Institute for Policy Reforms

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IPR highlights role of provinces in national development

At an event held today, a thought provoking presentation discussedprovincial budget priorities and proposals for the new fiscal year. The well-attended event was organized by the newly formed, but very active Institute for Policy Reforms.

Mr. Humayun Akhtar Khan, Chairman of the institute, referred to the two major developments that have increased importance of provincial (and local) governments. The NFC of 2009-10 increased resource transfer to provinces, while the 18th amendment enhanced their autonomy. IPR considers that citizen welfare is contingent as much on policy formation at the provincial level ason plans of the federal government. The new study released by IPR entitled 'Provincial Budgetary Proposal 2014-15' broke new ground and raised awareness about importance of performance by provinces. He said that provincial and local autonomy empowered citizens. It brings the state closer to the people. This autonomy also created concomitant accountability. Provinces may now show greater ownership in enhancing revenues as well as demonstrate improved performance. Thus far, their performance could be measured by rupee values only. It is important that governments focus equally on outcomes and not just cost to measure benefits for the citizen. Improved outcomes are as much a measure of better planning and governance, as of amounts spent. IPR would also like to see provincial governments develop a strategic vision of growth and development. Current policy shows preference for piece meal spending as reflected in high proportion of block grants and development expenditures under 'others'.The "Others" line item had the highest share in three out of four provinces.

Renowned economist, Dr. Hafiz Pasha, Managing Director IPR, presented a compelling account of the dynamics of fiscal and governance decentralization. He also reviewed performance of the provinces and presented recommendations. The IPR report was based on deliberations of an in-house working group.

He highlighted the importance of the IPR review because of not only the two seminal changes that empowered provincial governments, but as this was the first attempt to bridge the knowledge gap on the role, size, priorities, and fiscal performance of provincial governments. The coming provincial budgets 2014-15, were the first being formulated by political parties after the 2013 elections. Despite low share in revenue collection, high resource transfers has increased expenditure by provinces to one-third of total the amounts spent nationally. Provinces have a share of 82% in educational and 92% in health services.

In terms of resources generated by provinces, Sindh seemed to be the least dependent on federal transfers with 21% of own revenues in total receipts. Dependence on own-revenues by other provinces ranged between 6% and 15%. Likewise, Sindh showed the highest (estimated) growth of 125% in development expenditure for 2013-14. Increase for other provinces ranged between 9% for Baluchistan to 88% for Punjab. Consequently, perhaps, Sindh is the only province with projected cash deficit of 2%. The provinces show differing priorities in expending resources. Punjab shows a high level of resource transfer to local governments with other provinces lagging behind. Percentage outlay on education by the Sindh and KPK governments far exceeds those by other provinces.

Development expenditures too show varied priorities among provinces. Investment in education is high in KPK while resources spent on irrigation and power is high in Punjab and Sindh.

IPR wished to see emergence of a strategy for development spending by the provinces. IPR would also like to see clearly enunciated investment criteria for development to minimize influence or of leaders' personal preference for pet projects.

There is a problem of plenty with the provinces as they were unable to meet their ambitious development spending plans. Sindh was the only exception in this regard. It is no surprise that Pakistan lagged behind many of its MDGs targets. IPR recommended effective implementation of on-going development projects. Specifically IPR recommended:

- Early completion of projects on which 75% expenditure have been made
- Avoid the practice of block grants without approved new projects
- Streamline procedures for approvals and releases
- Provinces may allocate a minimum of 15% of development budget to power projects. Likewise, they may also enhance allocations for the water sector.
- Preparation of medium term development framework by all provinces (Punjab had taken lead already)

Commensurate with increased resources, provinces needed to prioritize implementation capacity and institutional strengthening. Low expenditure resulted also from over centralization of decision making with provincial headquarters and arbitrary block allocations (with no supporting projects). Inadequate spending resulted in a large combined cash surplus of 217 billion rupees.

Dr. Pasha also dwelled on the need to enhance resource generation by provinces. Combined tax to GDP ratio of provinces is a paltry 0.7% of GDP. He recommended raising it to 1.7% of GDP in three years. He proposed that provinces focus on those areas that had a large tax base and potential for progressive incidence. In particular, he mentioned:

- Agriculture Income Tax
- Urban Immoveable Property Tax
- Provincial Sales Tax on Services

In his view, revision of assessments based on price index could increase total collection without the need for significant administration inputs and without increase in burden on the taxpayer. He recommended that equity rather than politics be the basis for decision making. The federation and the people of Pakistan had empowered the provinces to play their due role in development and citizen welfare. It was upto the provinces to step up and meet their responsibilities.