Policy framework for the budget

THE annual budget is not only a statement of revenues, expenditures, fiscal deficit and government borrowings but also a powerful tool for efficient resource allocation and utilisation, equitable distribution of incomes and a signal to the private sector about the economy's direction. The budget's crucial element includes the speeches delivered by the federal and provincial finance ministers which set the underlying policy framework.

The objective of budget 2016-17 should be to put Pakistan back on the trajectory of rapid economic growth with the attendant benefits of poverty reduction, delivery of basic public services and overcoming deficiencies in the physical infrastructure.

The domestic enablers for the 2016-17 budget look more favourable than any for the previous three years. The security situation particularly in Pakistan's troubled parts is much better. Operations against extremist groups are proceeding. Power load-shedding particularly in the industrial and export sectors has decreased. RLNG import has eased the shortages of natural gas for production units. Oil and petroleum product prices have declined sharply, reducing pressure on the current account. The external sector is less vulnerable. Inflationary expectations remain subdued. Interest rates are at their lowest level in a decade.

The outlook may be brighter than before but daunting challenges for the next budget remain.

The remaining challenges for 2016-17 are still daunting. Exports have been stagnating and the cotton crop failure this year has worsened the situation. Large-scale manufacturing has remained sub-par and agriculture has suffered enormous income losses because of weakening global commodity prices. Private investment has been lacklustre and the provinces have been unable to utilise development spending effectively or improve access to basic services such as education, health, drinking water, sanitation, etc. The tax base remains narrow despite efforts to penalise non-filers and then incentivise them through the tax amnesty scheme. Over-taxation of existing payers is creating disincentives for expansion and investment.

What should the policy framework consist of? First, efforts to broaden the tax net should be relentlessly pursued and non-filers heavily penalised. The heavy incidence of taxes, duties and cess on telecom, oil, gas and the financial sector should be brought down. Simplification of the tax code, gradual reduction in tax rates, better tax administration by minimising the discretionary powers of officials, risk-based third-party audit and the greater use of automation can play a vital role in mobilising resources.

At the provincial level, collection efforts from urban immovable property tax, agriculture income tax, water charges and motor vehicle tax should be accelerated. Coordination between the Federal Board of Revenue and the provinces, and among the provincial revenue authorities themselves, can avoid ambiguities and double taxation on businesses.

Second, provincial financial commissions should be formed immediately to divide financial resources between the province and local governments. It must be realised that voters are more in favour of a party that can deliver basic services such as farm-to-market roads, health, education, etc. They are least impressed by the strength of macroeconomic indicators and foreign exchange reserves.

This disconnect between public expectations and the frustration felt by economic managers that their performance in averting the crisis is not being fully appreciated must be addressed. The myopic view of provincial governments to concentrate all powers and resources in their hands rather than devolve them to local governments is causing harm. The development, education and health authorities, the water and sewerage boards, and waste management companies should be transferred to the local governments with accountability for results remaining in their domain.

Third, improvements in transparency and citizens' redressal mechanisms have to be further strengthened. The widespread penetration of mobile phones in the country, a large computerised national identification system and the use of biometric data provide accessible platforms for tax payment and fees, receipts of targeted subsidies, salaries, pensions etc. The automation of forms and certificates by various government agencies would reduce personal interaction and minimise chances of corruption. The feedback of citizens for service delivery has been successfully tested and tried in Punjab and can be extended to the other provinces and tribal regions.

Fourth, there is an urgent and pressing need to improve the regulatory, compliance and enforcement environment so that private businesses, particularly small and medium enterprises, can function in a predictable and hassle-free atmosphere. Most of the employment expansion can take place if SMEs are provided non-stifling proactive support. They account for 30pc of GDP and employ 78pc of the non-agricultural labour force.

Formal credit to this sector and lack of skills have been the hampering influences on technology upgradation, product development and process re-engineering. Petty government officials also make the lives of businesses miserable if they come under the organised sector. Restraints have to be placed on food, labour, drug, environmental and other regulatory bodies as their erratic behavior acts as a deterrent for private businesses in the formal sector.

Fifth, public-sector enterprises operating at the federal and provincial levels contribute about 10pc to GDP. A third of stock market capitalisation is represented by these enterprises and corporations. Those performing well, and contributing dividends should be made more efficient while those incurring losses should either be divested or if they are to be retained the rules of engagement have to be completely reworked giving them operational autonomy while holding them accountable for results. Prolonged debate and indecision is causing enormous fiscal losses.

The example of K-Electric should convince the sceptics as to why the DISCOs should not be retained under public ownership. Employees' unions should be taken into confidence and provided assurances of job security and performance-related remuneration. These utilities should be regulated to protect consumer interests but managed by competent professionals.

Finally, the announcement made last year to set up the Export Import Bank should be translated into action. Short-term and long-term financing facilities and incentives particularly for new sub sectors, new markets and new exporters should be provided by the bank. The cost of doing business has to be reduced to make our exports competitive, and regional trade opportunities should be fully utilised.