**[PROVINCIAL FINANCES](http://www.dawn.com/news/1114076/provincial-finances)**

By [Ishrat Husain](http://www.dawn.com/authors/274/dawnishrathusain)

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MOST analysts still focus on the federal budget not realising that there has been a significant shift in the allocation of fiscal resources towards the provinces. This is what should have happened in the first place. After all, most interactions take place between citizens and the government and almost all basic services are delivered by the provincial governments. The question that needs to be examined is whether or not this shift has proved beneficial for the citizens and if the annual provincial budgets ought to be examined in this light.

These budgets have raised a number of issues that need to be highlighted. First, the combined fiscal deficit of the provincial governments is shown as Rs56 billion. This disconnect between the federal budget’s projections of a combined surplus of Rs289bn and the actual provincial budgets is a matter of serious concern. The consolidated fiscal deficit will rise by Rs345bn and end up at 6.1pc of GDP rather than 4.9pc as reflected in the federal budget.

#### The provinces are not doing enough to tap their own resources for generating revenues.

Second, the tax effort by the provincial governments has slackened since the seventh NFC award and the provinces will generate their own tax revenues to the tune of Rs300bn or about 1pc of GDP, while Rs1,750bn will accrue as federal transfers. This, too, is derived mainly from the general sales tax on services which used to be collected previously by the Federal Board of Revenue. If GST is excluded, the provincial collection falls to Rs135bn or less than 0.5pc of GDP. Adding Rs136bn of non-tax revenue, its contribution to the total revenue will remain one-fourth while three-fourths will be supplied by the federal government. While KP is an exception, neither Punjab nor Sindh have made any effort to raise agriculture income tax or introduce progressive urban property tax.

Third, there is an asymmetry between the accrual of revenue receipts and the responsibility for incurring expenditure. The combined expenditure incurred by the provinces will be Rs2,350bn or 36pc of the consolidated expenditure while their share in the divisible tax pool has reached almost 60pc. The federal government, on the other hand, has the responsibility to incur 64pc of the total expenditure while receiving only 40pc of tax revenues. This kind of imbalance could have been acceptable if the provinces were making strenuous efforts to tap their own resources for mobilising revenues.

As has been demonstrated, the incentives have become perverse. The provinces are so flush with liquidity beyond their absorptive capacity that they do not feel any pressure to tax their constituents. Politically, they enjoy a comfortable position. The federal government will get all the blame for the harsh measures to widen the tax net (although it hasn’t done that so far) while the provinces remain smug. The higher the federal tax collection the more the provinces can increase their spending and appease their supporters with no pain and all gain.

Had the administrative and financial powers been devolved to elected and autonomous local governments the situation could have been justifiable. Most public services needed by a common citizen such as education, healthcare, drinking water, are all delivered at the village, town or city level. If the citizens had a say in running their own affairs and were able to access these services equitably and efficiently there would hardly be any serious objections. (Sixty-five to 70pc of provincial government employees work at the district level). Devolution from Islamabad is highly desirable and most welcome but it should not stop at Lahore, Karachi, Peshawar and Quetta; it should go all the way down to the districts.

Fourth, the record of the provincial governments in public spending is hardly impressive. Development expenditures have multiplied manifold but the impact of this large spending is hardly visible for obvious reasons. Punjab has 1,578 development schemes included in their Annual Development Programme (ADP) of Rs290bn — about half of them have been ongoing for the last several years. The size of Sindh’s ADP is Rs168bn but it is spread over 1,658 ongoing and 1,279 new schemes. (The record of the federal Public Sector Development Programme is no better).

At this rate of fund allocation and speed of execution it will take at least a decade with huge cost overruns to complete these schemes. It was generally thought that the newly elected KP government would make a substantive difference in the quality of governance. The ADP amount of Rs140bn is dispersed among 711 ongoing and 540 new development schemes.

The compulsion to oblige the members of the assemblies by making token sums available leads to a fragmented approach and highly inefficient outcomes. The maintenance and repair of existing physical assets is neglected while new assets are not created on time.

Fifth, a curious phenomenon observed in the budgetary documents is the proliferation of fees, charges, cess etc under each department with very little collection to show. For example, in Punjab under the health department non-tax receipts there are as many as 51 different subheads but the estimated collection from all these is a paltry sum of Rs587 million.

The administrative cost of collecting these fees and charges far exceeds the insignificant amounts raised. More important is the hassle and the paperwork — challans, signatures to be collected, rendering of deposits of taxes and fees that an ordinary person has to undergo. The expansion of the workforce and the increase in salaries and allowances leave very little for delivering basic services and is a direct result of the micromanagement that is torturous for the ordinary citizen.

To sum up, the provinces now get the bulk of taxpayers’ money but are not generating the required surpluses and making very little effort to mobilise their own resources. They are misallocating their development expenditures and neglecting essential delivery of basic services; they are expanding their workforce and wage bill and have not devolved powers to the districts.

The writer is a former governor of the State Bank of Pakistan.

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