INSTITUTE FOR POLICY REFORMS

IPR REPORT

May 2016

Budget Proposals 2016-17

Ashraf M. Hayat

About the Author

Ashraf Hayat is a former civil servant and Executive Director IPR

About IPR

Institute for Policy Reforms is an independent and non-partisan think tank established under Section 42 of the Companies Ordinance. IPR places premium on practical solutions. Its mission is to work for stability and prosperity of Pakistan and for global peace and security. IPR operations are supported by guarantees from the corporate sector.

Contents

Executive Summary

- Government's efforts to manage public finance challenges have shown results. For fiscal 2015-16, tax collection would likely achieve the target of Rs. 3,104 billion. Fiscal deficit also is expected to be within the estimate of 4.3% of GDP. At about 4.5% or slightly over, GDP growth may fall below the target of 5.5%.

- Government has yet to introduce reforms for long-term macro stability or for sustained growth. External account is especially vulnerable. There are few indications of structural reforms to address the issues of political economy, governance improvement, or productivity enhancement.

- After years of low and moderate growth, the people expect increase in economic activity and reduction in power shortages.

- For the coming budget, IPR recommends an incremental approach that retains economic stability. Government may not introduce new taxes, except to reduce tax expenditure (exemptions) from direct and indirect taxes. Current expenditure may stay at the present inflation adjusted level. Growth inducing public investment must increase to enhance productivity. Government may reorient PSDP to increase allocation for productive sectors.

- Recommendations to increase tax revenue centre on broadening of tax base and strengthening compliance as well as on introducing structural changes in FBR's functioning. Non-filing must become a criminal offence

4- Shami Road,
Lahore Cantt, Pakistan
UAN:111-123-586

http://ipr.org.pk
https://www.facebook.com/InstituteforPolicyReforms
https://twitter.com/IPR_Pakistan

with high penalty. Government may highlight delinquent cases. Where necessary, immovable property transactions should require a tax ID. It is important to integrate databases between FBR and many other organizations to identify non-filers individuals and companies. Equally, it is necessary to enforce 'Benami' accounts restriction on Banks. There is need also to simplify procedures, rationalize systems, and remove distortions. FBR may be made autonomous from the executive. Provincial governments can increase revenue quickly from agriculture and urban property taxes.

- For effective current expenditure, government may manage recurrent expenses, which is about eighty percent of the budget. These items receive funding with practically no review. It is critical that expenditure align with government's major objectives. Prepare zero-based budget for the over one hundred autonomous organizations and departments in the government. This will determine their use and further existence. Government may also consider merger and devolution of some federal ministries. It may rationalize debt-servicing expense by increasing share of long-term debt to lock in present low markup rates.

- For effective development spending, Planning Commission may prepare Annual Plans several months before the PSDP. As the road map for PSDP, there should be broad consultation with political leadership and other stakeholders. This will reduce top down project selection and create a better connection between strategy and budget. Prioritize three or four sectors for funding so that projects do not have a throw forward of more than three years (unless there are operational reasons). Reduce the number of projects in the PSDP for prioritized funding within MoF's envelope. New project approvals must have MoF's assurance that funds for maintenance will be available.

Budget Proposals 2016-17

Chapter 1

Federal Budget 2015-16

Government has tried to come to grips with public finance challenges. Federal tax collection grew by over 18% during July- December 2015-16 compared to the same period last year. This is a healthy increase when measured against the target of 12% for increase in nominal GDP. Current expenditure grew by under 4% for the period. In fact, it was less than expenditure for the same period last year, if we do not count interest payment. However, government has yet to introduce reforms to ensure long-term macro stability. External account remains weak. Exports have declined and external debt has increased.

Budget and Economic Targets 2015-16

Budget 2015-16 understandably focused on stability, under the ongoing IMF Extended Fund Facility. Increase in tax revenue is an essential part of fiscal stability. Following are government's budget and economic targets for fiscal 2015-16:

- GDP growth of 5.5%[1], compared to estimated growth rate of 4.2% for fiscal 2014-15.
- Fiscal deficit of 4.3% of GDP compared to 5.3% for fiscal 2014-15:
    - Increase of 20% in FBR revenue to Rs. 3,104 billion[2]. Actual collection for 2014-15 was Rs. 2,588 billion[3]. Direct tax was to yield a major part of the increase based on higher tax on commercial banks, surcharge for resettlement of IDPs, higher tax on dividends, and change of rate tax on securities. Government also enhanced its focus on non-filers by retaining the withholding tax.
    - Contain 2015-16 current expenditure at the same level as the previous fiscal year. Reduced cost for debt servicing and expected cuts in subsidy, particularly from decline in energy price, were the bases for expenditure control.
    - Provincial surplus of Rs. 297 billion[4] was to help limit the overall deficit to 4.3% of GDP.

[1]MoF, Budget speech of the Finance Minister, page 11, para 14, June 2015
[2]MoF Budget in Brief, Table 8, Page 10
[3]MoF Pakistan: Federal Government Fiscal Operations, 2014-15, Table 4
[4]MoF Budget in Brief 2015-16, Page 8, Table 6

- Improved external account indicators:
  - Forex reserves of USD 19 billion by end of fiscal year[5]
  - Limit current account deficit to 1% of GDP[6]
  - Estimated FDI of USD 3.3 Billion[7]
  - Increase in export by 5.5%

- Increase in federal PSDP by 29% to Rs 700 billion

Fiscal Developments in 2015-16

Government has successfully contained fiscal deficit. For the first half of the fiscal year, July-December 2015, budget deficit is well within target at 1.7% of GDP[8]. Budget deficit for the corresponding period, last year, was 2.2% of GDP. Provincial surplus for the six-month period was Rs. 207 billion (0.67% of GDP). The budget provides for Rs. 297 billion or almost 1% of GDP. Government has not yet released fiscal operations data beyond December 2015. However, it appears that the fiscal deficit will stay within target.

Tax collection is on track. FBR collection grew by over 18% for the period July-December 2015 over the corresponding six months in the previous fiscal year. However, non-tax revenue has declined. Government has relied on indirect taxes to enhance revenue collection. In the 'mini budget' of December 2015, government imposed regulatory duty on import, increased tariff on import and federal excise. In September 2015, it increased GST on fuel, especially HSD[9]. Present GST on HSD is an unprecedented 51%[10]. Non-tax revenue for the six months is 39% of annual estimate. To induce non-filers to submitting tax returns, government retained withholding tax regime. This is not without consequences. In the opinion of SBP, "The impact of this particular tax in terms of financial exclusion and growth of informal sector cannot be ruled out[11]." Share of withholding tax in all direct tax is 66%. All told, FBR's tax to GDP ratio, which has remained at about 9% for several years, would likely go beyond 10%.

Non-tax revenue fell by 6% year to year. Decline in energy prices have reduced dividend income, windfall levy, and discount retained against crude oil. SBP profits also declined.

---

[5] MoF, Budget speech of the Finance Minister, page 5, June 2015
[6] Planning Commission, Annual Plan 2015-16, Page 95
[7] ibid
[8] MoF Fiscal Operations, Pakistan: Summary of Consolidated Federal and Provincial Budgetary Operations, 2015-16, Table 1
[9] Rs40bn new taxes in 'mini-budget', Dawn 1 December 2015, http://www.dawn.com/news/1223471
[10] Revenue collection up a little, tax hike up a lot, Express Tribune 1 September 2015 and GST on motor spirit lowered to 21 percent, Business Recorder, 1 January 2016.
[11] SBP, The State of Pakistan's Economy, Second Quarterly Report 2015- 2016, Page 45

Current expenditure has been contained though, with markup payment, it is moderately above last year's corresponding period. Six-month current expenditure is about 46% of total estimated and less than 4% above the same period last year. Debt servicing for first half 2015-16 was higher than the previous year. As a percent of GDP, current expenditure declined during fiscal 2015-16[12]. Often spending increases take place in the final quarter of the fiscal year. It is to be seen if this is also the case this year. A source of concern is the build-up of power sector circular debt, partly as unmet liability and partly kept off budget. Share of development spending grew during the period.

Despite revival in Large Scale Manufacturing, Pakistan may not achieve the GDP growth target of 5.5% for fiscal 2015-16. IPR estimates a growth rate of 4.5% for the current fiscal year, though government seems certain that it will be closer to 5%. Against a target growth of 6%, LSM has increased by 3.7% up to February 2016[13].

Information available about major crops suggests that Pakistan will not achieve the target growth of 3% for agriculture. Cotton production has declined by over 20%. Similarly, area under rice declined by about 4% and overall production is estimated to drop by 2.9% from last year[14]. Sugarcane production may improve from last year, but would likely be below its target of 68 Million Ton. Together, Cotton, rice, and Sugarcane comprise about 52% of agriculture production. Estimates for wheat are mixed. SBP estimates an increase from last year's production of 25 Million Ton to 26 MT, based on (marginal) increase in area under wheat as well as improved fertilizer off take. International estimates suggest a decline of over 3%[15]. Either way, increase in wheat is unlikely to compensate for decline in production of other crops. Among minor crops, oilseeds show a decline.

Exports have declined in an uncertain global growth environment and continued overvalued rupee. Although supply of power and gas for industry has improved, they still limit production and competitiveness. Reliance on external debt, including at high cost, have kept forex reserves at a comfortable level, though this has gradually increased debt servicing and repayment obligations. The ratio of external debt to exports would likely worsen from 215 in 2014-15 to 265 in the current fiscal year. Estimates for this ratio for the next two years are above 270[16]. Pakistan's external financing requirement will increase from USD 6.2 Billion in 2014-15 to 10.7 Billion in 2016-17 and beyond USD 12 billion in later years[17].

[12] Ibid Page 47
[13] Pakistan Bureau of Statistics, Quantum Index Numbers of Large Scale Manufacturing, February 2016, http://www.pbs.gov.pk/sites/default/files//industry_mining_and_energy/qim/2016/web%20detail.pdf
[14] World Agriculture Production, US Department of Agriculture, April 2016, http://apps.fas.usda.gov/psdonline/circulars/production.pdf
[15] Ibid Table 2
[16] IMF Tenth Review Staff Report, Table 10. Pakistan: Selected Vulnerability Indicators, 2010/11–2019/20, Page 32
[17] ibid

Likely Outcome

- With improved tax collection and control on current expenditure, fiscal deficit is expected to remain within target. This is corroborated by SBP's monetary sector data for borrowings.

- Government will likely impose cuts on PSDP allocation, though possibly more because of the slow progress of projects. Total releases until end April 2016 amount to 65% of fiscal year's allocation. Total booked spending for the first six months was a mere 22.5% of the year's allocation.

- The economy is unlikely to meet the GDP growth target of 5.5% because of the performance of industry and agriculture and below target development expenditure.

- External sector vulnerability will continue in the face of decline in exports and resort to commercial borrowing. GOP borrowed USD 1.9 Billion during the period July-March 2015-16 from commercial banks and the bond markets[18].

[18] 'Govt borrows $ 408M from Swiss financial group amid transparency concerns', Shahbaz Rana, The Express Tribune 3 May 2016. http://tribune.com.pk/story/1096076/amid-transparency-concerns-govt-borrows-408m-from-swiss-financial-group/

Table 1: Federal Budget Magnitudes Rs. Billion					
	2014-15 Actuals	**2015-16 Budget**	**2015-16 IMF Projections**	**2015-16 (July- Dec)**	**% of Budget**
Total Revenues	**3,663**	**4,313**	**4,262**	**1,857**	**43**
Tax Revenues	2,812	3,418	3,389	1,517	44
Non-Tax	851	895	873	341	38
Less Transfers to Provinces	**1,539**	**1850**	**1,850***	**868**	**47**
Net Revenue	**2,124**	**2,463**	**2,412**	**989**	**40**
Total Expenditure	**3,762**	**4,087**	**4,034**	**1,668**	**41**
Current Expenditure	3,070	3,165	3,250	1,455	46
PSDP	502	700	620	158	23
Other Development	125	164	164*	48	29
Net Lending	64	58	0	7	---
Revenue Deficit	**-867**	**-867**	**-838****	**466**	**54**
Fiscal Deficit	**-1,638**	**-1,624**	**-1,622****	**679**	**42**
Total Mark Up Payment	1,304	1,280	1,277	632	49
Primary Balance	**-334**	**-344**	**-167****	**-47**	**14**
Memo Item **FBR Revenue**	**2,588**	**3,104**	**3,104**		

Source: MoF Fiscal Operations, IMF Tenth Review under Article IV, Staff Report, MoF's Budget in Brief 2015-16

*Adapted from Budget in Brief, ** Figures do not agree with IMF as those contain overall fiscal deficit for consolidated budget.

Chapter 2

Federal Budget 2016-17

A number of considerations will shape preparation of budget for fiscal 2016-17. Pakistan's EFF arrangement with IMF will end after the first quarter of the new fiscal year. Government also will move into campaign mode in preparation for the 2018 general elections. The China Pakistan Economic Corridor will require additional PSDP funding and monetary expansion.

The people of Pakistan expect reduction, if not an end, to power shortage. There is demand for jobs and economic activity, which have grown insufficiently because of moderate economic growth. Without the constraints of EFF, it is possible for Pakistan to have an expanded monetary and fiscal policy to stimulate growth. This may be desirable, though we advise moderation not to lose the stability gained in recent years.

The Government-IMF agreed Medium-Term Macroeconomic Framework 2010-2020 maintains total expenditure/GDP ratio for 2016-17 marginally below current year level. It expects to increase tax to GDP ratio from 12% in 2015-16 to 14.5% in 2019-20. Estimate for 2016-17 is 12.8%. Resultantly, it forecasts declining fiscal deficit. The estimate for 2016-17 is 3.5% of GDP[19]. GOP's Medium Term Budgetary Framework 2014-18 forecasts tax revenue of 12.5% for 2016-17. It estimates FBR revenue to increase to 10.6% of GDP[20]. In absolute terms, these are optimistic numbers as the framework estimates nominal GDP for 2016-17 to grow by 13.5%.

Two challenges constrain increase in tax revenue. As explained earlier, indirect taxes have grown considerably during 2015-16. The space to increase it further may be limited, especially with significant increase in provincial GST on services. On the other hand, there is minimal flexibility to increase direct tax collection significantly. Successive governments have been unable to take the direct tax to GDP ratio beyond 4%.

On the expenditure side, PSDP must increase because of CPEC and other developmental needs. It appears, therefore, that fiscal deficit could grow in 2016-17 from the current year's level. As stated above, the agreed GoP-IMF Medium Term Economic Framework, targets (overall) deficit at 3.5%.

---

[19] IMF Tenth Review, Staff Report, Page 24 Table 4 Pakistan: Medium-Term Macroeconomic Framework, 2010/11–2019/20https://www.imf.org/external/pubs/ft/scr/2016/cr1694.pdf
[20]MoF, Budget in Brief, Page 46 Table 34 Medium-Term Budgetary Statementhttp://www.finance.gov.pk/budget/Budget_in_Brief_2015_16.pdf

Recommended (realistic) budget strategy:

- Much as IPR wishes to recommend substantial increase in Pakistan's low tax to GDP ratio, we know it is not possible to increase it quickly. There is the political economy of direct taxes as well as of tax evasion and administration. Effectively, revenue enhancement, especially from direct taxes, is a political choice. No government has addressed this in Pakistan. As stated before, regular increase in indirect taxes, especially in recent years, has stretched that space. The burden of indirect tax is high on businesses and citizens. Coupled with other high costs for doing business, further tax increase may dampen economic activity. (However, all indications are for further increase during 2016-17). An incremental approach is perhaps the most doable option, for now. Modest increase in tax-to-GDP ratio of half percent (or slightly more) is possible. This would add Rs. 150 to 200 billion to the total. Our projection assumes a real increase of Rs. 175 billion beyond nominal GDP growth. We recommend that this increase may come from administrative action to broaden tax base. At present, increase in non-tax revenue also is not possible.

- There is need to increase federal and provincial development allocations. An addition of Rs. 300 billion is needed for CPEC projects alone, even if they are completed in five years rather than government professed three years. The people expect economic revival after expiry of the IMF programme. The power sector needs major investment in transmission and distribution infrastructure and a water crisis is brewing.

- Government will have to address the issue of circular debt before the matter snowballs into a major crisis for power generation. According to SBP[21], outstanding circular debt until end-June 2015 was Rs 648 billion. This included Rs 335 billion stock of past debt kept off budget in the Power Holding Company Ltd by the PPP government. It also includes Rs 313 billion of fresh buildup between June 2013 and June 2015. Tariff differential subsidy liability has declined because of a mix of developments. Foremost among these is decline in oil price. Additionally, Tariff Rationalization Surcharge of Rs. 1.54/KWh and Debt Servicing Surcharge of Rs. 0.43/KWh has reduced the liability. According to the SBP: "The new tariff structure will address the circular debt issue by transferring the entire cost of poor governance and inefficiencies in the power sector to end-users[22]." However, this liability remains unpaid. IMF provides Rs. 25 Billion payment during 2015-16 for circular debt.[23]

[21] SBP Annual Report 2014-2015, Page 35
[22] Ibid Page 36
[23] IMF Tenth Review, Staff Report, Page 26, Table 6a. Pakistan: General Government Budget, 2008/09–2015/16, https://www.imf.org/external/pubs/ft/scr/2016/cr1694.pdf

- The Planning Commission has announced a new poverty threshold. It has revised the poverty headcount to 29.5[24]. IPR commends Planning Commission's renewed focus on poverty. Resultantly, we expect government action to reduce poverty in 2016-17. IPR hopes to see federal programmes for HR development for livelihood opportunities. Pakistan also has renewed its commitment to UNDP's SDGs.

- With such major needs, IPR recommends holding current expenditure to this year's inflation adjusted level. This will be key to creating space for infrastructure and social investments.

Keeping the above in mind, IPR proposes the following (projected) key magnitudes for budget 2016-17

Table 2: Projections of Key Magnitudes in Federal Budget 2016-17
Billion Rs.

	2015-16 Budget	2015-16 IMF Projection	2015-16 Likely Outcome	2016-17 Projection	Growth Rate %
Total Federal Revenue	**4,313**	**4,262**	**4,219**	**4,835**	**14.6**
Federal Tax Revenue	3,418	3,389	3,419	3,935	15
FBR Taxes	3,104	3,104	3,104	3,590	16
Other Taxes	314	285	315	345	10
Federal Non-Tax Revenue	895	873	800	900	12.5
Less Transfers to Provinces	1,850	1,832*	1831	2,120	16
Net Revenues	**2,463**	**2,429**	**2,388**	**2,715**	**13.6**
Total Expenditure	**4,087**	**3,870**	**3,836**	**4,300**	**12**
Current Expenditure	3,329	3,250	3,231	3,400	5
PSDP	700	620	580	900	50
Net Lending	58	25	25	0	---
Revenue Deficit	-867 -2.8	-821 -2.7	-843 -2.8	-685 -2.2	19
Fiscal deficit	**-1,624** **-5.2**	**1,440** **-4.6**	**-1,448** **-4.8**	**-1,585** **-5.0**	**-5**
Total Mark Up Payment	1,280	1,277	1,264	1,350	7
Primary Balance	**-344**	**-163**	**-184**	**-235**	
GDP Growth Rate	5.5	4.5	4.5	4.7	
Inflation	3.5	3.3	3.5	5.0	
PSDP/GDP %	2.3	2.0	1.9	2.9	

Source: MoF Fiscal Operations, IMF Tenth Review Staff Report, MoF Budget in Brief
Note: 1. Revenue numbers do not include grant. Deficits do not include provincial surplus
2. Growth rate in % over likely outcome

[24] Planning Commission, Deputy Chairman Planning Commission, Ahsan Iqbal Announced the Poverty Line, http://www.pc.gov.pk/?p=5898

Chapter 3

Perspective for Budget 2016-17

Despite its one-year focus, the annual budget must be more than an exercise that balances receipts with expenses. It is done best in the context of a development strategy. It should also be an open document. Pakistan has had several years of low to moderate economic growth rates. These have inhibited economic activity and affected welfare. The people, especially the growing population of young Pakistanis, must have the hope of improved living standards. Pakistan needs consistently high economic growth to enhance common welfare and boost economic activity.

Rapid economic growth does not simply depend on economic policy. It reflects political choice. Political decisions manifest in quality of governance and the political economy. For it to grow and meet national objectives, the Pakistan economy needs deep structural reforms. So far, there is no overt indication that this is about to happen. Reforms must take place in a number of areas. They are needed to increase business competitiveness through deregulation and better human resource. We need also to boost productivity. To build economic efficiency, there should be distance between business interests and government policymaking. The country must also address the lingering and deep-rooted issues of tax policy and administration and their vertical and horizontal inequities[25]. An additional challenge at present is a slow world economy with few immediate signs for revival. These issues call for the following reforms:

- Structural reforms to:
  - reduce cost of doing business[26]
  - improve access to capital for businesses
  - create smaller space for crony capitalism, which creates allocative inefficiencies[27]
- Increase growth inducing capital investment, public and private, to enhance productivity. Reorient public investment to productive sectors.
- Address the political economy of tax revenue and public spending

---

[25] These include low contribution of direct tax to total taxes, continued hikes in indirect taxes, and enhancing direct tax burden on those already meeting their obligations. Same level of income are treated differently.

[26]World Economic Forum, 'NourielRoubini explains why global growth is so weak - and what we can expect next', 3 May 2016, https://www.weforum.org/agenda/2016/05/nouriel-roubini-explains-why-global-growth-is-so-weak-and-what-we-can-expect-next/?utm_content=buffer53057&utm_medium=social&utm_source=twitter.com&utm_campaign=buffer

[27]The Economist, Crony Capitalism: Dealing with murky moguls, 7 May 2018, http://www.economist.com/news/leaders/21698261-how-disentangle-business-government-dealing-murky-moguls

- Address the dual issues of corruption and income inequality to empower citizens. Corruption is a 'menace to development (and) security'[28]. Inclusive development increases productivity and growth while dysfunctional governments lower productivity. At Pakistan's stage of development, factor accumulation and investment are key for economic growth. However, research finds that poor governance and weak political systems depress total factor productivity at each stage of development. For low-income countries, 'ineffective governments fail to build schools, hospitals' or provide logistics[29].

- Reduce public debt and create incentives for increasing savings[30]. Notice the large difference between overall fiscal deficit and primary balances in Tables 1 and 2.

However, such deep-set reforms do not take place quickly. They require large societal resources and change in norms and values. It is not possible for developing countries 'Becoming Denmark'[31] overnight. This document, therefore, remains faithful to the tested principle of incremental improvements. It will propose measures to increase tax revenue equitably, control current expenditure, and enhance efficiency of public investment keeping in mind the objectives of above listed reforms.

[28]Project Syndicate, Why Corruption Matters, William J. Burns, former US Deputy Secretary of State and President of the Carnegie Endowment for International Peace and Michael Mullen former Chairman of the US Joint Chiefs of Staff, 6 May 2016

[29]National Bureau of Economic Research, Cambridge MA, The Global Productivity Slump: Common and Country-Specific Factors, Barry Eichengreen, Donghyun Park, Kwanho Shin, Working Paper 21556, September 2015, Page 14

[30]World Economic Forum, 'Nouriel Roubini explains why global growth is so weak - and what we can expect next', 3 May 2016, https://www.weforum.org/agenda/2016/05/nouriel-roubini-explains-why-global-growth-is-so-weak-and-what-we-can-expect-next/?utm_content=buffer53057&utm_medium=social&utm_source=twitter.com&utm_campaign=buffer

[31] The name not the contents taken from 'Becoming Denmark: Historical Designs of Corruption Control' Alina Mungiu-Pippidi, Social Research: An International Quarterly, Volume 80, Number 4, Winter 2013, Johns Hopkins

Chapter 4

Tax Revenues

FBR Performance

FBR collects two-thirds of all revenues and over 85% of all tax revenue in the country. FBR's performance, therefore, is key to effective management of public finance. Despite moderate economic growth and reduced ad valorem tax because of decline in energy prices, FBR will likely meet its target collection for 2015-16. It will also cross the collection threshold of 10% of GDP. FBR has moved towards correcting some of the flaws with tax policy and enforcement. In 2014, government published the taxpayers' directory. Since last year, FBR has issued notices to some 300,000 non-filers. More recently, GoP has shown determination to address the issue of tax expenditure (or tax exemptions). Pakistan Economic Survey 2014-15 estimates such revenue foregone to be Rs. 412 Billion or 16% of that year's total FBR collection. A 2014 World Bank report estimates it to be Rs. 511 Billion for fiscal 2011-12[32]. FBR also has enhanced tax collection incentives for officials.

For the period July-December 2015-16, FBR tax revenue grew by over 18% compared to the same period previous year. While government increased indirect tax rates on a number of items, direct taxes retained its share during the year. In fact, increase in direct tax collection has sustained overall revenue growth (Table 3).

Table 3
FBR Revenue Trend

Billion Rs

	2013-14	July December 2014-15	2014-15	July-December 2015-16	H1 Growth Rate %	2015-16 IMF Projection	% Of IMF
Direct Tax	884.1	458.9	1,029.2	540.7	17.8	1,288	42
GST	1,002.1	513.8	1,088.8	591.0	8.6	1,257	47
Customs Duty	240.9	135.2	306.1	179.3	-25.5	376	48
Federal Excise	139.1	63.9	163.9	73.7	15.3	183	40
Total	2,266.2	1,171.8	2,588.0	1,384.7	18.2	3,104	45

Source: MoF Fiscal operations data and IMF Tenth Review, Staff Report

[32] World Bank Policy Paper Series on Pakistan, January 2014, Study on Tax Expenditures in Pakistan, Ather Maqsood Ahmed and Robina Ather, Table 10 Page 27

This is the immediate picture. Much still needs to be done to raise the low level of tax to GDP ratio as well as direct tax collection. Despite recent improvement from a collection ratio of 9.5% of GDP in 2010-11 to possibly 12% (FBR plus other federal levies) by the end of current fiscal, Pakistan is one of the lowest ranked countries in terms of tax collection. Weak revenue administration has caused fiscal fragility and large gaps in provision of public goods and public services. Inadequate infrastructure and human resource are a major constraint on economic growth. The country's social deficit is particularly alarming.

Tax Policy and Administration

For years, if not decades, Pakistan's tax policy issues have been under discussion. Despite recent uptick, these issues are deeply ingrained and characterize the country's tax collection. They include the following:

- A very narrow direct tax base: In 2015, a mere 980,000[33] Pakistanis filed tax returns. This is out of seven million whom government estimates to be bound to do so[34]. (IMF estimates this number to be 5.7 Million[35]).A widely held perception exists that delinquency mostly begins from the top[36].

- Not all directly taxable income is treated equally. There are many exemptions, as noted above. In addition, income from agriculture is taxed as land levy and collected by provincial governments. Total collection is estimated to be Rs. 1 billion, a negligible amount[37]. Agriculture contributes Rs. 6.3 trillion to the GDP. A mere 1% of that amount totals Rs. 63 billion.

- Often, GoP increases revenue by increasing direct tax rates on those already complying. "Simply aiming to increase revenue by further taxing already compliant taxpayers would worsen inequalities, undermine tax morale and cause distortions in economic activity."[38]Because of this, a small sector contributes disproportionately to total revenue. "Industry contributes 76% of the revenues."[39](In 2009, World Bank estimated it as 66% of total revenue[40]). Industry bears a high burden as lax enforcement means that just 21% of registered companies pay direct tax[41]. On the

[33] FBR, Active Tax Payers List Excel Sheet, https://e.fbr.gov.pk/ATLSearchUtility.aspx
[34] Pakistan's taxation crisis, Sakib Sherani, Dawn 7 August 2015
[35] IMF, Country Report, Pakistan, Selected Issues Paper, Unlocking Pakistan's Revenue Potential January 2016, Page 5
[36]Pakistan's taxation crisis, Sakib Sherani, Dawn 7 August 2015
[37] Institute for Policy Reforms, Strengthening Stabilization and Economic Growth, Humayun Akhtar Khan, February 2016
[38] IMF Country Report, Pakistan, Selected Issues Paper, Unlocking Pakistan's Revenue Potential, January 2016, Pg.6
[39] Institute for Policy Reforms, Budgetary Proposals 2014-15, Dr. Hafiz Pasha, Page 9, May 2014
[40] World bank, Toward a More Business Friendly Tax Regime, Key Challenges in South Asia, Anna Reva, December 2015, Page 22
[41]Pakistan's taxation crisis, Sakib Sherani, Dawn 7 August 2015

other hand, those in the tax net are taxed more. "The number of corporate income tax (CIT) filers is 25,551 out of more than 60,000 companies registered for the CIT. Furthermore, the number of active CIT filers is a mere 0.8 percent of the number of commercial and industrial electricity users."[42]

- Corporate tax rate is high. South Asia in general and Pakistan specially impose very high rate of corporate tax. The problem of high corporate tax rate is interconnected with other issues. A narrow tax base forces countries to adopt high rates, which in turn is a disincentive to compliance. High tax rates also impact negatively on economic activity and likely depresses total tax revenue. Yet it is not clear if the reverse elasticity of decrease in rates and increase in total revenue will work. Pakistan's corporate income tax rate of 34% is second only to Bangladesh (35%). The average for South Asia is 32% while the global average is below 24%[43].

- Direct tax contributes 39% to total tax revenue and is about 4% of GDP. Direct tax as a ratio of total tax was 34.5% in 1998-90. It rose to 41.3% in 2007-08 and was 39.5% in 2014-15. About 70% of direct tax collected is in the shape of withholding tax. This is a form of indirect tax. In effect, with such a large proportion of indirect and withholding taxes, FBR itself collects about 13% of total taxes. WT is a regressive tax and is best for undocumented sectors. In addition, different WT rates make compliance difficult. Whether its wide use and high rates encourage growth of the informal economy must be reviewed.

- Productivity of income tax and GST is low in Pakistan. "Revenue productivity measures the amount of revenue in percent of GDP collected for each percentage point of the tax rate."[44] This rate compares actual revenue collection against potential revenue. Income tax productivity is 0.10 for Pakistan. The average for low-income countries is 0.19[45].

- Tax expenditure and exemptions: Finance Ministry's estimate of Rs. 412 Billion for revenue foregone is 16% of total tax collected by FBR in 2014-15 and 1.5% of GDP[46]. Exemptions in GST have the highest share of Rs. 225 Billion. Of this, Rs. 145 Billion are exemptions under the Sixth Schedule for import and domestic supply. According to the 2014 World Bank Policy Research Paper, a large number of sectors have concessions from GST on imports. Among domestic supply Sixth Schedule exemptions, the beneficiaries are food and food products. Retailers, textile

[42] IMF, Country Report, Pakistan, Selected Issues Paper, Unlocking Pakistan's Revenue Potential January 2016,Pg. 5
[43] World Bank, Policy Research Working Paper 7513, Toward a More Business Friendly Tax Regime, Anna Reva, Dec 2015, Pages 5-6
[44]World bank, Toward a More Business Friendly Tax Regime, Key Challenges in South Asia, Anna Reva, December 2015, Page 22
[45] IMF Country Report, Pakistan, Selected Issues Paper, Unlocking Pakistan's Revenue Potential, January 2016
[46]MoF Pakistan Economic Survey 2014-15, Errata to Annexe II of Chapter 15, http://www.finance.gov.pk/survey/chapters_15/Annex_II_Tax_Expenditure_errata.pdf

manufacturers, and the steel sector too are beneficiaries[47]. IPPs are the main beneficiary of direct tax exemptions of Rs. 51.5 Billion in 2014-15. Energy exploration and production and the auto and auto parts sectors enjoy import tariff concessions.

Clearly, tax expenditures come at a high cost. It is not clear if these incentives have brought the intended results for the economy. They, however, create distortions and, often, lack transparency. Government has announced its intention to address the matter. Reportedly, it will withdraw Rs. 329 Billion tax exemptions in three years with Rs. 91 Billion in the current year[48]. We await government information to assess progress.

Table 4
Trends in Cost of Tax Expenditures

Billion Rs.

	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16
Income Tax	46.5	69.6	82.4	96.6	83.0	45.0
GST	25.3	24.3	37.4	249.0	225.4	182.9
Custom Duty	94.9	112.0	119.7	131.5	103.0	60.3
Total	166.7	205.9	239.5	477.1	411.4	288.2
% of GDP	0.9	1.0	1.1	1.9	1.5	1.0

Source: IMF, Country Report, Pakistan, Selected Issues Paper, Unlocking Pakistan's Revenue Potential Pg. 9 based on calculations by MoF and IMF staff

[47]World bank, Toward a More Business Friendly Tax Regime, Key Challenges in South Asia, Anna Reva, December 2015, Pages 22-23
[48] The News, Government plans to withdraw Rs329 billion tax exemptions, concessions, 16 October 2015, http://www.thenews.com.pk/print/68068-government-plans-to-withdraw-rs329-billion-tax-exemptions-concessions

Table 5 Estimated Tax Expenditure 2014-15		Billion Rs
A. Tax Expenditure of Direct Taxes		
	Income from Funds, Board of Education, Universities and Computer Training Institutions.	10.5
	IPPs	51.5
	Others	21.6
	Total Tax Direct Taxes Expenditure	**83.6**
B. Tax Expenditure of Sales Tax		
	Local supply under 6th Schedule	85.0
	Imports under 6th Schedule	57.0
	SRO 1125(I)/2011	55.0
	Others	28.4
	Tax Sales Tax Expenditure	**225.4**
C. Estimated Cost of Customs Duty Exemption		
	Exemption from Customs Duty for OEMs of Automotive Sector	18.4
	Exemption from Customs Duty for vendors of Automotive Sector	16.3
	Exemption of Customs Duty and Sales Tax to Exploration and Production (E&P) companies on import of machinery equipment & vehicles etc.	13.2
	Others	55.1
	Total Customs Expenditure	**103.0**
Total Tax Expenditure		**412.0**
Source: Pakistan Economic Survey 2014-15, Chapter 15, Annex II (Errata)		

Recommendation:

Government has already begun some of the reforms needed to realize Pakistan's full tax collection potential. As a ratio of GDP, FBR revenue has increased from 8.8% in 2008-09 to 9.5% in 2014-15. It will likely cross 10% this fiscal. Much more needs to be done to meet GoP's 2020 target of tax to GDP ratio of 15%.

Improvement in tax performance by provincial governments is critical. At present, the four provinces contribute 0.7% of GDP. They could increase collection by1% of GDP.

Tax reforms must have the objectives of:

- Increasing total revenue
- Increasing efficiency and equity of the tax system

This will be achieved through:

- Broadening the tax base
- Strengthening compliance
- Structural reforms: simplifying procedures, rationalizing tax systems, and removing distortionary practices[49]

Proposed Action:

- Broadening of Tax Base and Strengthening Compliance:
    - Increase penalty for tax evasion, especially for not filing returns, and highlight some major examples of delinquency.
    - Continue incentivizing tax officials to bring non-filers into tax net.
    - Rigorous follow up on notices to non-filers. So far, response to these notices has been limited.
    - Require NTN in all immovable property transactions and major financial transactions.
    - Those parties to whom notices have been sent by FBR and property owners above the minimum threshold for filing returns must not be allowed to buy or sell property, if they are unable to present income tax returns. (This will require coordination with provincial governments)[50].

[49] IMF, Country Report, Pakistan, Selected Issues Paper, Unlocking Pakistan's Revenue Potential Jan. 2016, Pg. 11
[50] IPR, Strengthening Stabilization and Economic Growth, Humayun Akhtar Khan, February 2016, Page 4

- Integrate databases between FBR, SECP, property title registrar, bank accounts, car registration, and stock transactions to identify non-filers. (This is a medium term reform).
- Only a small number of companies registered with SECP file tax returns. FBR may focus on non-filing companies to enforce filing returns. They may impose penalties for default.
- Analyze extent and major sectors where under invoicing of imports take place. Introduce minimum import price in the most affected sectors.
- Enforce 'Benami' accounts restriction on Banks

- Structural reforms: simplify procedures, rationalize systems, remove distortions, and measures to enhance revenue:

  - FBR may be made autonomous from the executive (on the lines of SBP and Auditor General's Office)
  - Make non-filing a criminal offence.
  - Begin a risk-based auditing system based on non-compliance risk[51].
  - Begin research on tax policy to assess economic effect of tax policy changes and to support policymaking. Research would also guide if fiscal incentives (that result in revenue foregone) meet desired objectives. PIDE could be a useful resource.
  - Tax capital gains on securities held below a certain period and implement a unified tax rate for capital gains on all financial assets. Include real estate transactions (owned for less than a defined period).
  - Gradually withdraw import tariff exemptions as well as, simultaneously, reduce import tariff rates to remove distortions and stimulate economic activity. Go back to the simplified four-tiered import tariff structure cascading down from finished goods to raw materials.
  - Gradually withdraw GST exemptions for specific industries.
  - Simplify corporate tax system and consider rate reduction to encourage participation and competitiveness
  - Gradually withdraw exemptions from income tax. Specifically, income tax exemptions for IPPs must be withdrawn. Most of them have recovered their investment. They are also sufficiently profitable.

[51] IMF, Country Report, Pakistan, Selected Issues Paper, Unlocking Pakistan's Revenue Potential Jan. 2016, Pg. 11

The federal government must impress on provincial governments to mobilize revenue. Two areas can give returns quickly[52]:

- Agriculture: the present tax collection on agriculture is a travesty. It generates Rs. 1 Billion nationally. It is a land-based tax enforced on a per acre basis. The rate per acre was assessed last in 1997. At a minimum, it is necessary to index and reassess this rate to current agriculture prices. In addition, increase in penalty for non-compliance may correct large-scale evasion. Penalty currently is a farcical Rs. 1,000. It must increase to twice the unpaid tax amount.

- Urban Immoveable Property: Review and extend rating areas to include hinterland that are now within metropolitan regions. Update assessment of property values.

[52]IPR, Strengthening Stabilization and Economic Growth, Humayun Akhtar Khan, February 2016, Page 4

Chapter 5

Federal Expenditure

Rigidities constrain GoP's expenditure management. The government's space to exercise discretion is limited greatly by pre-empted expenditure on debt servicing, subsidies, security, and wages. Government has discretion over just 18% of total expenditure[53]. In effect, budget making is not an exercise in support of development strategy. It is one to make ends meet.

Weak revenue generation creates the need for debt. At no time in the last twenty years, has revenue met total current expenditure. Government has been in primary deficit throughout. Government debt, domestic and external, meets part of the current and all of development expenditure. Since 2014 - 15, GOP has done well to control fiscal deficit. However, this is not so much from revenue increase as much as by placing limits on expenditure. Government has unmet needs in social sector and in infrastructure development. Government has also postponed liquidating power sector circular debt liabilities.

All this weakens government's ability to meet its obligations for providing public service and infrastructure to the people. The economic and social cost of this deficit is high. "At the same time, the trust in government of the less affluent segments have waned sharply challenging the writ of the government in many areas"[54].

Institutional and process weaknesses affect allocation of resources and their efficient use. Budget preparation is not part of government's strategic planning (if one exists). An arbitrary distinction between current and development spending is in place. In addition, bulk of the budget in the shape of recurrent spending receives approval without question[55].

A common belief that Pakistan's public expenditure is excessive guides discussion on public finance. By all measure, Pakistan's public spending is well below equivalent countries and very low compared to well governed states[56]. The difference with comparable economies has progressively grown since 1990[57].

---

[53] Research and Advocacy for the Advancement of Allied Reforms (RAFTAAR), Pakistan's Public Expenditure, Insights and Reflections, Page 6

[54] Research and Advocacy for the Advancement of Allied Reforms (RAFTAAR), Pakistan's Public Expenditure, Insights and Reflections, pages 11-12

[55] Ibid and personal experience of writer

[56] IPR Strategy not Tactics, Table 6, Page 66 for discussion on the subject, Pakistan does worse than many low-income economies. Also, see Op.Cit. 53, Figure 6, Page 27

[57] Op.Cit. 53, Figure 6, Page 27

In addition, the budget relies on ambitious estimates for revenue and expenses. These help balance books at the start of the year, but in most years result in higher than estimated deficit. Resultantly, the budget is a weak guide for ministries to spend funds. The federal Finance Ministry, therefore, keeps a tight rein on disbursements throughout the year. This leaves each ministry and organization uncertain about its spending plan.

Table 6
Federal Government Current Expenditure

			Billion Rs %
	2013-14	**2014-15**	**2015-16 IMF**
Current Expenditure	2,950	3,169	3,250
Interest	1,148	1,304	1,277
Defence	623	698	781
Subsidies	336	336	170
Others	843	903	1,023

Source: MOF Fiscal Operations, IMF Tenth Review Staff Report

Current Expenditure

Debt Servicing

In 2014-15, debt servicing alone was 41% of federal current expenditure (36% of total). Clearly, a key government priority should be to rationalize public debt. Markup payment was Rs. 638 Billion in 2008-09. Its estimate for 2015-16 is Rs. 1,277 Billion. Debt servicing was 4.8% of GDP in fiscal 2104-15 and an estimated 4.3% this year.

GOP's debt has grown rapidly (Table 7). In 2008-09, government debt including IMF obligations was Rs. 7.8 Trillion. It grew to Rs. 14.5 trillion in 2012-13 and is expected to be Rs. 19.4 trillion by the end of the current fiscal year[58]. Domestic debt is over 67% of total debt.

Since 2008-09, Pakistan's debt profile has changed in two significant ways. Share of external debt has declined in six years from 50% of total to 31%. Within domestic debt, share of short-term borrowing has declined from 50% in 2008-09 to 40% in 2014-15. Government's Debt Policy Statement of 2014 favours a strategy of lengthening maturity period and balancing between domestic and foreign debt. Some of the external debt obtained in recent years is at high cost. Rebalancing between external and domestic borrowing entails exchange and repayment risks.

[58] IMF Tenth Review, Staff Report, Table 6a, Page 26

Table 7 Public Debt			Billion Rs
	2008-09	2012-13	2014-15
Domestic debt	3,860.4 50%	9,521.9 66.6	11,105.6 68.4
External debt	3,871.0 50%	4,771.0 33.4	5,129.6 31.6
Total Public Debt* **% GDP**	**7,731.4** **58.6**	**14,292.9** **63.6**	**16,235.2** **55.8**
Of the domestic debt	3,860.4	9,521.9	11,105.6
Floating Debt	**1,904.0** **(50%)**	**5,196.2** **(55%)**	**4,494.4** **(40%)**
MRTBs	1,107.3	2,274.7	2,635.0
Permanent Debt	**685.9** **(18%)**	**2,179.2** **(23%)**	**4,253.3** **(38%)**
PIBs	441.0	1,321.8	3,457.6
National Savings Scheme	**1,270.5** **(32%)**	**2,146.5** **(22%)**	**2,358.0** **(21%)**

Source: MoF Debt Policy Statement 2014-15, Table 1, Page 8 and Table 4, Page 15

*The public debt amounts are shown in accordance with the revised public debt definition i.e. the portion of total debt which has a direct charge on government revenues as well as the debt obtained from the IMF is defined as public debt.

Defence

Pakistan's high security needs obviate any possibility of reducing defence expenditure. In fact, with high internal risks, security needs more funding. Actual expenditure on security is about 40% higher than the Rs.781 Billion budgeted, if we include military pensions, quasi-military forces, and the police. The pace of increase in security expenditure would continue.

Subsidies

From a low of 0.7% of GDP in FY 2,000, transfers for subsidy and grant grew to 1.5% of GDP in FY 2007, and then rapidly to over 4% in FY 2012. It was 2.8% of GDP in 2013-14. The growth correlates with changes in energy price. Much of the total subsidy amount is absorption by government of oil and resultantly electric power price increase. Subsidy expenditure fell after government entered into an EFF with IMF and as oil prices declined. What happens when oil prices increase again is anybody's guess? Performance of many PSEs too worsened. From 2008, GOP support to PSEs and grants to provinces has ranged between 1% and 1.5% of GDP. The latter is mostly because of hydro royalty to KPK.

A number of observations on subsidies and grants are valid:

- The IPP policy was never sustainable. It unraveled with the first price shock. There is a lesson in it for new power plants currently on the table. Easy reforms worked (in this case fiscal incentives to producers), but the more complex reforms did not get implemented. Unbundling WAPDA did not work. There was no wholesale market for power purchase by the transmission company as was planned by the reforms.

- Despite imminent elections, GOP should have passed energy price increase in 2007 to consumers and allowed the market to work.
- Successive governments have been unable to deal with governance (especially revenue leakage) and policy issues in the power sector.

- A mere 12% of the subsidy benefits the lowest income quintile and about a quarter goes to the bottom 40%. The rest benefits the well to do. Payments to settle circular debt also subsidize bad governance in the power sector. (See IPR Report: Putting Power Back on Track: A Sustainable Resolution to the Power Crisis)

- Government has been unable to improve PSE performance or to restructure them. Grants to PSEs will likely continue at present level. Grants to provinces, such as hydropower royalty, will continue also.

Subsidy and grant are at moderate levels for now. This is because of exogenous factors not from policy or organizational changes. Tariff differential subsidy liability will continue, as there is no possibility of further fall in energy prices.

Recommendations:

The size of the government is already small for it to meet its responsibilities. All indicators confirm this fact. Number of government official per capita is one of the lowest in the world. Public expenditure as a percentage of GDP too is one of the lowest. However, the government needs to ensure effective use of public resources.

Manage recurrent expenses: Each year, recurring expense receives funding with practically no review. Recurring expense is about eighty percent of the budget. Two things need attention:

- Review whether expenditure aligns with government's major objectives

- Prepare zero-based budget: There is no clarity about the usefulness of all of the over one hundred autonomous organizations and departments in the government. Zero-based budgeting will determine their use and further existence. It will also determine the activities to continue[59].

- Merger and devolution of some ministries: Following devolution, it is possible to close some federal ministries or to merge them. Some of the ministries, such as health, education, and food security still need national level policy and regulation. Approvals for new drugs or phyto sanitary rules must be at the national level. We recommend the merger of such ministries.

- Rationalize debt-servicing expense: Government may try to lock in the present low markup rates for long-term debt. We recommend increasing share of PIBs in total domestic debt. Banks prefer short term paper in expectation of future increase in markup rates. In order to attract sufficient funds, government may sell PIBs at slightly higher than current rates. Government already has a policy to extend the maturity period of domestic debt[60].

Development Expenditure

The daily experience of each citizen and firm in Pakistan testifies to inadequate development spending. Infrastructure, especially power supply, is deficient. Human resource and social deficit indicators are poor. Pakistan's performance is worse than of many similar countries[61]. In quality of infrastructure services and HDI, Pakistan lags behind comparable countries. GOP's federal PSDP 2015-16 of Rs. 700 Billion is 2.3% of

[59] IPR, Strengthening Stabilization and Economic Growth, Humayun Akhtar Khan, February 2016, Page 4
[60] Ibid
[61] Op.Cit 53 Figures 9, 10, and 12

GDP and 16% of the budget. Actuals for the year will show an even more skewed picture. Actual PSDP funds spent in 2014-15 was 1.8% of GDP and 13% of total budget.

A number of shortcomings mar effective use of PSDP, even within its small allocation. These are true for successive governments:

- Weak link between strategy and resource allocation: Planning Commission prepares medium term and annual development plans. However, these do not entirely guide approval of projects and allocation of resources to them. The relationship between plans and decisions to allocate resources is tenuous at best.

- Politically motivated prestige projects: Project selection and resource allocation decisions are often top down. Political leadership selects individual projects without appraisal or analysis. These then go through the approval process. With top-level sanction in place, they receive approval without rigorous appraisal. A number of road projects and power sector projects fall in this category. Small in number, they preempt a substantial part of the resource.

- Disconnect between stated priorities and resource allocation: there has been no increase in transmission and distribution investment. Allocation for water was reduced. Often, actual fund disbursement skews such priorities even more.

- Bias for new projects over maintaining existing projects: The model for providing infrastructure service is biased in favour of building new projects while existing infrastructure deteriorates. "This results in a poor mix of public expenditure that results in insufficient funds being provided to maintain existing assets."[62]

- Inadequate Funds: Because of funds constraints, government is unable to meet the economy's need for public goods. A large and growing population lives with inadequate services. Economic activity and business competitiveness suffer. The size of the PSDP is too small for the country's needs. In addition, government is unable to make best use of the limited funds. A thousand projects in the government's investment portfolio compete for the available budget. They have a throw forward of Rs. 3 Trillion. At present funding level, it will take an average of eight years to complete the projects.

- Involved procedures: a lack of resources and long-winded procedures delay disbursements and affect delivery. This results in cost and time overruns that are several multiples of original estimates.

[62] Op. Cit 53 Page 7

Recommendations:

The recommendations below apply to the present structure for planning and delivering federal projects. There is debate about the role of government in development. That is material for a separate paper.

- Each year, the Planning Commission prepares an Annual Plan, which serves as a developmental road map within a macro-economic framework and a medium-term development strategy (e.g. five-year plans). The Annual Plan and the development budget (PSDP) are prepared simultaneously for NEC approval. However, Planning Commission prepares both independently of each other though the PSDP must flow from the Annual Plan. We recommend that Planning Commission prepare the Annual Plan several months before the PSDP. Wide consultation must take place on the Annual Plan for it to serve as a meaningful road map. It must go through parliamentary committees, chambers and trade associations, users' representatives, and the Cabinet. This will reduce top down decision-making and create a better connection between strategy and budget.

- Based on strategy agreed in the Annual Plan, prioritize three or four sectors for funding so that projects do not have a throw forward of more than three years (unless there are operational reasons).

    - Consult ministries and provinces to reduce the number of projects in the PSDP for prioritized funding within MoF's envelope. Until a quantum increase in funding takes place, the PSDP may not have more than 250 projects. Clear criteria, approved by PM, must guide cleaning up of PSDP.
    - A lot of rigour and care must go into new project approvals. Each new project contains repair and maintenance estimates. Approval must be contingent on MoF's assurance that funds for maintenance will be available.
    - Strengthen project monitoring, especially of priority projects, through top-level reviews.