<u>FINANCING FOR DEVELOPMENT</u>

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BACKGROUND

The Addis Ababa Action Agenda (AAAA) provides a comprehensive financing framework aimed at realigning financial flows and policies with economic, social and environmental priorities. These priorities have been subsequently refined and reaffirmed by the Summit for the Sustainable Development Goals (SDGs) and the Paris Conference on Climate change (CoP21) . The new Social compact enshrined in the Action Agenda would provide social protection, essential public services and infrastructure for all. There is also a shift in the approach from official aid to domestic resource mobilization to private sector for financing development. This shift has become necessary because of the continued fall in Official Development Assistance(ODA) , high debt burden and wide gap between needs and resources available.

An analysis of the Financing for Development in the context of Pakistan would remain meaningless unless it is linked to a broader discussion of changes that have taken place recently in the international economic environment, and the current thrust of domestic policy stance, governance structure and institutional capacity.

The international economic environment today is more unfavourable compared to the buoyant and upbeat days of late 1990s and early 2000s when the MDGs were first announced. The global recession of 2008, the slowdown of economic activity throughout the world, the refugee and immigration crises, Brexit and stresses on the European Union, the popular perception that jobs in advanced countries are lost because of trade, the rise of nationalist sentiments in Europe and the US, the shifting economic balance in favour of China and Asia are pushing political leaders of these countries (US and European countries) to move away from greater integration with the rest of the world, thereby adopting an insular outlook.

Given this environment, resource availability to invest and finance these highly ambitious, costly and complex goals of Sustaniable Development SDGs is going to be a major constraint. In 2015, official development assistance as well as private capital flows to developing countries declined.

The political pressures are to help the poor and less privileged communities in their own countries rather than finance the kleptocratic regimes and tax evading elites of developing countries. The bill for implementing the SDGs over the next 15 years would spill into trillions of dollars and the political mood in the US, Europe and Japan does not augur well for raising such large sums of money to assist other countries. Trump Administration has already directed the Department of State and Office of Budget Management to come up with the proposals for cutting down foreign aid including the US contributions to multilateral institutions such as the UN, its agencies . Media reports about the reluctance to respond to appeals by the UN Secretary General for humanitarian aid needed in countries in Sub Saharan Africa raise alarms. Those who are watching the polls in France, Netherlands and Germany discern a swing away from helping the developing countries through traditional foreign aid instruments. The prospects that the commitments of $100 billion pledged at the Paris Climate Change Conference in December 2015 would be easily fulfilled do not look very promising at the moment.

International Trade has served as an engine of growth for many developing and emerging economies since the end of the World War II. The share of these economies collectively reached about 46 percent of the world market of goods. World trade grew at twice the rate of world output. But this trend has slowed down after the Global financial crisis and trade is now lagging behind output growth. The ascendancy of political leaders in the Advanced economies elected on the agenda of anti globalization, protectionism , creating barriers for imports from poor countries would cause a further set back to international trade with adverse consequences for inclusive growth, employment and social protection.

A stable and growing source of financing for the poor countries in the last decade has been Workers Remittances sent by the nationals of these countries working in the US, Europe and the Middle East. For quite different reasons, there is a lot of uncertainty associated with this particular source of financing. Mexico and the Central American Republics were the main beneficiaries of employment in the US. The clamp down on illegal immigrants, the prospect of a wall being constructed between Mexico and the US on its border and strict control on the entry of refugees have all dampened the prospects of continuation of remittances out of the US. In the European countries, even leaders such as Angela Merkel are very cautious in welcoming the economic refugees to their countries. In the Oil rich Middle Income countries the decline in their revenues are forcing them to abandon many of their projects thus reducing the demand for overseas workers. South Asian countries are already experiencing a decline in the amounts that are being sent back home by their nationals. In Pakistan, remittances are equivalent to almost 80 percent of export earnings.

for last decade or so but it appears now that these would remain concentrated in well off and stable countries such as China and India where the returns are quite attractive ,the market size is enormous and the purchasing power is rising. The only exception to this trend is the Chinese investment which is driven by several other considerations such as One Belt One Road Initiative. In Africa , South and Central Asia the investment by the Chinese Government and companies may help in building infrastructure but the time horizon would be quite long.

The above developments do affirm the approach adopted in AAAA that Financing for Development should shift from international aid, capital flows and investment to domestic resource mobilization – both in public and private sectors. It therefore becomes necessary to examine the landscape of Pakistan and its capacity and constraints to mobilize these resources.

PAKISTAN’S LANDSCAPE

Pakistan’s landscape for financing for development has not been robust as it has been relying on foreign savings to supplement its meager national savings for investment purposes. Political instability , associated economic uncertainty and unpredictability and poor governance have pushed the country on many occasions to face financial and economic crises and subsequent bail outs by the International Monetary Fund (IMF). In their parlance, Pakistan has become a prolonged user of Fund resources. Large volume of multilateral loans and bilateral grants and loans also came to the rescue. The burden of external indebtedness became so unbearable that it had to approach Paris Club in 2001 for restructuring and reprofiling of its bilateral external debt. There was a perceptible decline in the debt burden between 2002 to 2008 but the situation has once again worsened since then. For past several years the country has consistently exceeded the limits provided under the Fiscal Responsibility and Debt Limitation Act. In the last few years recourse was made to international bond and equity markets for raising resources to

meet the external account obligations in addition to heavy draw down from the IMF.
One of the redeeming features of Pakistan's foreign exchange reserves build up after meeting its debt servicing obligations has been the workers remittances sent by more than 9 million nationals employed mainly in the Gulf states. There has been a gradual build up from less than 1 billion dollars through official channels in 2001 to almost 20 billion by 2016. This source of financing in the wake of declining exports has helped the country in averting external payment difficulties.

A more disconcerting feature has been the setback in Pakistan's market share in world exports. While there has been an overall buoyancy in the global markets, Pakistan has lost its share from 0.15 percent to 0.12 percent while its competitors –India and Bangladesh—have more than doubled their shares. Over the last decade, Pakistan's exports have grown by 4pc compared to 12pc in Bangladesh and 10pc in India and are on a declining path for last two years. Exports used to finance 80 per cent of imports in the early 2000s, but this ratio has declined to less than 50pc in recent years. Global commodity prices are partially responsible, but it is the loss of competitiveness because of a penal tax regime, energy shortages, difficulties in doing business, bureaucratic hassles, high import tariffs and lack of coordination among various government tiers and departments that have hurt the exports..

Public Sector:

Fiscal policy pursued in Pakistan has not helped in meeting any of the objectives of inclusive growth, equity, social protection or environmental sustainability .It has been driven largely by short term crisis management considerations as the economic managers were faced with persistently high fiscal deficits and resources had to be found to finance these deficits. Except in the years 2002-08 when fiscal deficits were brought down and Debt-GDP ratio was cut down by almost one half, large deficits have resulted in build up of domestic and external public debt. Consequently, debt servicing preempts almost 34 percent of tax revenues displacing the allocations that should have gone for financing development expenditures. The election year dynamics of 2007/08 did not allow an adequate response to the external shock and the four to five fold increase in the prices of oil and other commodities was not passed on to the end users. The exchequer was forced to pick up the subsidies for meeting the differential in prices leading to a fiscal crisis. The incoming government had to approach the IMF for seeking financial resources to tide over the crisis. Similar situation emerged in 2012/13 and the present government had to enter into a three year program of stabilization with the Fund once again. To meet the IMF programme's quarterly targets, tax revenue collection by any means became the primary preoccupation. This single-point agenda distorted the investment and business climate as those in the formal sector and tax net were squeezed so that collection targets could be met. Refunds were withheld, advance taxes recovered, surcharges imposed and rates raised. Expansion of currency in circulation and rising employment in the unorganised sector testify to the flight to 'informality'. Most of the taxes collected are indirect taxes including taxes withheld under the Income tax law. Indirect taxes through presumptive and withholding taxes are not only regressive and inequitable, they are also inefficient. Amnesty schemes to appease traders and retailers have created a perverse incentive to resist inclusion in the tax base. Tax to GDP ratio has hovered around 10 percent and it is estimated that almost 5 percent of GDP can be realized if strong measures are taken to simplify tax code , and achieve better tax administration, improved tax audits, effective tax compliance and elimination of protracted appellate and legal processes. This boost in the revenues would obviate the need for heavy borrowings domestically and externally while meeting the funding requirements for infrastructure and human capital investment.

On the expenditure side, the 18th amendment to the Constitution and the 7th National Finance Commission award have exacerbated the difficulties in maintaining fiscal discipline. While the Federal Government is saddled with inflexible expenditure items such as Debt Servicing, Defence, Pensions, salaries it is assigned only 40 percent of taxable revenues to take care of this huge expenditure. The provincial governments have control over 60 percent of the taxes and therefore have no incentive to mobilize taxes from their own resources such as on Agriculture incomes , Immovable property etc. Their capacity to spend is impaired because they have refused to allocate sufficient resources and powers to the District Governments where most of the interaction takes place between the state and the citizen in regard to the delivery of basic public goods and services. The result is a dissatisfied citizenry that has no access or control over their fate and the provincial governments engaged in waste and inefficient use of resources. Punjab and more recently KP appear to be exception to this generalization as both these provinces have taken measures to reach out to the people.

Most of these measures are adhoc , personality driven directives from top down and not firmly rooted in institutional settings as Punjab has been most reluctant in devolving powers to the local governments .

One of the reasons for persistent fiscal deficits and thus increased indebtedness and inadequacy in the quantum of resources for development expenditure is the recurring losses and accumulated liabilities of state owned enterprises. The planned retreat from the sale of non-strategic public enterprises has fortified the hands of those who think they can stall the process through agitation. Privatisation has been on the agenda of every major political party. The irony is that when one party comes to power and attempts to pursue this, the opposition parties offer enormous resistance. When the opposition party takes over the reigns of government, the roles are reversed. Meanwhile, the damage to the economy gets worsened with the passage of time. Outstanding debts and liabilities already amount to more than 2 percent of GDP and would continue to accumulate further if left unattended. The example of privatization of loss making banks has clearly shown that increased dividends, and taxes have added to the non tax revenue stream of the Government Pakistan Steel is a glaring example of dillydallying in the decision-making process — with the plant shut down, losses are being incurred and foreign exchange is spent on importing steel products.

Pakistan spends less than 1 percent on Social Protection at present mainly through the Benazir Income Support Program (BISP). The program provides mainly unconditional cash transfer to more than 5 million families supplemented by some conditional transfers for girls education. The relaxation of public finance constraint would also help in increased allocation for Social protection and Social safety nets for the vulnerable segments of the population.

<u>Private Sector</u>:

Private sector generates almost 90 percent of national income and has been main contributor to production, distribution, exchange and trade of goods and services. Private Investment has fuelled the economy whenever the government has played a facilitating and supportive role. Privatization of state owned enterprises (SOEs) started in the 1990s has transferred many of the assets to strategic investors in the private sector. But compared to other countries in the region private investment ratio in the last decade has remained sluggish and much below the level of the first decade of 2000s. Declining growth , depressed aggregate demand, energy shortages and fragile security situation dampened investor confidence. However, the large commitment of over 50 billion dollars in energy projects and infrastructure under the China-Pakistan Economic Corridor (CPEC) along with stability of macroeconomic indicators and improved security situation has given a big boost in the last two years . Growth rates for the next few years look promising unless they are marred by some unforeseen shocks to the economy. investment in Cement, Steel, construction and automobile industries has started picking up . Several multinationals have acquired domestic assets or announced plans to set up Greenfield projects , for example, in auto industry . Foreign and Domestic private investment rates are therefore likely to pick up as the demand from a significantly large middle class with adequate purchasing power is expanding. Rates of return on consumer goods production are relatively high.

Another vehicle for stepping up private investment is through Public-private partnership in infrastructure and social sectors, which offers a very attractive mechanism for pooling resources and burden sharing. Build, Operate and transfer and several other variants of this type of agreements have been brought into play in financing infrastructure projects but the scale of operations remains limited. Risk allocation and sharing arrangements have not been fully developed and the assignment of roles of public and private partners are not clearly delineated. Dispute resolution mechanisms are arduous and time consuming. However, energy projects have attracted infusion of private money as the government assures a guaranteed rate of return on equity and enters into a purchase agreement as the sole buyer. Upfront tariffs are determined according to the fuel source by an independent regulator.

One other positive trend that has been discerned in the recent years is the role of philanthropy and charity in the areas of education, health care particularly for the poor and lower income groups. A number of non governmental organizations (NGOs) formed for channeling philanthropy and corporate social responsibility funds are not only supplementing the government and private resources but also filling in the gaps in service provision where they exist. Rough estimates show that at least 1-1.5 percent of GDP is contributed by the philanthropists for various social and religious causes. This is in addition to Zakaat collected by the Government or doled out by individuals.

According to the 2015 Access to Finance Survey carried out by the State Bank of Pakistan(SBP) only 16 percent of the adult population had banking accounts while 7 percent had access to other formal financial services. Another quarter of population was served by informal providers of leaving almost half of the population financially excluded. .The National Financial Inclusion Strategy is aimed to bring at least 50 percent of the adult population under the ambit of the formal financial sector. This kind of outreach has become possible due to high rate of mobile phone subscriptions which cover almost 70 percent of the population. Mobile wallets are becoming quite popular and are gaining traction quite rapidly. The number of Branchless Banking accounts has risen to 14.5 million— almost three times that in 2014 with annual value of transactions reaching Rs 1 trillion annually. Similarly Microfinance loan borrowers have reached a number of 4.3 million and the target is to reach 10 million by 2020. These initiatives to expand access to financial services to those who have so far been excluded would have a far reaching impact on poverty reduction, decent jobs and employment and inclusive growth goals.

THE WAY FORWARD

In case of Pakistan, the immediate domestic scene becomes extremely crucial as it would be preparing for the general elections in early 2018 . The previous two election years 2007/08 and 2012/13 culminated in Pakistan grappling with serious economic crisis pushing it to the doorsteps of the IMF for bail out. Therefore the year 2017/18 can prove to be a make or break year for the economy with repercussions for the future years. The economy has stabilized and macroeconomic indicators, helped by falling international oil and commodity prices, are looking much better. The free fall of rupee has been arrested, foreign exchange reserves have been built up to cover four month imports. International financial markets are now looking at Pakistani paper favorably and credit agencies and international lenders have taken a more positive view of country risk. Agreement with the IMF has been successfully completed. Security situation in Karachi has considerably improved giving some relief to businesses and citizens. China-Pakistan Economic Corridor (CEPEC) has started to show some encouraging results in form of the construction of Western route. Power load shedding, and gas shortages, are on a receding path and LNG imports have somewhat eased the pressure for the industrial houses .

Having achieved macroeconomic stability there are two paths available— consolidate and build upon these gains to undertake policy reforms that would help in speeding up economic growth to reach 6 to 7 percent a year. The other path is that of frittering away these gains and pursuing populist measures, appeasing powerful interest groups, backtracking on reforms and yielding to pressures. To accomplish the goals of inclusive growth, social protection, equity and sustainable environment , the pre dominant constraints facing the economy have to be tackled forcefully. Consequently, in order to mobilize domestic resources either through public finances or private investment , focus has to be placed on revitalizing the real sectors of the economy which are not doing well but are critical for the general well being of the population and sustained growth of the economy. Unless the real sectors are revitalized , growth would remain elusive, unemployment rise , living standards decline, and thus the capacity to generate resources for financing development and social protection would remain highly constrained.

The starting point for the way forward therefore should be the kind of strategic interventions that would boost the performance of the real sectors of the economy and lay the foundations for inclusive growth in the future. Agriculture , that provides livelihood to 45 percent of the population and has the highest proportion of the poor dependent on it , is in doldrums both due to fall in international commodity prices and domestic policy and institutional constraints. Cotton Production has fallen from average of 14 million bales to 11 million bales and the demand has to be met by importing Cotton from India and other surplus producing countries. Plant Breeders bill , that has been pending for such a long time, has finally been approved by the Parliament .This should pave the way for introduction of GM Cotton that has doubled production in India .Cotton is a cash crop and does a lot to add to the disposable incomes of the farmers giving a flip to the non agricultural activities in the rural areas. Livestock and Dairy products are also a source of cash income to small farmers but public policy, investment and incentive structures have to be realigned to spread the benefits among a larger segment of rural population. The challenges of malnutrition and hunger can be tackled by raising the productivity of small holders through equitable access to irrigation water, marketing of produce and provision of credit for purchasing inputs. Growing Water scarcity and the climate change effects should be factored in volumetric pricing of water which would also make a substantial addition to the provincial revenues.

Large Scale Manufacturing LSM , with a few exceptions, is inching forward but too slowly and with a lot of hiccups. Traditional sectors such as Textiles, Leather goods, Food and Beverage, Cement have dominated the LSM sector for a very long time. Diversification away from low technology ,resource intensive sectors into medium and high technology products for which there is a heavy demand in the world markets or domestically has not yet made any headway. Innovation and entrepreneurship which are the driving forces for new industries are still at early stages and integration into global supply chains has by passed Pakistani industry so far. Data on Small and Medium Manufacturing is not available but it moves in tandem with the LSM. Financing needs of SME sector remain a major problem as far as its capacity for expansion , assimilation of technology , product innovation and quality control are concerned. Sub contracting arrangements with the LSM industries can help in this regard. This sector is an essential ingredient for the strategy aimed at promoting inclusive growth, labor force absorption and removing inequity.

Some of the problems faced by the industry have to do with the enabling environment. Pakistan ranks poorly on Ease of Doing Business index. Government has begun examination of its processes and should take further measures that would remove many of unnecessary procedures and also control arbitrary intrusion by the government functionaries at lower level. This requires a pro active, coordinated ,problem solving and consultative approach in which producers and potential investors in each sector are brought together with all the government officials of the federal, Provincial and local governments and decisions are taken on basis of a consensus. The present fragmented set up whereby investors have to run from pillar to post to obtain various clearances and NOCs, secure land, get connections for power, water, gas etc. has to reviewed and streamlined. The successful examples of Andhra Pradesh, Tamil Nadu and Gujrat in the neighboring India, can serve as the model for emulation and adaptation.

Energy shortages have been responsible for many of the malaises suffered by the economy since 2008. Industrial production and Exports could not keep up with their trend growth rates; public finances were under stress because of subsidies and losses of the Distribution companies (DISCOs) ; Oil and Gas companies and refineries who supplied fuel for generation were faced with cash flow problems and non clearance of inter-company liabilities led to accumulation of Circular debt amounting at times to as much as 2 percent of GDP. Although investments in new energy generation projects under CPEC would alleviate the demand-supply gap but unless the inefficiencies of the DISCOs are set right the fiscal losses would continue unabated. Privatization or restructuring of these companies therefore becomes a policy imperative.

The other key area which can make a difference in achieving the above described goals and also improve the plight of the common citizens is to do with the governance at the local government level. The existing laws pertaining to local governments particularly in Sindh and Punjab need to be revised to devolve authority and administrative powers to the District Governments along the lines of the rescinded 2001 Local Government Ordinance. . An ordinary citizen gets access to basic services such as education, health, water, sanitation, local roads, transport etc at the local level. There was a great ray of hope that the devolution process from the Federal to the Provincial level in the post 18th amendment and 7th NFC award will be pushed down all the way to the local governments. But there has been a reversal and the provincial departments have assumed administrative, legal and financial powers that belonged to Local Governments in the last decade. This retrogressive step in Punjab and Sind would bring bad name to the ruling parties as the citizens face difficulties in getting these basic public goods and services.

Pakistan’s poor record in literacy, net enrolment ratios, quality of learning, high drop out rates, poor skills of the labor force , gender disparity malnutrition, disease, lack of safe drinking water and sanitation can be ascribed to the weak governance and poor management of the social sectors . The centralized control from the provincial headquarters has made the provision and access to these services highly untenable. It is impossible to supervise, monitor and solve problems for such a vast and expansive set of activities unless the local governments are given the authority, autonomy and resources to manage them. The Provincial Governments can set the policies, standards, and parameters for evaluation and carry out periodic inspection and monitoring in regard to the given targets and indicators. Community involvement is much easier to achieve at the grass roots level and citizen feed back can be effective only under a decentralized and devolved system.

There are many initiatives such as Tackling Energy shortages, Privatization, China Pakistan Economic Corridor that occupy on going attention of the policy makers but the empowerment of local governments does not appear on their radar screen at present. Empirical evidence shows that the access of common citizens to their local elected representatives is much easier than the members of the provincial and national assemblies. These representatives act as the intermediary between the citizens and the government departments providing basic public goods and services. As the local communities know their priorities better than some bureaucrats sitting in far flung provincial capitals the allocation and utilization of resources for development projects would be relatively more efficient. This efficiency in resource use would free up resources for financing other goals such as social protection.

Once the constraints facing the real sectors of the economy are relaxed there would be an up turn in the real economy as the existing excess capacity would put to use. This up turn would generate increased resources –higher level of public , corporate and household savings--that would become available for development financing and a virtuous cycle would kick in . Higher amounts of domestic savings from rising national income achieved through better resource use in the first instance would result in higher levels of investment . Higher investment , inter alia, with sound policies and better governance would lead to larger output, incomes and employment thus raising tax and non tax revenues for the Government. These additional tax revenues along with the widening of the tax net rather than penalizing those who are already in the tax net would reduce the need for recourse to bank borrowing by the Government. Financial sector would thus be able to cater to the requirements of domestic private sector without exposing them to foreign currency risk. Investment by the Government in infrastructure such as energy, roads and highways, railways and ports and human resource development including skills training , financed by higher tax and non tax revenues rather than domestic or external borrowing would reduce the cost of production in industry and services sectors. This cost competitiveness along with a favorable enabling environment for business would attract FDI flows and also increase exports of goods and services . Exports should be able to finance most of the imports and thus reduce the current account deficits and along with non debt creating flows such as FDI obviate the need for external borrowing on account of balance of payments pressure. .Everyone in Pakistan seems to be concerned about indebtedness and rising allocation for Debt Servicing in the budget. The apprehensions about the rising debt , so widely discussed and disseminated in the popular media and public fora , act as a deterrent and dampener on business confidence . The debt burden would gradually taper off as the additional external borrowing levels recede and these apprehensions would be allayed.

Decentralization and Devolution of Education, Health, Water supply, sanitation and solid waste disposal along with a system of accountability for results would also improve efficiency in resource allocation and utilization , effect savings in expenditures and ensure better outcomes in meeting the SDGs. External donor assistance flowing into these sectors would become redundant and can be diverted to meet tough challenges such as Environmental Sustainability, Renewable energy , pursuit of Climate Change agenda for which there is not much appetite at present among the policy makers.

The above sketched scenario can only materialize if the steps outlined to remove the constraints facing the real economy are implemented by taking tough and timely decisions which are not back tacked under the pressure of vested interest groups. Each one of the measures is doable provided there is a visionary leadership with strong political will and a commitment to get things done.

Financing for Development in the current situation of Pakistan is critically dependent upon prudent management of external accounts. As remittances and oil imports are negatively correlated, the former would no longer be dependable if oil prices remain low. Oil-producing countries would cut down investment projects and retrench foreign workers. Repatriation of profits and dividends, external debt servicing on existing loans and disappearance of Coalition Support Funds inflows would amplify the deficit. Therefore, reliance has to be placed on boosting Exports of Goods and services and inflows of Foreign Direct Investment. If Pakistan is able to regain its lost market share in the world market or attain the Export/GDP ratio of 10 percent only (it has done better than that in the past) it would be able to cut down its external borrowing requirements by at least one half and manage its external accounts without any stress . Increasing exports by expanding the product mix and penetrating into new markets and integrating into global value chains should therefore take precedence over all other policy measures. Import substitution can also become feasible in some sectors if the trade and tariff regime are relaxed , liberalized and rationalized Along with it, exports of services such as ICT offer a very promising outlook as Pakistan has the requisite talent that can be supplied at a price much lower than that of India. Pakistani professionals are relatively more reliable as they not in such high demand yet. The current account deficit , after the reduced trade deficit on account of goods and services, should be filled by non-debt-creating flows such as FDI, failing which the reserves have to be drawn down.

In regard to domestic resource mobilization, it must be realized that the linkage between higher growth and tax revenues is not automatic. For deriving the benefits from growth the taxation structure, policy and administrative machinery must be re-hauled.. Pakistan's tax capacity is 22.3pc of GDP while it is collecting 11pc. Sales tax rates and Corporate tax rates can be brought down to provide incentives to private sector for expansion and new investment if the tax net is widened and eligible tax payers brought within it. The existing database of 3.2 million potential taxpayers should be used to bring them into the net. This can be possible if the tax code is simplified, tax administration made hassle and corruption free , audit strengthened and improved, tax facilitation made tax payer centric and alternative dispute resolution put in place.

Provincial Governments are mainly preoccupied with GST on Services levying high rates and are totally neglecting Agriculture Incomes, Irrigation water user charges, and immovable property. In Punjab and Sindh all these sources have a significant potential to generate at least another 1 percent of GDP. Local Governments, if empowered, can also contribute towards revenue mobilization as empirical evidence shows that the beneficiaries of public expenditures who are able to see the tangible and visible results in their areas and communities are more willing to pay fees, user charges and taxes. There is greater reluctance if their payments end up in a black box at some far off place and they are not able to have a clear picture about the utilization of the payments they have made in form of taxes and fees. The dividends, profits and interest payments by state owned enterprises , which are foregone in many cases, can also become an additional source of revenue for the Government

In the realm of private sector financing , the untapped potential of private equity funds, insurance companies, pension, provident and endowment funds should be mobilized for long gestation infrastructure projects. These institutional investors are looking for reasonably higher returns to meet their contractual obligations and have long term time horizon. Infrastructure projects start yielding returns after an interval of 3 to 4 years of construction but those returns can be realized over next 25 to 30 years . This matching of assets and liabilities is not available in banking transactions and therefore recourse to capital markets and private equity should be able to raise funds for large dams and reservoirs, pipelines, terminals, highways, ports, airports, The financing structure of projects should be designed in a way that the risks are allocated according to the capacity to bear risks at different intervals of time.

Pakistan is once again on an upward moving trajectory for economic growth and this should not be allowed to be interrupted. External and Domestic shocks , if any, would have to be managed in a way that this upward movement is not disrupted. The impending elections in 2017 and 2018 do pose such a risk. There would be many attempts and pressures on the ruling political parties for appeasing powerful lobbies and groups who would assure their support at the time of elections in exchange for favors to them. Whether the present incumbents come back to power or their opponents are installed, the repercussions of populist policies in 2017 would be highly pernicious and detrimental for the economy. Thoughtful and prudent handling of economic management in 2017 and early 2018 would make the task of the incoming governments much easier and avoid the recurring pattern of approaching the IMF in the post election period..