged on a flat rate basis or are linked to some proxy for the level of consumption like ferrule size, plot size or property rental value.

It appears that the complexity in water rate assessments tends to increase with city size. The smaller local councils i.e., the municipal and town committees, have gone in for the most simplified assessment procedure, namely a monthly water rate per connection. Water rates in larger cities, with municipal corporation status, on the other hand, are primarily linked to ferrule size. In metropolitan areas like Lahore, water rates are charged on the basis of the annual rental value of properties. Water rates in rural areas are primarily collected on a flat rate basis.

Water tariffs are generally low especially in smaller councils and are not frequently revised. As a consequence the operation and maintenance cost recovered generally is low, being about 60%.

On the whole, the current purview of user charges and the recovery rates in the country are limited and significant scope currently exists of enhancements in these.

4. REVENUE RAISING POTENTIAL OF LOCAL SOURCES

4.1 Strategy for Resource Mobilisation

Resource mobilisation proposals for the municipal governments must emphasize. First, diversification of and broadening of revenue base, in view of the skewness in the present revenue structure, second, make the taxation structure more progressive by tapping the upper income tax payers in the rural areas and the middle-to-upper income group tax payers in the urban areas. Given the present taxation structure, this can be achieved by rationalizing the octroi rate structure, which has been indicated to be regressive at least in the smaller cities/towns, and developing property-related taxes, in particular the property tax. This tax has considerable untapped revenue potential. It is likely to be progressive in incidence and if properly administered, constitute a buoyant source of revenue.

Third, one of the cornerstones of the resource mobilisation strategy should be to introduce the concept of cost recovery, to the extent feasible, in the pricing of municipal services. In the larger cities land, in particular, should be priced (particularly for the rich) not only to finance direct development costs but also to generate surpluses that can be used for reinvestment in basic social and physical infrastructure by the local agencies.

Development of property related taxes and user charges are probably the limits of the options available in the short run to municipal governments to augment their resources. Beyond this, new arrangements will be required which go beyond the boundaries of current fiscal powers especially if it is proposed to implement a programme of decentralisation of municipal services from the provincial to local governments. These will include, First, establishment of more elaborate revenue-sharing schemes initially of taxes which fall within the ambit of common fiscal powers but which have been pre-empted by provincial governments, followed by sharing of other taxes of local origin which do not currently fall within the purview of municipal fiscal powers. Second, to the extent that large differentials continue to exist in the per capita revenues of local councils, grants will have to be used to act as a fiscal equalization device.

Existing Local Sources

4.2 Octroi

As highlighted earlier, a decline in the growth rate of octroi in the 80's, has partially been attributed to the formation of cartels among octroi contractors. To check this tendency it is essential that local councils must exercise the option of reverting back to departmental collection. Octroi collection should be departmentalized if the target growth rate is not achieved in the auction. A stimulus may be provided to departmental collection through an incentive scheme which offers a sizeable bonus to the taxation department staff in the event the target level of revenues is attained. Such a scheme may mitigate against corruption or lack of motivation on the part of the department staff.

Also, to enhance the buoyancy of octroi revenues and to maintain the effective octroi rates - in the absence of periodic rate escalations, it is suggested that a switch over from specific to ad valorem rates should be introduced in the case of imports through dry ports and a partial switchover of land dues in the case of the bigger cities on experimental basis, the

high buoyancy of octroi in Karachi is largely attributable to the ad valorem octroi rate structure. It is suggested that the use of a similar structure in the case of imports through dry ports will not only increase the buoyancy of revenues but will also mitigate against possible distortions, resulting from different octroi rates in Karachi port and other dry ports in the country.

In the case of land dues a switchover is recommended only in the case of commodities which are non-food manufactured items with no seasonal fluctuation in prices, which are likely to be shipped in full truck loads and the incidence of which is largely on the upper income groups. This will help in preserving the simplicity and equity of the tax structure. In the case of such commodities a standard price list [which may be referred to as domestic trade prices (DTP)]² should be prepared (with the help of trade and industry) at the beginning of each year and used for the valuation of consignments throughout the year. Also, a conscious effort should be made to keep these prices low to minimise complaints of overcharging.

The average effective rates (AER) tax rate as a percentage of the price of the of octroi particularly on non-food items are very low. Moreover, analysis shows that AER are frequently higher for basic goods than luxury goods. There is need, therefore, for rate escalation on non-food items, and rationalization of other rates aimed at the removal of rate structure anomalies.

It is therefore, suggested that rates on non-food items (excluding commodity groups I and II of the schedule) should be enhanced in such a way that escalations are the highest for luxury items. This will not only increase revenues of the local governments but also more importantly make the incidence of the tax progressive.

Also, there is perhaps a case for increase in transit fee. Currently, these are very low ranging from Rs 2 Rs 5. Higher transit fee is justified on the grounds that transit vehicles contribute significantly to congestion within cities.

2. The Customs Department of the Central Board of Revenue operates a similar system called International Trade Prices (ITPs) for valuation of imports. These ITP's are adjusted quarterly.

4.3 Property Tax

Currently 85 percent of the net property tax revenues collected are transferred to the local authorities by the Provincial E&T department. As such, the provincial government of Punjab has not had the incentive to fully develop the tax which is reflected both in the low assessed to market values and also the reluctance to expand rating areas both within and across cities.

It is, therefore, recommended that decentralisation of the collection of property tax should be attempted at least in Lahore, with a metropolitan corporation status. If this increases the buoyancy of property tax revenues then municipal corporations may also be asked to take over this function. Given the potential importance of this tax, LMC is likely to have a strong incentive to develop this tax.

Further, it is suggested that assessment methods be refined to include other indicators like plot size, independent bungalow or flat, corner plot, age of the housing unit, etc. It may be stated that these measures are easy to quantify and should not complicate the assessment process significantly. Also, the differential treatment given in favour of owner-occupied properties in the assessment process must be removed.

Our analysis shows that 29 percent of the potential tax base in Punjab lies untapped because of the lack of broadening of the tax base through the extension of rating areas. Clearly, an effort must be made by the E&T department, first, to extend the rating area within a city, more or less, simultaneously with an expansion in municipal limits and, second, to identify an explicit cutoff point of population (say 10000) beyond which all cities/towns would be declared as rating areas, without exception. The interference of political factors would thus be minimized.

4.4 Export Tax

Since the problems in the administration of export tax are similar to those of octroi, albeit at a smaller scale, the recommendations made for the latter also apply to export tax. Further, effective rates of export tax are generally low compared to its urban counterpart, octroi. Therefore, a case can be made for a selective rate escalation; with the rate enhanced higher for commodities on which the incidence will not be on lower income groups and which are largely local in character. This will imply higher tax rates on items like fruits, sugarcane,

tobacco. etc. Also, the export tax can be used as a kind of a royalty by levy of higher rates on minerals.

4.5 Water Rates

To make the water tariff structure progressive and to introduce an in-built buoyancy in revenues we recommend that water rates be linked to plot size (also a better proxy for consumption) in the small cities. In cities where property tax exists and regular assessment of ARVs takes place water rates should be linked to the ARVs. Also, in some cities, on a trial basis privatization of water rate collection may be attempted.

Given the present water tariff rate only part of recurring costs of water supply are currently recovered through water rates. A case, therefore, exists for water rate escalation. This should be implemented in combination with the change recommended earlier in rate bases, 'the objective must be to recover full costs or at least the O&M costs of water supply, especially in the large cities of the province.

4.6 Local Rate

Local rates are have been shown to be generally very low. It is suggested that for larger land holdings, in particular, the rate should be increased and delinked from land revenue (which has been eroded following the levy of Ushr). This measure will specifically tap the large landowning class in the rural areas, without imposing significant burden or creating any major distortionary effects.

4.7 Licences and Fees

The bulk of the revenues from licences and fees accrue from a few sources. Rates of those have, by and large, remained the same over the past decade or so. It is, therefore, recommended that selective rate escalation in major licences and fees like fees on fairs, vehicles and markets, etc. be resorted to. Simultaneously, some of the smaller fees, the revenue contribution of which is small should be phased out.

New Local Sources

The resource mobilisation strategy discussed above has highlighted the need for broadening of municipal tax base. Also, it has been indicated that this will have to be achieved not only

through tapping of sources currently in local government fiscal powers but also introduction of sources which are local in nature but are presently not contained in the fiscal powers of local government. Suggestions for development of new local sources are presented below.

4.8 Presumptive Property Tax

Keeping in view the need to make the taxation structure progressive in the smaller cities/towns and to broaden their tax base (beyond octroi) it is suggested that a simple presumptive property tax be introduced in jurisdictions which have not been declared as rating areas for property tax and collected along with the water rate. The tax rate may be linked to plot size (with exemption) and construction type (pucca/kaccha) and the collection responsibility rest with the local council.

4.9 Levy of Rates

The need for orienting the revenue structure of local governments towards collection of user charges has been highlighted earlier. In line with this and in view of the untapped provisions in the LGO regarding user charges it is suggested that conservancy, drainage and lighting rates which are currently levied in only a few jurisdictions should be levied by other local councils also.

4.10 Parking Fees

Inadequacy of parking spaces leading to congestion is a prominent feature in some of the bigger cities. To generate funds for proper development of parking lots it is suggested that a parking fees be levied in the bigger cities like Lahore and Rawalpindi, provision for which already exists in the ordinance.

4.11 Revenue Sharing Arrangements

Limited revenue sharing between the local and higher levels of government is perhaps one of the salient features of local government finance. Given the commonality of fiscal powers of the local and provincial government, which the latter has pre-empted and the local nature of some of the taxes collected by the provincial government, more elaborate revenue sharing arrangements are justified between local and provincial governments.

At the first level, taxes which ought potentially to be shared by provincial governments with local governments are taxes which fall within the fiscal powers of both levels of government. This concept has already been accepted in the context of the tax on urban immovable property.

At the next level, those taxes which are 'local' in character will have to be shared with the local governments. However, since the provincial government is also involved in the provision of some local services, this sharing will have to be based on the distribution of functional responsibilities of the provision of local services between the local and provincial government. Also, if some decentralisation of functions to local governments takes place than the case for revenue-sharing could be further extended to include other potential sources.

One of the principal candidates for revenue-sharing is motor vehicle tax (MVT). Justification for sharing of MVT is based on the argument that revenues from it are essentially meant to cover costs of road maintenance. Since local governments are responsible for the maintenance of intra-city roads the case for sharing of MVT revenues is very strong.

In fact, the provincial government of Balochistan has already set a precedent by accepting in principle the sharing of half of this tax with the urban local councils. We recommend that this arrangement be extended in a similar manner to other provinces. Further, we recommend that half of the share accruing to the local councils be distributed amongst local councils on the basis of population while the other half should be distributed on the basis of collection. Sharing on the basis of population is suggested because car owners in smaller cities have a tendency to register their cars in the bigger cities (in view of market premium) even though these cars subsequently ply in the smaller cities.

4.12 Grants to Local Governments

Variation in the per capita provision of services can to a great extent be attributed to differences in the taxable capacity of the urban and rural local councils. Social equity considerations necessitate that efforts must be made to the extent possible to equalise among jurisdictions the level of provision of basic services. We have identified above proposals for enhancing revenues through existing and new sources. However, many of the proposals will differentially benefit the larger urban councils more than the smaller urban and rural councils.

Therefore, in this section recommendations are made for a system of grants, which must essentially be seen as a fiscal equalization device.

Our analysis shows that grants constitute currently only a small share of the total income of local councils. Therefore, there is scope for expanding this flow. It is important, however, that this transfer be a reliable source of income. In the past, the tendency has been to allocate grants on an ad-hoc basis and with political objectives. Unless the flow is assured, councils cannot build up their institutional capabilities on a more or less, permanent basis. As such, we recommend that local councils be given a small share, say 2 percent, of the ADP each year. This will not only augment the pool of development funds in an assured manner but will also give the needed recognition to the fact that local governments have a role to play in development.

Also, it is recommended that the highest per capita grant be given to the district councils (which could then pass a share on to the union councils) and town committees followed by municipal committees and municipal corporations such that the increase in the revenue receipts as a consequence of the grants is the highest in the case of rural councils and smaller urban local councils.

Furthermore, a case can be made for developing a grants scheme closely linked to the decentralisation programme of the government. It has been emphasized that the success of the decentralisation programme strongly hinges on the simultaneous financial and institutional strengthening of the local governments. A method of achieving the former is the institution of a matching grant scheme. Some of the important features of this scheme could potentially be, first, its coverage be restricted to water supply, sewerage, drainage, primary education and preventive and curative health which have emerged as prime candidates for decentralisation, of varying degree, from our earlier analysis. Second, greater incentives (measured as the extent of the matching contribution by the provincial government) be provided for new investment rather than the take over of existing facilities. Third, the most favourable arrangements are proposed for the rural councils followed by the smaller urban councils. This reflects differences in resource availability and the need to expand the coverage of basic services at a faster rate in the rural areas.

4.13 Revenue Impact of Proposals

Quantification of the revenue impact of the resource mobilisation proposals presented above 'or the period, 1992-93 to 1997-98, is presented in Table 7. The table shows that the overall policy package presented in this paper is worth over Rs 4 billion in 1997-98.

It is of importance to note that the base-broadening of municipal revenue structure has been a consequence of a multifarious package consisting of improvements in tax administration, removal of exemptions and new sources. Also, the package proposed does not draw upon the revenues of higher levels of government in a major way, implying that bulk of the additional resources are generated through local sources, either existing or new.

On the whole, significant revenue raising potential exists in local sources, especially in property-related taxes and user charges. As such, if priority is attached to feasible improvements in tax administration and justifiable enhancements in rates then a significantly higher level of local resource mobilisation can be achieved. In addition, the establishment of more elaborate intergovernmental fiscal arrangements with Government of Punjab as part of decentralisation programme could expand significantly the role of local government without adversely affecting the budgetary position of the provincial government significantly.

TABLE 7
ADDITIONAL REVENUE GENERATION* FROM
RESOURCE MOBILISATION PROPOSALS FOR
LOCAL COUNCILS OF PUNJAB

	Estimated Annual Additional Revenue by 1997-98 (Rs in Million)	Share in Total (%)	
A	EXISTING SOURCES	3500	83
	Taxes	2500	59
	Octroi	600	14
	Property Tax**	1700	40
	Export Tax	150	3
	Other Taxes	50	1
	Non Taxes	1000	24
	Water Rate	600	14
	Licences & Fees	400	9
B	NEW SOURCES	300	7
	Presumptive Property Tax	50	1
	Levy of Rates	250	6
C	INCREASE IN REVENUE SHARING	400	10
	Motor Vehicle Tax	250	6
	Professions Callings and Trades Tax	150	4
D	TOTAL	4200	100

*Excluding larger grants from the provincial government.

**Excluding the provincial share of property tax

Source: Own Estimates.

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LOCAL GOVERNMENT RESOURCE MOBILISATION

By

Kashif Murtaza

1 INTRODUCTION

A number of studies have been done by the Applied Economic Research Centre, Karachi, and some other agencies, about various aspects of different tiers of local Councils, both urban and rural. I cannot have any pretensions of producing a document of similar quality and standard. However, having observed and dealt as an administrator, with the elected local councils, this paper is an attempt to analyse their functioning in the context of our present socio-political milieu. Since it is a Resource Mobilisation Seminar, I will first dwell briefly on aspects directly related to finance and revenue, selected from various sources.

The local government comprising union councils, town committees, municipal committees and district councils can levy any of the taxes which the provincial governments have been empowered to collect under the constitution provided they are authorised by the respective provincial government. The local government, besides sharing some of the provincial taxes and duties, currently relies mainly upon octroi/export duties (tax on import/export of goods into/out of city limits) and local rates (surcharge on land revenue) for its finance.

The main avenues available to augment and mobilise local resources can be explored under four different categories:

- a) improving the yields from existing revenue sources:
- b) tapping new sources of taxation and revenue;
- c) reducing pilferage through improved auditing and accounting procedures: and
- d) reorienting the structure of non-development expenditures.

The existing major sources of revenue of the local councils can be clarified as:

- a) Taxes
 - i) Octroi
 - ii) Property Tax
 - iii) Tax on transfer of property
 - iv) Export

- v) TAX ON ADVERTISEMENT
 - vi) TAX ON VEHICLE
- b) Rates
- i) Water supply
 - ii) Conservancy
 - ii) Lighting
- c) Fees
- i) Public utilities
 - ii) License fees
 - iii) Market fees
 - iv) Fee on slaughtering of animals
- d) Non-Tax receipts
- i) Licences and fees from tongas, carts, articles of food, animals, fairs, births, deaths, marriages etc.
 - ii) Rent from local council properties, sale of refuse, sullage, water etc.

The sources of revenue/income of local councils have by and large been static since their inception. In all the Acts and including the Municipal Administration Act, 1960, Basic Democracies Order, 1959 and the Local Councils Ordinance, the schedule of taxes have restricted the scope of taxes, tolls and fee leviable by the local councils. This has been so largely due to socio-political reasons.

Most of the high revenue yielding sources have been retained by the federal and provincial government and the local government institutions are left with a small and inconsequential lax base. Efficiency of the local councils resource generation efforts can be measured only in the context of existing tax structure. The net result has been that a substantial source of financing of the local councils in all the provinces of Pakistan has been the government grants.

Socio-politico-economic philosophy, together with political expediency, determine the functions which should be carried out by public or private organisations on the one hand and by the local government institutions rather than provincial or federal government organisations, on the other. The actual demarcation of the functions and responsibilities within the state structure is closely linked with social and economic problems which keep changing.

Government authorities have tended to emphasise the growing importance of local government institutions but practically the provincial and federal agencies have been reluctant to part with most of their functions and resources.

The real arguments have been revolving round two issues:

- a) how far national rather than local needs should be given precedence: and
- b) how far particular functions can be dealt with by local rather than provincial/federal government and still achieve a balanced and unconflicting set of basic policies.

2. REVENUE RAISING POTENTIAL OF LOCAL SOURCES

Resource mobilisation proposals for the municipal governments must emphasise, first, diversification of and broadening of revenue base, in view of the skewness in the present revenue structure; second, make the taxation structure more progressive by tapping the upper income tax payers in the rural areas and the middle-to-upper income group tax payers in the urban areas. Given the present taxation structure, this can be achieved by rationalising the octroi rate structure, which has been suggested to be regressive, at least, in the smaller cities/towns and developing property-related taxes which are progressive in their incidence.

Third, one of the corner-stones of the resource mobilisation strategy should be to introduce the concept of cost recovery to the extent feasible, in the pricing of municipal services. In fact, in the large cities, land, in particular, should be priced (particularly for the rich) not only to finance direct development costs but also to generate surpluses which can be used for reinvestment in basic social and physical infrastructure by the local agencies.

Development of property related taxes and user charges are probably the limits of the options available in the short run to municipal governments in order to augment their resources.

Beyond this, new arrangements will be required which go beyond the boundaries of current fiscal powers.

A large number of proposals can potentially be made for enhancing municipal revenues. However, these proposals have to be filtered through some criteria to judge the merits and demerits of each proposal. The criteria used for evaluating taxation proposal are as follows: first, burden of incremental taxation should fall, to the extent possible, on the higher income -groups, i.e. the incidence of tax should be progressive; second; the source recommended should be buoyant; third; distortionary effects of additional taxation should be the minimum: fourth, proposal should be relatively easy to implement and administer subsequently, and, finally, cost of tax collection and compliance should be low.

LOCAL TAXATION STRUCTURE

Local councils are dependent on government departments for collection of certain local taxes, e.g., property tax, motor vehicle tax etc. Firstly, these collecting departments are administered from remote distances and by authorities who have no direct interest in the effective collection of these taxes. Moreover, the share or commission for collection is deducted by these departments at source at a high rate of not less than 15%. The local councils particularly the municipal committees/corporation are deprived of a sizeable amount in this process. Secondly Local councils must be given legal powers to recover their own revenue from the tax payers. Local councils cannot be held responsible for their own finances so long as they have to rely "n other agencies for collection of local taxes, thirdly, many rates and taxes etc. have remained static for many years despite inflation and economic growth. A review of tariff is, therefore, necessary, both for the present and regularly in the future. What follows is a brief discussion on some of the alternatives for developing existing local taxes.

Octroi

To do away with the much criticised and regressive octroi duty, a levy of local sales tax could be tried as an alternative on experimental basis in selected towns for a few years. If the alternative tax system is found simple, easy, acceptable and with greater growth potential then switch over to such a levy can be made throughout Pakistan.

Property Tax

In all countries of the world property tax constitutes an important source of income for local bodies. This tax in various provinces is assessed and collected by the provincial Excise and taxation Department though this ought be the responsibility of the local bodies, i.e., municipal committees/corporations, as it is leviable on urban property. The Excise and Taxation Department retains 15% as collection charges and transfers 85% to the concerned municipal committee/corporation. These collection charges should not in an case exceed 5%, it collection responsibility is allowed to remain with the Department of Excise and 'taxation. It would, however, be more productive if assessment and collection of property tax is done by the concerned local bodies. Moreover with the appreciation in the price of property, frequent and correct assessment of property tax may yield higher revenues to the local bodies. With more pucca houses coming up property tax may be extended to other towns as well.

Export Tax

This tax constitutes a major source of income of the district councils. It is levied on goods going out of the area under the jurisdiction of local council. Its levy has been criticised both from the point of view of international trade as well as inter-provincial and inter-district trade. In Punjab, Export tax was abolished in 1977 by Martial Law Government but it continued to be charged in Baluchistan, Sindh and NWFP. Whatever the demerits of export tax it appears to be a necessary source of revenue for the district councils.

Other Taxes

These miscellaneous sources of revenue include rates, fees, tolls and cesses, "the rate of these charges have been more or less unchanged for years. There is, therefore, need for rationalising rates of these charges.

4. NEED FOR NEW/ADDITIONAL SOURCES

Various committees and commissions have been appointed by the government to suggest ways and means to locate new sources for local bodies. In the following we discuss these new taxes.

1) Compulsory Imposition of Certain Taxes

The local bodies laws promulgated by the provinces provide for imposition of certain taxes

the local bodies. There appears to be some element of reluctance for different reasons on part of local bodies to impose these taxes though they are permissible. To overcome this difficulty it may be suggested that imposition of such taxes may be made obligatory by the provincial government.

2) Fixing of Local Bodies Share in Certain Provincial Taxes

Presently 85% of the property tax is shared with the local bodies by the Excise and Taxation Department. Entertainment tax collected from cinema house, located in the cantonment areas are entirely given to the Cantonment Boards whereas the same is not true of other classes of local councils or municipal committees/corporations. Similarly motor vehicle tax is practically retained by the provinces. There is a need for sharing these taxes with the local bodies concerned on an equitable basis. The Baluchistan government has already ordered passing on 25% of motor vehicle tax to local bodies. There are other provincially collected taxes which either be totally allowed to be collected and utilised by the local bodies or shared appropriately.

3) Transferring a Part of Federal Taxes to Local Bodies

Presently federal taxes, e.g., income tax, sales Tax, excise duty on sugar, tobacco and export duty on cotton are raised from urban and rural areas alike. The federal government does share these taxes with the provincial government but the local bodies are left high and dry. The local bodies may also be allowed an appropriate share in it.

4) Revenue Share With Provincial Government

Provincial government assesses and collects such other taxes as Entertainment Tax, Vehicle Tax, Cotton Cess, Sugarcane Cess, Mineral Concession Fees, Toll Tax on bridges etc.

a) Entertainment Tax

This tax should be levied and collected by the local bodies entirely or at least 50% must be apportioned to the local bodies if the provincial government fear substantial loss in their own revenues.

b) Vehicle Tax

It is also collected by the provincial government. City roads are constructed and maintained

by municipal bodies. The provincial government should realise this and share this tax with bodies so that they are able to improve the road conditions in view of growing population of vehicles. At least 50% of this tax, however, must go to the local bodies as an immediate measure.

c) Cotton Cess/Tobacco Cess

These cesses are levied on ginning or tobacco processing factories. There is, therefore, need wiring this revenue at the rate of 50% between the provincial government and the district councils.

d) Sugar Cane Cess

It is charged by the provincial government primarily for the purpose of construction and maintenance of link roads to facilitate movement of sugarcane from rural areas to be market/sugar factory sites. Largely, Union Council roads are utilised for transportation of sugarcane, and there is greater demand and need for better, enlarged link roads network for her agricultural produce. It is highly desirable that provincial government pay at least 40% the sugarcane cess to the district councils.

e) Mineral Concession Fees

These are also charged by the provincial governments and local councils receive nothing out of this income. The provincial governments, on the other hand, get a substantial amount in form of licence fee, rent, royalty from the mine owners/lessees. In recent years prices of minerals extracted have soared very high. There is a need for upward revision of these rates fees, royalties etc., and sharing them on an equitable basis with the concerned district councils.

f) Toll Tax on Bridges

New and large bridges have been constructed on major rivers and toll tax is charged from all kinds of vehicular traffic using these bridges. The connecting towns/cities have to provide additional facilities for the income/transiting goods and passengers. If not 50% at least 25% lie revenue from toll tax on bridges may be given to the connecting towns/municipal communities/corporations etc., to enable them to create improved facilities for increased traffic load both of goods and passengers.

5) Recovering the Full Costs of Services Provided by The Local Bodies

It is common knowledge that the local bodies are unable to recover full cost of such civic services as water supply, drainage, conservancy, removal of refuse etc., from the beneficiaries. However, the provision and continued maintenance of these services require huge initial capital costs and then substantial expenditure is annually made on their operations and maintenance. It has been estimated that local bodies are losing about Rs 100 million annually on this account. The local bodies may have to gradually raise the rates to recover full cost of these services from the beneficiaries.

4.1 Additional Avenues of Taxation

In addition to the above proposed changes in the existing tax/non-tax receipts, we also discuss below the potential for mobilising new avenues of taxation to improve the hitherto poor tax receipts.

i) License Fee on Business and Industries

It may be expedient to introduce two new taxes under the nomenclature of Business/Industrial license Fees in all the provinces under which all types of Industries/Business would be required to obtain a license from the government and pay annual license fee to carry out their respective business/industry. These will be two separate taxes and would be levied on:

- a) Business and Trade where no production is involved; and
- b) On industries where manufacturing or processing of material is involved.

ii) Video Trade Tax

It has been noted that in recent years the video trade has blossomed with leaps and bounds in the country so much so that it has given serious set-back to the film industry thereby depriving the provincial government of a substantial amount of entertainment duty. "the video trade is being run in the shape of numerous video shops which have cropped up in every nook and corner of the province. The volume of daily turnover in most of these shops is quite high and they are usually doing good business. Without going into the legality or public morality of this business it is high time that the video shops are made to pay tax on their flourishing income.

iii) Tax on Marriage and Banquet Halls

The turn over of these establishments is fairly high round the year. A tax on marriages and holding of wedding receptions at the banquet halls would most certainly yield considerable revenue on this head. It would be least resisted by the people concerned since wedding in our society are a lavish and often an ostentatious occasion.

4.2 Improved Auditing and Accounting

Local bodies funds are presently deposited in local treasuries earning no profit on large unutilised amounts. It would be a source of income, though small, if the local bodies funds are kept in scheduled bank accounts on the balances of which they derive some profit. Surplus funds can be placed in term deposits to earn higher profit.

4.3 Financial Management

4.3.1 Local Audit

External audit is necessary to guarantee the stability of the local government institutions and their freedom from excessive intervention by the government. In order to ensure judicious use of local funds it is highly desirable to audit the accounts of the local councils by the Local Fund Audit Department at least annually if not half yearly. It would also be advisable to place the audit report of local council accounts before the local council meeting so that any loss of public fund or waste of money through negligence or dishonesty is brought to light and those responsible are taken to task. The annual audit report of municipal committees/corporations and large district councils should also be published for general information of the tax payers.

4.3.2 Internal Audit

Besides the annual audit through the Local Fund Audit Department, it is essential that an internal audit system is also developed and introduced in the local councils particularly within the larger ones, so that abuse of funds or wastage is checked at the initial stages. A local Council should be primarily responsible for its own integrity and financial propriety and should not depend entirely on external auditors to point out financial irregularities after the end of the fiscal year. Their own internal vigilance system must ensure timely in house financial control.

4.4 Accounting

The accounts of local councils are maintained on the basis of single entry system and are governed by the Account Codes which were prepared 50 to 60 years ago. For union councils, separate Accounts Rules were prepared in 1960. No effort has been made to revise the District or Municipal Accounts Codes which have the effect of rules. The result is that the double entry system of accounting has not been introduced in the local councils.

Facilities for training of local council accountants are also in adequate.

4.5 Local Council Expenditure

Local government institutions are required to provide a number of services e.g., education, health, sanitation, water supply etc. An analysis made by the Research Cell of the Punjab Local Government Board showed that highest expenditure has been incurred by the municipal committees and the district councils.

Non-development expenditure has become abnormally high and the percentage share on education and health services has declined substantially. There has been a sharp decline in per capita development expenditure.

4.6 Recommendations

4.6.1 Municipal Banks

Rationalisation of the tax structure will not solve the financial requirements of a developing society immediately. Local councils will still need large sums for executing major projects. It is desirable to have a Municipal Bank in which all the local bodies can have their share or maintain their funds. This bank may be on the pattern of such a Bank in Turkey and some other countries which provide loans to the municipal committees. Its working should be on the pattern of Agricultural or Industrial Development Banks.

4.6.2 Permanent Body for the Development of Local Funds

A special committee or board should be set up to review the recommendations of various committees constituted by the government from time to time and also oversee their

implementation. Besides, the following steps may also be taken to improve the revenue structure of the local councils.

- a) The progression in tax rates at the provincial and local level is unwarranted as income on property is in any case subject to a progressive income tax by the Central government. It is recommended that in order to simplify the system of property taxation at the provincial level and to remove inequities, the progressive rate schedule may be replaced by a flat rate of tax.
- b) It is suggested that the municipal committee and union councils should charge license fee from persons carrying on business or profession within the jurisdiction of a local body. Municipal committee may impose a tax on sign boards used for advertisements at places other than the assessee's own place of business.
- c) Local bodies should be encouraged to develop non-tax sources of revenue such as markets, fish ponds, ferries and planting of trees.
- d) The provincial government should encourage local bodies to increase their own revenues by relating tier grants-in-aid to taxes and other revenue receipts collected by them.

4. LOCAL GOVERNMENT INSTITUTIONS: ANOTHER VIEW

Whatever system, measures and policies are formulated, their success depends to a large extent on the individuals running and manning the institutions. It has been concluded on many occasions that whenever any measures fails or do not deliver the desired result, it has usually been due to failures at the implementation level and lack of will of a few individuals.

Since we are discussing the issues of local government institutions the pertinent questions in this context are: a) why is it that despite passage of over 13 years and three elections, most of us still tend to perceive them as institutions which have failed to properly address problems being encountered by members of the society which they represent? b) why is there a growing feeling that when these local bodies were being run by bureaucrat administrators, they seemed

to (unction better? This latent feeling is manifested even now through creation of new bureaucratic bodies, such as R.D.A, B.D.A, and D.G.K. Development Authority, etc. In my view, the very parameters in which these are viewed and weighed are skewed, defective and faulty. In order to answer these questions satisfactorily, and develop my argument, let me go a step back.

Local government institutions comprise two categories of individuals: government servants/bureaucrats, and elected persons. The former are supposed to be aware of rules/regulations, laws, policies, procedures etc. Therefore, they can apprise, guide and advise the elected representatives in order that the latter take actions and decisions which suitably blend their electorates aspirations and expectations with the prevalent rules and laws. This is expected to result in creating a smooth running and peaceful society continuously striving towards an improvement in its welfare levels.

But what then are the expectations and aspirations of a closely knit unit which comprises a local elected body? Are the bunch of individuals who supposedly represent that unit of society, really in a position to be able to meet their needs and requirements? In order of priority, needs of a society are the following:

- a) First and foremost is that life, limb and property of all its members are safe and secure. A general sense of security and certainty needs to prevail before collective thought can be given to anything else.
- b) Second, in case of any foulplay by any of its errant members, there should be a system to provide quick deliverance of fairplay and justice.
- c) Only when the above two things are reasonably ensured, collective thought will go to finer aspects of life like provision of services, development, trade etc. which contribute towards improving the general welfare level of society.

Unfortunately, here the cart has been put before the horse. We have assigned the local government institutions only the last mentioned sphere of activity namely, provision of

services and development of infrastructure, while the other important aspects which intrinsically affect social life in the most crucial manner are in the hands of individuals who do not belong to that particular societal unit. So much so that even in the sphere assigned to the local bodies, many strings are in outside hands e.g., where coercive measures are needed for collection of taxes and revenues, they have to look towards the local district administration for help. And even in matters of expenditure, the sword of special audit etc. is always hanging on their heads.

Is not then the term local government institutions, a misnomer, since the elements that define a government are lacking. If the present local government institutions are supposed to cater for the needs and expectations of its members, they have neither the means to safeguard their lives and properties, nor can they provide them with a sense of fairplay and justice.

Let us now see why individuals seek to achieve elected offices and slots in our present set up. I think it is mainly an urge to obtain relative importance, recognition and status in society and less due to a feeling of social service and responsibility towards their fellow comrades. And this importance in the eyes of their fellow citizens is due to the recognition given to them by the people who symbolise actual local authority, viz the D.C., S.P., Thanedar, Tehsildar, Judge, Magistrate etc. In addition, they are primarily responsible for and are perceived to possess the means and authority to cater for the two most pivotal needs of societal life viz security of life, limb, property and deliverance of justice and fairplay.

This is why it is not incorrect to say that when the local bodies are being managed by bureaucrats, they are perceived to be faring better than now. The reason is that the D.C or AC. as administrators also symbolise control over the means of the two more important facets of human life namely provision of security and a system of justice. And since coercive machinery is also in the same hands, collection of revenues and consequent mobilisation of resources to achieve development is relatively easy and more efficient.

It can therefore, safely be concluded that the present difficulties and problems being countered by the elected local bodies are largely a result of self-created and self-imposed anomalies and distortions. We are trying to achieve laudable and desirable objectives with an unclear concept and perception. The job of an ironsmith is being performed by a blacksmith

and vice versa. To make the most of elected local government institutions, the entire perspective and parameters need to be altered.

6. CONCLUSIONS

In the given context and prevalent scenario, I venture to develop and propose the following theme:

- a) Most of the elected local bodies are evidently hesitant due to various reasons, to levy taxes. The results of collection are therefore not satisfactory. Their hesitance, in my opinion, is because the elected representatives are in no position to tell and show their wards that they are catering for their two most important and basic needs, viz, provision of safety, security and fairplay/justice. These days even the third important aspect e.g., development and provision of services, to an extent, is also out of their ambit in view of the increased role of MI'As / MNAs and creation of development authorities, which are purely bureaucratic organisations.
- b) There is a clear and visible tendency on the part of elected representatives, whether local, provincial or national to have greater control over the institutions which symbolise provision of sense of security, and justice and hence the desire to have Thanedars, Tehsildars, Magistrates, Deputy Commissioners and S.Ps of their own choice. But this urge is very nature mid only logical because in this way they can derive sub conscious satisfaction by giving a semblance of catering for these two vital needs, which are expected from them by their electorate.
- c) Since most of the cases of criminal and civil law are of a local nature, these can also be assigned to be resolved through local elected representatives, just as was the case in punchayats etc., in the past. It is more difficult for a local elected representative to do injustice in such cases and get away with it (since he has to live there) than for a bureaucrat who knows that he won't stay (here for long. The elected representatives who perpetrate injustices normally do so through the "outsider" bureaucrats and therefore, manage to avoid direct accountability.
- d) Since there is a paramount urge and tendency and visible effort at the local level to

gain control over the security and justice institutions, and development aspect is then relegated into relative obscurity, the development activity and revenue collection work should presently remain with the bureaucratic organisations and departments.

- e) As the local government institutions gradually gain confidence and feel assured of their effective control over more prior local affairs, they will then automatically start thinking of development in order to further improve their general welfare levels, and therefore, will be constrained to give collective thought from where best to mobilise their resources. We must let the local elected institutions have the first things first and help them handle their own local affairs.

SUMMARY OF DISCUSSIONS

Mr. Mohammad Ishnque, Planning and Development Department, suggested that the allocation of functions and fiscal powers of the local and provincial governments should be clearly and precisely defined. He also felt that the transfer of responsibility from departments to local councils will generate additional resources and thus the local government should be entrusted with the responsibility of recruiting personnel.

Mr. A. U. Saleem, D. G. Katchi Abadis, proposed the introduction of sales tax instead of octroi for the local governments. He said that if a local council collects octroi departmentally then, first, the system should be rationalised and, second, consideration be given to collect octroi on a bonus basis to staff to enhance revenues. He also suggested that the bench marks for collection be fixed by the local councils themselves. In addition, an ad valorem system of tax collection be introduced, particularly at dry ports. Property tax should be streamlined through legal and legislative measures and all properties should be assessed and the exemptions given to the tax payers should be transparent. Mr. Saleem further proposed an imposition of taxes on transfer of immovable property which should be integrated with the stamp duty. Finally, he suggested that emphasis should be given to increasing institutional capacity and training of local government personnel.

Dr. Muzaffar Ghaffar, a private consultant, suggested the establishment of a high powered commission to review the issues related to decentralisation namely, to determine the optimal structure and size of local councils (departmental or geographical system). He also proposed that a five year maintenance contract should be given to the same contractor who is assigned the original building contract in order to initiate the process of accountability and raise quality of development works.

Mr. Wamique Zuberi, Business Recorder, suggested that the local governments should be empowered with greater autonomy to undertake decisions pertaining to administrative matters. Furthermore, the functions of local governments should be clearly defined.

Dr. Hsifiz A. Pasha, AERC, noted that there is an incentive problem in the collection of property taxes as the provincial government under current arrangement is expected to transfer

85 percent of the revenue collected to the local government. He also said that there is a lemma in resolving the problem of the relationship between the provincial line departments and the local councils as the smaller councils will continue to need technical extension services. The strategy must be to give local councils the option of availing the technical services of the Line Departments like PHED and the Rural Development Department on a deposit works basis. He also proposed to institute a technical assistance program to train the local government personnel.

Dr. Tariq Binori, of SDP, emphasised that autonomy must be given to local governments. In particular, he stressed on financial autonomy which is a major need as far as resource mobilisation is concerned. Further, there are accountability aspects and some structural aspects like strengthening of the judicial reform at the local level, increasing incentives etc, which need to be taken under consideration. As far as the shifting of resources and responsibilities to the Local Government are concerned primary education may cause some problems. Therefore, a parallel structure should be created for decentralisation.

Dr. Abtlilil Wahab, of IBA, University of Karachi, proposed the integration of local resources and services by the local governments.

Mr. Mohammadd Aslam, Planning and Development department, suggested that the local governments must be given autonomy to generate their resources. He said that there is a need to create awareness in the communities and only then any system of tax collection or service delivery can be implemented. Also, there should be a shift towards integration of the resources within the local areas. In this context political and administrative will is essential.

Mr. Imtiaz Msisroor, Secretary, Local Government, suggested that the emphasis of the government should be on revenue generation and better recovery rather than revenue sharing. He proposed that increases in tax rates should be gradual and government may consider introducing user charges to meet at least cash cost. Furthermore, no rebate should be given after auctioning of octroi collection. He also proposed to curtail non-development expenditure and at the same time increase the ratio of development expenditure to the total budget. He emphasised the need for introduction of equity criteria in the transfer of funds to local

councils from provincial governments whereby equalisation grants should be given to the less endowed councils in the smaller towns and rural ciicas.

SESSION V
EXPENDITURE PLANNING

EXPENDITURE PLANNING ISSUES

By

Tariq Sultan

1. INTRODUCTION

The National Finance Commission (NFC) Award, 1991 transferred resources to the provinces in order to create an atmosphere of autonomy and self-financing. But, at the same time greater devolution of authority generated pressures on the provinces to live within the resource base decided in the Award. The practice of picking up provincial deficits and non-obligatory grants was discontinued. It was envisaged that the current revenue expenditure of provincial governments will grow at a rate of 14% while the growth of provincial receipts was projected at 8%. This gap, to some extent, was anticipated to be bridged by transfers from divisible pool taxes anticipated to grow at an average of 16%. These projections make it imperative that either there is concerted effort for resource mobilization or the growth of current expenditure is slowed down. Resource mobilization by the province is constrained by the fact that the provincial taxes are in-elastic. This inelasticity, to some extent, can also be attributed to a lack of initiative to convert fixed rates into ad-valorem taxes, but by and large, provincial tax base is so narrow that new measures attract public criticism disproportionate to resource generation.

It is very difficult within the existing socio-political frame-work to reduce government expenditure from the existing level at current prices. Government is still the single largest employer and there are legal constraints to lay off the government servants/workers or link their employment to productivity. Even if a project has completed its cycle or a certain activity is terminated, there is no reduction in staff and the government employees are usually placed on surplus pool with no corresponding economies in expenditures. It becomes all the more important that instead of taking drastic measures, a proper care is undertaken for expenditure planning. The appropriate approach to such planning may be to look into the growth pattern based on historical trends and then fix priorities of future expenditures in such a way as to get maximum efficiency in resource utilization by being cost effective.

2. PERSPECTIVE OF PUBLIC EXPENDITURES

An analysis of provincial expenditures of one decade i.e. 1983-84 to 1992-93 shows that contrary to common belief, the percentage allocations to general administration and law and

order has gone down from 11.95% of the total budget in 1983-84 to 10.75% in 1992-93 as is evident from the following Table 1.

There has been a clear shift in expenditure priorities. The allocations have changed in favour of social services at the expense of economic services. There is a marginal increase in allocations to community services. This change in pattern can be attributed to similar shift in allocations to Social Sectors in the development budget. The massive expansion of Social Sectors in the 1980s has increased allocations from Rs 356 crores in 1983-84 to Rs 1697 crores in 1992-93. It has registered an average growth rate of 17.3% which is much higher than the projected rate in the NFC Award. Even at the present allocations it is becoming difficult to sustain the existing level of services. The social sectors are also the biggest employers and any change in the salary structure or pay revision leads to greater percentage allocation.

The increased allocations to Social Sectors do not necessarily mean that the quality of Social Services has proportionately gone up as most of it has been absorbed by increased salary bill.

In Education and Health Sectors, the percentage allocations to salary component has increased from 86% to 89% while the non-salary component has gone down from 14% to only 11% . This percentage for non-salary component would have been much lower if the Punjab Government had not revised the yard-stick to increase allocations from Rs 64.95 crores in 1991-92 to Rs 105.50 crores in the current budget for commodities and services in the Health Sector. This decline in allocations to non-salary component has direct reflection on the quality of services.

The decline in percentage share of economic and community services is having an adverse impact on the maintenance of existing economic infrastructure. The allocations for maintenance of roads, buildings and irrigational net-work are below the norms and standards required to meet depreciation cost of the capital stock.

TABLE 1
STATEMENT SHOWING TOTAL NON-DEVELOPMENT REVENUE
EXPENDITURE DURING 1983-84 AND 1992-93 OF VARIOUS
FUNCTIONS/SECTORS

(Rs in thousands)

Sectors	1983-84	% of Total Budget	1992-93 (B)	% of Total Budget
Organs of State/ Law and Order	1,31,17,03	11.95	4,66,15,37	10.75
Community Services	61,59,46	5.62	2,49,09,75	5.74
Social Services	3,56,75,81	32.52	16,97,15,54	39.14
Economic Services	2,22,10,96	20.25	5,33,93,50	12.31
Subsidies	39,71,23	3.62	74,33,37	1.72
Debt Servicing	2,13,39,72	19.46	10,10,43,34	23.30
Others	72,14,54	6.58	3,05,47,74	7.04
TOTAL	10,96,88,75	100.00	43,36,48,61	100.00

(B) Budget Estimates.

TABLE 2**STATEMENT SHOWING NON-DEVELOPMENT REVENUE
EXPENDITURE FOR EDUCATION AND HEALTH SECTORS
DURING 1983-84 AND 1992-93**

(Rs in Crores)

Name of the Year	Salary	% of Total Allocation	Non-Salary	% of Total Allocation	Total
1983-84	289.34	86	45.35	14	334.68
1992-93	1388.49	89	179.21	11	1567.70

The allocations for M & R were kept at constant levels from 1986 to 1990 and marginally increased in 1991-92. The rate of depreciation allowance was frozen at the level of 1982. It was only revised in the current budget when allocations were increased by Rs 105 crores.

The most disturbing area of provincial expenditures is debt servicing which has increased from 19.46% of the total budget to 23.30%. The major contributory factor is the cash development loan advanced by the federal government for financing the development budget.

Debt Servicing for CDL has increased from Rs 188 crores in 1983-84 to Rs 981 crores in 1992-93 resulting in net capital outflow of Rs 312 crores.

If we segregate the expenditures on salaries and pensions of all sectors, then, its percentage share has gone up from 50.68% to 56.24% as indicated in Table 5.

The expenditures on debt servicing combined with salaries and pension account for 79.54% of the total budget leaving only 20.46% for maintenance of existing assets and improving the quality of social and community services.

5. INTER-SECTORAL PRIORITIES

In the development process government has assumed greater responsibility in both the production and services sectors which is now in need of review in the changing socio-economic priorities. The role of public and private sectors has to be defined precisely and clearly. As the public resources are scarce, therefore, the pre-requisite of efficient allocation is to formulate a priority list of activities to be undertaken by the public sector. The pronounced policy of the Government for privatisation is a recognition of the problem. However, the privatisation and devolution of authority may be extended from projects to sectors and within sectors the inter/intra-sectoral priorities be determined. Public Sector programmes had already undergone a change and this must continue to achieve efficient use of resources.

The analysis of past trends has revealed that social sectors have gained priority over economic services and general administration. This seems to be in line with the current

TABLE 3
STATEMENT SHOWING THE ALLOCATIONS FOR M&R
1983-84 TO 1992-93

Years	M & R Grants	Total Budget	Percentage of Total Budget
1983-84	1,12,93,70	10,96,88,75	10.29
1991-92	2,24,79,54	37,05,27,86	6.06
1992-93	3,29,60,00	43,36,58,61	7.60

TABLE 4
STATEMENT SHOWING THE CASH DEVELOPMENT LOAN AND
ITS DEBT SERVICING 1983-84 TO 1992-93

(Rs in Thousands)

Years	C.D.L.	Debt Servicing	Net Capital Inflow
1983-84	3,43,20,65	1,88,12,64	+1,55.08,01
1992-93	6,68,63,84	9,81,38,61	-3,12.74.77

TABLE 5
STATEMENT SHOWING EXPENDITURE ON PAY AND
PENSION 1983-84 TO 1992-93

(RI in Thousand)

Years	Allocation for Pay	Allocation for Pension	Total Budget	% of Total Budget
1983-84	5,01,51,52	54,37,91	10,96,88,75	50.68
1992-93	22,38,72,70	2,00,00,00	43,36,58,61	56.24

thinking but a critical and dispassionate analysis can bring out one reality that the basic function of the government is being relegated to the secondary position. An efficient government is known by a cost effective administration to achieve a crime free society for saving investment activity to have free access to resources. It is fundamentally the primary function of the state. Provincial governments are directly involved with law and order and any deterioration has an adverse impact on economic activity. It is not necessary that this sector may be given enhanced allocations but the performance can be improved by efficient use of resources. The grass root institutions of general administration and police are in desperate need of up-gradation, improvement and modernisation. In expenditure planning the ranking of this sector may be reviewed so that in the flush of emphasis on social sectors, the primary function of the state is not over-looked.

The economic services and government infrastructure are public goods and its quality has a direct impact on G.D.P. Expansion for infrastructure adds to the capital stock but lack of adequate allowance for depreciation decreases its net worth with adverse results on productivity of services. The decline in allocation to economic services is quite disturbing and is in serious need of rectification/revision. Within current expenditures highest priority may be allocated to maintenance of existing capital stock which will yield better economic rates of return.

The government has assumed a much greater responsibility, disproportionate to its resource capability, in providing the community and social services because of following reasons:-

- (i) It was an attempt to rectify the past neglect to the social sectors. The allocation to these sectors had lagged behind in the 1960s and 1970s but the trend was reversed in 1980s.
- (ii) All over the world, community and social services are provided by the local government institutions which generate sufficient user charges or raise local taxes to finance these activities. As these services are disaggregated at the micro-level, effective monitoring and supervision can only be undertaken by the community deriving social benefit. The failure of local government institutions to deliver these services has led the government to abrogate their responsibilities. Perhaps, the truth may be to the contrary, and can be assumed, that the local government institutions were never

allowed to grow and act independently.

- (iii) Nationalisation and provincialisation of private and local government educational institutions discouraged the local bodies, private sector and NGOs to invest in education. Reversal of the policy in 1980s did not elicit the same response and it is only in the last 2 years that the activity is picking up and that too in the urban areas. The government had to invest heavily in primary education in rural areas to arrest the deterioration in literacy rate.

The increased allocations to social sectors have been consumed by greater share of salaries component which may be due to over employment, under utilisation of capacity and inefficient use of allocations. There seems to be little evidence of positive impact on literacy rate, participation ratio and health coverage in rural areas. Lack of monitoring and supervision of the delivery system has emerged as the critical factor which is difficult without community participation. It is becoming increasingly important to have a necessary balance in the salary and non-salary components of social sectors so that the quality of services could be improved.

The social sectors are also the biggest employers with tendencies to create more jobs disproportionate to requirements. There are local pressures, therefore, social sectors have emerged as major source of extending political patronage in the rural areas. In certain cases, the demands are not based on genuine needs but preferred for generation of jobs. It is for this reason that the growth of current expenditures in these sectors had been much higher than anticipated. At the existing level of allocations to social services, even a 10% growth rate will be at the cost of other sectors. The envisaged SAP programme will generate further pressures on the non-development budget. It will be difficult for the province to meet these liabilities in the existing resource base unless budgetary support is provided out of SAP funds.

The cost of debt servicing has reached a level where there is a net capital out-flow with a consequential squeeze on provincial resources. Upto 1987-88 CDL was more than its debt servicing with a positive impact on resources. After 1987, Debt Servicing has been increasing at an average rate of 15% which will be difficult to accommodate in the projected growth of receipts/resources of the province. The existing institutional arrangement is in need of serious review.

4. DEVELOPMENT EXPENDITURES

Development expenditures have traditionally been financed either through the cash development loan arranged by the federal government or by generating surplus in the current budget. It is assumed that these expenditures increase economic activity, contribute to GDP and add to capital stock. The increased income enables the government to repay the loan/clear the debt. Its theoretical basis is possible to achieve where there is strict discipline of project -valuation and resources are allocated by observing norms and standards. An analysis may reveal the following problems:

- a) The projects only reflect the departmental priorities with no direct impact on the target group. Project components may have no co-relation with the objectives. It has been witnessed that, in some cases, projects are only prepared to enhance the size of the department resulting in over-employment and excess capacity.
- b) The institutional arrangement of performance evaluation at the completion of project cycle has fallen in to disuse. The project may be successful or unsuccessful but it is very rare that the employment has been linked with performance. It then becomes one of the major sources of net addition to recurring expenditures without net addition to income or production.
- c) The departments, sometime frame projects not to achieve realizable development targets but to get promotion posts and consumer durables. The tendency is much greater in the projects financed by foreign loans/assistance as the priorities of the lending agencies, which are usually in line with the departments, lend weight to such pressures.

In view of the above referred contributory factors, such development expenditures have led to over employment, under-utilization of existing capacity and greater size of the current budget. It will be appropriate, at this time, to have a review of existing institutional arrangements of formulating the development projects/plans. The long term perspective with a macro view of inter-sectoral complementarities need to be developed to achieve not only cost efficiency but also cost effectiveness. Expansion is always very attractive but getting the maximum rate of return depends more on consolidation and up-gradation of the existing capital stock.

Another major area of cost escalations is the Tameer-e-Watan Programme funded on the j priorities indicated by the public representatives. It has resulted in thousands of projects at the local level which are now in dire need of stock taking. These projects have been implemented (o satisfy local needs with no corresponding linkage with the social and economic infrastructure of the province. These projects are in desperate need of providing the missing links to make them more useful. As no stock taking has been undertaken so far, therefore, the issue of O&M cost of these projects is still undecided. It may be worthwhile to allocate sources 1'or the next 2 to 3 years from the same programme to upgrade and consolidate the projects which have already been established or are in various stages of implementation.

6. CONCLUSION

The above analysis of the past trends in expenditures and inter-sectoral priorities give rise to the following issues/policy options:

- i) General/fiscal administration, administration of justice and law and order is in need of up-gradation and modernization by better training and effective use of resources. These are the basic function of the state which cannot be ignored.
- ii) There is a need to have an appropriate balance between salary and non-salary components of the current expenditures so that the quality of social services could be improved. This can only be made possible if a greater emphasis is placed on consolidation rather than expansion.
- iii) The resource base and institutional arrangement of local government institutions are in desperate need of up-gradation. Their confidence to undertake the community and social services should be revived. Unless this is done, it will become increasingly difficult for the provincial governments to undertake the increased responsibility as envisaged in the SAP Programme.
- iv) In the non-development budget, the maintenance of the existing capital stock may be assigned the highest priority. The expansion in infrastructure without an adequate maintenance allowance will not yield the desirable rate of return.
- v) The development and non-development expenditures should be redefined to bring them

in line with increased emphasis on social sectors. The existing institutional arrangement is, that the cost of building and structures come from the development budget, while the salaries of teachers and doctors are financed from the non-development budget. For social services the salary component is an investment in human capital.

- i) In the development budget, an appropriate balance is required between allocations for new and on-going projects. The over emphasis on expansion in the last Five years has brought the province to a point where the throw-forward of ongoing projects will absorb an allocation of 700 to 800 crores per year to complete them. These annual requirements are equal to availability of funds for development budget. In this situation is more relevant for economic infrastructure and projects initiated under the Tameer-e-Watan Programme. It is imperative to review it, and if possible, the new projects should not be undertaken till such time as all the on-going projects are completed in the shortest possible time. This will be more cost effective with greater returns.
- vii) There is a lack of knowledge or realization about the cost of funds for development budget which carry a very high rate of interest. The system of project approval may be made more rigid in order to check waste of resources on uneconomic projects and schemes. An attempt can be made to develop the system of "performance budget" to ensure efficient allocation of resources.
- iii) The institutional arrangement for the cash development loan may be reviewed. In order to provide relief to the provinces, federal government may consider to reschedule, and if possible, waive off the debt burden of the provinces. It may be followed by allowing the provinces to raise loans in the market for development budget as envisaged under Article 167 of the Constitution. It will create greater budgetary discipline and generate pressures on the provincial governments to economise in development expenditures. Moreover, the response of the market will be an automatic check to remain within the resources.

SUMMARY OF DISCUSSION

Mr. **Mohammad Ishaque**, Planning and Development Department, argued that it is the total requirement rather than the historical shares which determines the requirements of any sector or subsector allocations in expenditure planning. He expressed concern regarding the absence of specified criteria for sanctioning recurring expenditures and recommended that the P&D Department should also play a role in the sanctioning of recurrent expenditure as this department is primarily involved in approving the provincial development budget. He also noted that the existing budgetary practice is not service oriented and suggested performance budgeting. In addition, he argued that there is a need for political commitment regarding proper and timely allocation of budget. He also referred to the Finance Secretary's remark made elsewhere, on the Social Action Program (SAP), that it is the social sector which generates greater dividends in the long run than any other sectors and that one should not be hesitant to admit the social sector receiving a larger share of the budget. Finally, he emphasised that the development is essentially to be seen in terms of human development rather than as investment on 'bricks and mortars'.

Dr. Aynul Hasan, Acadia University, Canada, agreed and supported the basic thrust of the authors paper. He argued that while provision of law and order (police) and justice are the important responsibilities of the government, as an economist, he felt that other social services (primary education, basic health clean water etc.) are equally important as these are termed merit goods and based on the premise of equity and fairness. He emphasised that the provision of law and order is a responsibility rather than **the** responsibility of the state. He expressed his concern about such a new definition of the state's responsibilities may set an improper precedence for the policy makers as they may now relegate these crucial social services to a secondary importance. He also raised his concern regarding the budgetary implications of reclassifying the salaries of the doctors, teachers, nurses etc., under development expenditure as he was not sure: a) how this change is going to reduce debt burden of the government and b) how government can guarantee a continuous inflow of funds for salary component under development expenditure as this is primarily of periodic nature and is affected first whenever there is a budgetary crunch. Finally, he was intrigued by the proposal for waving off provincial debt burden by the federal government as this will only amplify the federal deficit

And thus impart inflationary pressures on the economy.

Dr. Tarique Binori, SDPI, pointed out that the management and operation responsibilities should be given the same emphasis as that of planning in budget preparation. He suggested that cross-country studies be conducted to identify the optimal distribution of salary and non-salary items in the budget for the social sectors. Furthermore, he argued that only the education part of the SAP may perhaps be unsustainable in financial terms.

Mr. Wilinique Zuberi, Business Recorder, suggested that the provincial government must confront the real problem of budget deficit and thus financial discipline be imposed in expenditure planning through legislative measures. In particular, he proposed that supplementary grants may only be approved by at least a two third majority in the House. Furthermore, an Auditor General be appointed by the provincial legislature to ensure the fulfillment of government's obligation in this regard. In the context of SAP, he emphasised that though the education component of the social sector may be unsustainable, it is education, particularly female education, and better quality of education which provides the only hope to achieve long run prosperity of the province.

Mr. Sliahzad Shiekh, Finance Secretary, Government of Sindh, noted that there is a lack of planning in the preparation of current expenditure budget. Paucity of information, in this context, makes it even more difficult to determine the exact size of such expenditure. Government should therefore switch-over from historical budgeting to zero-based and programme budgeting. He also suggested legislative measures to discipline the budgetary process. He expressed dissatisfaction with the existing PC1 and PC4 and emphasised the need for their improvement. He referred to the problem of allocation between new and on-going schemes and suggested that the existing practice of block allocation in ADP should be slopped. I le also argued that the resource base of the provinces is inelastic and there is a limited scope for further expansion of resource mobilisation and thus, perhaps, there is no need for more federal transfers of funds to the provinces.

Mr. Zia-ur-Rahman, Planning and Development Department, stated that major problems in expenditure planning pertain to the under utilisation and a lack of implementation capacity rather than shortage of funds. In this context, he cited the example of ISRP2 Irrigation

Systems Rehabilitation project, funds for which remain largely under utilised. There is also a problem of undelivered funds staying in pipeline, which is primarily supported from borrowed money, and thus leading to future debt servicing consequences. He proposed the introduction of user charges as a means of cross-subsidisation of funds to the needed areas. Furthermore, subsidy given to the needy sector should be transparent.

Dr. Shahcen Khan, Chief Economist, Planning and Development Department, indicated political pressures as being the major cause of mismanagement in budgeting for development and non-development expenditures. She suggested that detailed micro research studies be initiated to deal with the problems of mismanagement in budgeting. She also suggested a decentralization of the decision making power. Project sanctioning should be carefully scrutinized and the importance of the local government machinery be recognized in the implementation of expenditure plans. She also expressed her concern about the lack of technical management training in the budgetary process.

Ms. Aislia Ghaus, AERC, University of Karachi, expressed her concern regarding the waiving off provincial debt liabilities by the federal government. She felt that following the NIC award of 1991 the provinces have already been a beneficiary of large transfers from the Federal government and thus given the over all macro resource constraints, she questioned the appropriateness of additional resource transfers to the provinces by means of a debt write off'. She pointed out that the suggestions of debt write off and the access to commercial borrowing by the provincial government are inconsistent. She expressed the concern that if provincial governments are unable to fulfil their debt servicing obligations on federal loans, how will they handle commercial borrowing obligations.

Mr. Ali Kazim, Secretary, Services and General Administration, questioned the basis for uncritical expansion of SAP. He suggested that if SAP benefits the poor section of the society who cannot afford to pay for these services then there is the legitimacy for expanding the social sector. Referring to his study he argued that the major beneficiary of the social services is, in fact, the upper income group. He suggested that at this time society does not have the ability to pay for these services.

Mr. Muzaffar Ghaffar 'consultant' emphasised the importance of management information system, zero-based budgeting, long term planning, and introduction of double accounting etc.. in the expenditure planning process.

Dr. (ilniliirn Qadir 'consultant' World Bank expressed concern about the MNA\MPA programme as it is politically motivated.

Dr. Abilul Wahab, IBA, University of Karachi, emphasised the role of privatisation of social services like health and education.

Mr. Shahiid Hussain, finance department, noted the importance of availability of accurate and timely data for the success of proper budgeting. He also emphasised the importance of accountability.

Mr. A. U. Saleem, Director General, Kutchi Abadis, stated that there are two possible scenarios in the development process: a) South American Scenario where the emphasis is on infrastructure and social sector building; b) South Korean Model with focus on infrastructure and education. He suggested that Pakistan should adopt the latter model. He also observed that :i strong political will is needed to implement the expenditure plan through NGOs with miltching grants. Finally, he also emphasised the importance of local government in expenditure planning.

Answering to some of the comments and observations made on his paper by the participants.

Mr. Tariq Sultan replied that his paper is **not** anti SAP but it simply highlights the problem ol' inter-sectoral priorities of the Punjab government given the resource constraints. He was not against the of expansion of social sectors, however, he suggested that before expansion one should first consolidate and upgrade the existing capital stock to achieve maximum returns. He also felt that there should be a balance between budgetary allocation to new and on-going projects. He further noted there may be a difference of opinion regarding the definition of the responsibilities of the state but he still holds that the executive, judiciary and legislative functions as the primary functions of the state. A two thirds majority approval for supplementary grants will make the job of the Finance Secretary easier.

in his concluding remarks **Mr. Liaqat Jatoi**, Finance Minister of Sindh, highlighted problems with the NFC award and the increased provincial expenditure. He suggested that the federal. Government waive off immediately the interest part of the Cash Development Loans (CDL) as (he desired objectives of such a loans have not been fully achieved in the social sector.

SESSION VI
CONCLUSION SESSION

CONFERENCE RESOLUTION

The Conference Resolution, which was passed unanimously by all the participants, states the Following:

EXPENDITURE PLANNING

1. The principles of efficiency and cost effectiveness should be introduced in the process of planning, particularly for the social sectors, which would also imply a more rational involvement of elected representatives in the process.
2. There is a general lack of planning and implementation capacity and steps should be taken to employ staff with adequate training and qualifications.
3. The need for efficiency and cost effectiveness in both expenditure planning and allocation of scarce resources demand that the investment policy should be devoted to consolidating the benefits of completed and on-going projects and that expansion in infrastructure should only be undertaken in areas where need or demand exists.
4. There should be discipline in the process of approval of new projects so that the investment portfolio of development projects carried over from year to year is kept at manageable level and adequate allocations are made first for on-going projects.
5. To ensure that the project selection criteria is based on an objective review, zero-based budgeting procedures should be used in the process of evaluation.
6. The project cycle, particularly from inception to approval, is lengthy and cumbersome, leading to cost over-runs and needs to be streamlined. In the process of change, the monitoring and evaluation function must be strengthened.
7. The investment strategy should be demand driven rather than supply driven as in the past.

8. Wasteful government expenditures should be curtailed drastically by shutting down departments (following a performance audit) and losing enterprises, and by curtailing the expansion in the transport fleet and provision of lavish furnishings and accommodation.
9. To ensure that procedures within government continue to be efficient, a system of continuous management review should be introduced. The use of computers in all departments should be made mandatory to ensure the ready availability of information for management control over planning and expenditure.
10. Performance budgeting procedures as a tool to ensure financial discipline must be introduced. This should be accompanied by double entry accounting, to the extent possible, so that the true financial position is available immediately.
11. Link between development plans and budget allocations both for development and recurring expenditures should be introduced and implemented so that budgetary implications in future years of development projects are explicitly identified.
12. To ensure financial discipline it is necessary to introduce management information systems so that expenditures beyond budgetary allocations are highlighted sufficiently in advance to ensure remedial action.
13. Alternative delivery mechanisms for achieving efficiency and cost effectiveness should be developed. This may include, first, privatisation of some of the more remunerative services, such as hospitals, secondary and tertiary education, second, decentralisation of specific services, such as primary education, basic health, water and sanitation services, to the local councils along with the involvement of NGOs and CBOs.
14. There is a need to define precisely the modalities for involving communities in the project cycle starting with inception (expression of demand) to operating and maintaining infrastructure on a sustainable, self-reliant basis.

15. A legal cover should be provided for the induction of CBOs and NGOs and a precise delimitation of CBOs and the mechanism for determination of demand should be included.

RESOURCE MOBILISATION

Provincial Resource Mobilisation

1. Priority must first be attached to improvements in tax administration within the existing tax system followed by justifiable enhancements in tax rates and imposition of new taxes.
2. Provincial Resource Mobilisation and Tax Reforms Commission should be constituted so that the existing structure of provincial taxes and tax administration is rationalised.
3. Emphasis must be placed on greater resource mobilisation at the provincial level by better exploitation of existing sources, such as stamp duties, motor vehicle taxes and through the imposition of other taxes within provincial fiscal powers such as retail sales tax, capital gains tax, etc.
4. Use of provincial tax collection machinery for collecting federal withholding taxes should be replaced by using the data bases on asset ownership and collection responsibility reverting back to the Federal Government. This exchange of information should be both from the provinces to the federation and vice versa.
5. Specific rates of taxes should be changed to ad valorem rates or indexed, wherever feasible. This will increase the built-in elasticity of the tax system.
6. The existing agencies dealing with the assessment and collection of taxes are not well trained or efficient, which is primarily due to multiplicity of functions. It is proposed that a specialised Provincial Taxation Service be established and entrusted with the exclusive job of tax assessment and collection. Multiplicity of functions by the tax departments may be eliminated. Level of officials dealing with tax assessment may be

improved so that well educated and well trained officials come in contact with the assesseees.

7. User charges in the social sectors like education, health, irrigation, etc., may be made reasonable and correlated to the recurring costs.
8. Political will is the key to implementation of proposals for additional taxation.
9. The existing emphasis of taxation by the Provincial Government is on physical assets. Emphasis for additional taxation should now be on taxing transactions and services and financial assets. Levy of sales tax on selected items at the wholesale and retail levels may be introduced on a priority basis.
10. Assessments of owner occupied properties may be increased as the existing level is very low, resulting in a sizeable loss of revenue, particularly for the local councils. More urban areas and specified industrial belts should be brought within the property tax net.

Local Resource Mobilisation

1. Delineation between Local and Provincial Governments in terms of allocation of functions and fiscal powers should be clear and precisely defined.
2. The Local Government Ordinance should be amended so that Local Governments enjoy greater autonomy from Provincial Governments in matters related to administration, staffing and resource generation.
3. Resources should be mobilised at the local level by exploitation of existing sources, through development of property related taxes, rationalisation of octroi/export rates and imposition of user charges.
4. Allocation of development expenditures by sharing out resources equally between councillors leads to inefficient and wasteful utilisation. Therefore, a more rational approach should be adopted whereby there is provision for undertaking larger projects.

5. Human resources need to be utilised more efficiently and adequate training facilities should be established for local officials.
6. A provincial Finance Commission may be constituted to examine inter-governmental fiscal relations between the provincial and local governments.
7. To introduce equity in the transfer of funds to local councils from provincial governments, an equalisation grant should be given to the less endowed councils in the smaller towns and rural areas.
8. Municipal Development Funds and Matching Grant Schemes may be introduced to increase the access to development funds by local governments.
9. In order to ensure community participation in the process of implementing projects contributions by the community should be accepted in both cash and kind. A system of matching grants should be introduced to provide a further incentive for community participation.
10. Local governments should be encouraged to undertake commercially viable projects and to use market prices for valuation of real estate for both sale and renting out purposes.

RECOMMENDATIONS

Participants at the conference were invited in the last session to give three proposals each (on resource mobilisation and expenditure planning). A list of the proposals is given below:

EXPENDITURE PLANNING

A. Institutional Measures

1. Legislation to bring about financial discipline on the part of provincial government through the following:
 - i) Constraint on borrowing and spending.
 - ii) Two third majority of legislature required to approve supplementary grants and over-runs.
 - ii) Ceiling on borrowing.
2. Appointment of Auditor General by the legislature for a definite tenure with sufficient powers to be effective.
3. Privatisation of health, education and communication services to the extent possible.
4. Establishment of high powered provincial body to review departmental development projects and priorities.
5. Financial assistance of private sector in expansion of social services may be encouraged.
6. Institutional improvement in utilisation of foreign assistance.
7. Economic activities such as Provincial Transport Services, Printing Press etc. should be privatised.
8. Link services and resources as much as possible to increased legitimacy of revenue collection. This means even the management of services (e.g. school boards, hospital boards, canal boards).

9. Responsibility to meet the objectives of project/scheme should devolve upon the sponsoring agencies/departments to increase accountability.
10. SAP should be implemented partly through local governments after strengthening their institutional capability.
11. Recurring expenditure to be scrutinised objectively at expert level before sanction.
12. Savings to be retained by the departments that realise such saving.

B. Management & Accounting Systems

1. Financial discipline to be introduced through the following:
 - i) Zero based budgeting
 - ii) Double-entry computerisation of accounts wherever applicable and feasible.
3. Introduction of Programme Budgeting.
4. Introduction of Performance Budgeting.

C. Financial & Personnel Management

1. Audit of prices of goods and services purchased by government departments. Data bank of prices may be established and a price manual prepared.
2. Extensive programme for training government employees in financial management and accounting.
3. Ceiling of 10 % to be imposed on discretionary expenditures.
4. In foreign aided projects, technical personnel should be appointed on contract basis rather than by creation of new posts which tend to become permanent.

5. Limit on office telephones and official traveling.
6. Moratorium on creation of new departments for next five years.
7. Conduct an assessment of the size of the government and invite every department to prepare a program of service to justify its existence.
8. Bloc allocation in ADP must be avoided.
9. Every commodity service must have price tag.
10. Lay down reasonable yardsticks for allocation of funds for current expenditures.
11. Make institutional arrangements to ensure optimal utilisation of allocations.
12. Pre-audit of expenditure. Inherently an executive function, should be restored to the provincial governments.
13. A committee may be formed to improve foreign aid utilisation.
14. Providing facilities to favored departments like Chief Minister's Secretariat should not be out of proportion.
15. An immediate audit may be carried out of the management system of the government under the heads, incentives, mobility, openness, competitiveness of government services.
16. Adoption of open accounting procedures.

D. Planning Process

- I Decrease the number of development schemes in provincial ADP. Elected representatives should select development schemes from list prepared by departments.
2. Preparations of regional investment strategy and expenditure requirements based on

resource generation criteria.

3. No projects should be included without fulfilling the standards fixed by the planning and development department.
4. Project sanction process must be scrutinised to depoliticise it to the extent possible.
5. Development schemes should be sanctioned on priority basis 1'or those communities who are willing to bear a part (say 5-10%) of the construction cost of the scheme or a higher share of maintenance cost of scheme after its completion.

E. Development Priorities

1. Part of expenditure on salaries in some SAP sectors be met from development funds.
2. More emphasis must be paid to increase human capital investments.
3. Due considerations be given to the maintenance expenditure in order to consolidate the existing development programs.
4. Expenditure on education be given higher priority through the government and NCiOs programs.
5. Social sector schemes be implemented only if their utility is ensured.
6. All schemes be re-designed keeping in view the extreme weather of the country so as to minimise use of air conditioners, heaters etc.
7. Employment generation by the government should be re-focussed vis-a-vis law and order as a primary objective.
8. Control population growth.
9. Maintenance and repairs portion of development projects should be given equal priority while formulation of new projects.

RESOURCE MOBILISATION

A. Improvements of Existing Taxes

1. Specific tax rates must be revised every year or periodically on the basis of a price indexation formula.
2. Stamp duty on financial instruments, particularly on stock market transactions, may be enhanced.
3. Full revenue potential exploitation of property tax.
4. Fees for legal documents e.g. general power of attorney, may be revised upwards.
5. Introduction of ad valorem taxes must be given priority.
6. Substitution of tax on sugar cane for excise duty on sugar to demonstrate that the incidence of the tax is on farmers.
7. Motor vehicle tax rates should be enhanced.
8. Specific taxes, rates and fees be earmarked used for specified purposes.
9. Excise duties may be revised upwards in the case of liquor and opium etc.
10. Assessments of owner occupied properties may be increased as the existing level of these assessments is very low.

B. Institutional Measures

1. Establishment of a Provincial Finance Commission to decide on revenue sharing arrangements between the provincial and Local Government.
2. Introduction of external audit to check leakages in revenue collection.
3. Establishment of Commission for Provincial Resource Mobilisation and Tax Reforms.

4. Preparation of a five year plan of institutional reforms of revenue machinery.
5. Tax departments must achieve budgetary targets; there should be no outstanding arrears.
6. Need for coordination between federal and provincial tax collecting departments.
7. Simplification of the provincial tax system to eliminate discretionary powers of tax collecting officials.
8. Concept of rewards may be introduced in collecting agencies like the provincial excise and taxation department of the provincial government and the octroi department of the local councils.
9. Privatisation of revenue collection should be explored wherever justifiable and feasible.
10. Communities should be allowed to impose their own user charges and keep a part of collection for the maintenance of schemes.
11. A specialised Provincial Taxation Service may be established and entrusted with the exclusive job of tax assessment and collection. Training capabilities must be enhanced simultaneously.

C. Broadening of Provincial Tax Base

1. Imposition of sales tax on transactions and services in order to widen the tax base of the provincial government.
2. Traders (even smaller ones) should be taxed by resort to fixed, presumptive taxes.
3. Retail sales tax be imposed on sugar and tea.
4. Federal government should provide some royalty/rebate to Punjab government in lieu of agricultural exports as is done in the case of export duty on raw cotton.

5. Levy of parking fees in all big cities.
6. Introduce a small registration tax on bicycles.
7. Sales tax on selected items at wholesale and retail sale level may be introduced immediately.

D. Development of User Charges and Other Non-Tax Sources

1. User charges in education health, roads etc. should be increased in line with affordability and willingness to pay.
2. Fees in primary schools may be fixed at the nominal level of Rs 10 per month. Refund may be given in the case of female students after completing education.
3. Hospital bed charges may be fixed at the nominal level of R-s 10 per day.
4. A three phase approach may be adopted to escalation of charges to make abiana self-financing.
5. Tagging of resources generated to development programs.
6. Defining and phasing of financial targets to generate recurring costs and development funds as essential component for future schemes.
7. The provincial/local governments may undertake profitable schemes in real estate etc., on commercial bases.
8. Income generating projects be financed through cash loans as well as by equity participation from the public.

E. Research

- I. Conduct a participatory research program on agricultural income tax in consultation

with farmers as well as professionals.

- 2 Need for research on ways and means for transferring provincial revenue raising functions, as in property tax, to local level.