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ActionAid is an international anti-poverty agency whose aim is to fight poverty worldwide. Formed in 1972, for over 30 years we have been growing and expanding to where we are today - helping over 13 million of the world's poorest and most disadvantaged people in 42 countries worldwide.

CPDI

The Centre for Peace and Development Initiatives, Pakistan (CPDI-Pakistan) is an independent, non-partisan and a not-for-profit civil society organization working on issues of peace and development in Pakistan. CPDI-Pakistan seeks to inform and influence public policies and civil society initiatives through research-based advocacy and capacity building in order to promote citizenship, build peace and achieve inclusive and sustainable development.



Rural Development Policy Institute (RDPI)

A civil initiative aimed to stimulate public dialogue on policies; inform public action; and activate social regrouping to celebrate capacities and address vulnerabilities of resource-poor rural communities. RDPI undertakes research, planning, training, advocacy and demonstration of pilot projects to streamline appropriate and people-centered rural development in Pakistan.



Civil Society Statement on **Federal Budget** **2009-10** (Major Issues and Concerns)

Prepared By:

ACTIONAID Pakistan

Centre for Peace and Development Initiatives (CPDI)
Islamabad

Rural Development Policy Institute (RDPI)
Islamabad

Introduction

Preparation, approval, implementation and audit of annual budgets have traditionally been exclusive domains of the government in Pakistan. Even the role of Parliament has been extremely limited in view of long stints of military rule and, even when democratic process was restored, the inability of parliamentarians and political parties to assert their right in determining priorities and overseeing the budget implementation process. The result is that the budget making process is treated as highly confidential; the stakeholders are not consulted in any meaningful manner; and even the Parliament is made to approve the budget within a few days without having the opportunity to thoroughly examine the annual budget. Budget is not discussed or debated in the parliamentary committees before its presentation in the full house in June where it is approved through a rushed process.

Owing to various reasons, civil society interest or expertise in analyzing and tracking annual budgets has also been very limited so far in Pakistan. On the one hand, there existed limited spaces for civil society to engage on this matter in view of the exclusionary processes followed by the government and, on the other hand, the civil society was focussed on various other matters of crucial importance, as the budget was considered as too technical and a domain of economists to comment upon. However, with the restoration of democratic process and independent media, there has recently been growing confidence in the civil society that it can engage in the processes around budget and make some impact with its focus on protecting and promoting the interests of the poor and disadvantaged. But such efforts have remained disconnected from each other, as various groups have started working with their respective focuses in geographical or thematic terms.

Realizing that there is a need to work in a coordinated and concerted manner, while moving beyond specific sectoral focuses, three civil society organizations got together in June 2009 to jointly analyse

the Annual Budget 2009-10 and later track it in its implementation phase. These organizations included ActionAid Pakistan, Centre for Peace and Development Initiatives (CPDI) and Rural Development Policy Institute (RDPI). Relevant staff of these organizations reviewed the budget documents after the budget was presented on June 13; and issued a preliminary statement through a press conference on June 15; after having obtained the endorsements of more than 11 civil society organizations from across the country. This statement is a revised version of that preliminary statement, and is meant to inform the debates around the annual budget in the media as well as in the Parliament.

ActionAid, CPDI and RDPI have also agreed to track the annual budget throughout the year; while also engaging in a more effective manner in the preparation and approval process for the budget next year. We shall appreciate the feedback on this effort from anybody interested in this work.

Major Issues and Concerns

1. Revenue Collection:

1.1. Government has not announced any significant steps to increase domestic revenue collection in a fair, equitable and transparent manner. The tax to GDP ratio in Pakistan (i.e. around 9%) remains one of the lowest in the world, owing to an inefficient tax collection system and exemption from income tax of certain affluent segments of society or major sectors of economy. This situation needs to improve in a manner that the poor and other disadvantaged sections of the society are not adversely affected.

1.2. There is a heavy reliance on indirect taxes for revenue collection, which puts disproportionately higher burden on the poor and weaker sections of society, besides having a higher inflationary impact. The general sales tax, which is being implemented in the value added tax (VAT) mode, is clearly anti poor for being a flat tax on, for instance, consumables. Under this tax, a poor man and a very rich person pay the same taxes on the purchase of items like medicines or cooking oil. This trend needs to be reversed in order to protect the poor; and ensure that wealth gets redistributed for achieving equitable development and social justice.

1.3. One of the major sectors currently exempted from income tax is the agricultural sector, which constitutes about 25 percent of GDP. It is recognized that this sector is a backbone of our economy and it needs to be facilitated in order to ensure food security and create further livelihood opportunities for the people engaged in agricultural activities or in related professions. However, it also needs to be noted that a high percentage of land (i.e. roughly around 40%) is controlled by less than 10 percent of large land owners. In view of this, there should be no exemption from income tax for any citizen having a taxable income. In the current circumstances, even the large land-owners, who have an annual income of millions, are

not required to pay income tax, which is unfair. It is demanded that the government should either embark upon an effective program of land reforms in order to redistribute lands to the landless and get rid of inefficiently managed large land-holdings or, at the least; it should tax the large land-holders.

1.4. In general, there is a dire need to establish a regime for progressive taxes in our pursuit of building a stronger, just and democratic Pakistan. For this purpose, it must be ensured that taxes serve as a key instrument for redistribution, which supports state efforts in building and promoting basic and effective public services in the arena of health, education, sanitation and welfare, as well as in providing to the government much needed domestic resources for investing in agriculture and industry for creating and sustaining livelihoods opportunities for people.

2. Role of IFIs in Budget Making:

2.1. It is a matter of serious concern that international financial institutions continue to play a major role in determining our priorities for the budget. This has undermined our economic sovereignty, besides resulting in policies and projects having adverse financial, social and environmental costs. There is a need to take urgent steps to restore our economic sovereignty, which would be possible only by reducing our dependence on loans from international financial institutions (IFIs).

2.2. One reason of our heavy dependence on IFIs is the government's obsession for mega projects across the sectors. Such projects are cost intensive and, therefore, require loaning from external sources such as IFIs. By introducing a paradigm shift in our economic planning, involving major focus on the poor and disadvantaged, Pakistan can not only regain its economic sovereignty but also ensure equitable economic development.

3. Distribution of Resources:

3.1. It is a matter of concern that annual budget does not focus much on addressing disparities across the regions and provinces. The criterion for resources distribution among provinces remains based on population size, while levels of existing disparities or contribution to

national exchequer are not given sufficient weight. In the new finance commission award, it must be ensured that federating units of the country get more resources on the basis of fair and a just formula that addresses the concerns of smaller provinces.

3.2. The budget fails to clearly recognize the structural discrimination, which certain segments of society have traditionally faced in the process of resource allocation and, as a result, does not make provision for any affirmative action. It is urged that, in the process of budget making, the government must ensure fairness in distribution of resources across social groups and categories like children, youth, old people, women, peoples with disabilities and other marginalized groups. In particular, the budgets should be prepared and analyzed, while keeping in view the gender perspective.

3.3. There exist several ministries at the Federal level, whose existence is hard to justify in a federal state. Such ministries include, for instance, rural development and local government, population welfare and livestock and dairy development. Significant allocations have been made to these ministries; while an analysis of projects to be implemented by them shows that most of these would be implemented at the district levels in the provinces. This situation explains the existence of huge inefficiencies, overlaps, redundancies and duplications, which need to be removed urgently. The elimination of these ministries at the federal level would improve efficiency and create space not only for increased provincial autonomy but also for increased flow of resources to provinces.

4. Social Sector Expenditures:

4.1. The social sector expenditures remain the lowest in the current budget; and fall drastically short of meeting even the very basic needs of the people. The budget fails to show any meaningful shift in terms of priorities, as the main expenditure lines continue to include debt servicing and defence. Although the allocations for public sector development program have been increased, it may be noticed that their total size is less than the resources that are expected to be raised through domestic and foreign loans. Hence, it is likely that, in the case of any short-falls in collecting revenues, obtaining

loans or so-called foreign aid, there would be cuts in the development budget.

4.2. It is encouraging that government has increased allocations for certain programs meant for social protection. One such example is that of Benazir Income Support Program, which has allocated an amount of RS 70 billions. However, such allocations need to be more efficiently utilized in order to create and sustain livelihood opportunities as well as to improve access to health and educational services. Furthermore, there is a need to have a comprehensive social protection policy and a well structured mechanism to address the issue of poverty and food security of around 84 million people.

4.3. In most ministries meant for providing social services, a very high percentage of current budget allocations are meant for employees' related expenses; while little funds are allocated for operating expenses. As a result, these ministries or departments are unable to perform their responsibilities and deliver the services that they are meant to. This situation creates inefficiencies and partly explains the problem of corruption, besides being responsible for poor delivery of essential services.

4.4. The current budget for the Ministry of Education has been increased from RS 19.1 billion in 2008-09 to RS 25.2 billion in 2009-10, which shows an increase of 32 percent. On the other hand, the development budget of the Education Division has increased from RS 6.3 billion in 2008-09 to RS 8.1 billion in 2009-10, meaning an increase of 28.6 percent. While these increases are encouraging, these are still not adequate in the face of extremely bad shape of our existing public sector education system. Furthermore, the past record shows that the allocations for development projects in the education sector are later on revised down-ward; and then even the revised allocations are not efficiently and fully utilized.

4.5. In the development budget for education, RS 1464 million have been allocated for building 24 cadet colleges across the country. On the other hand, allocation for programs like Adult Literacy (under ESR) has been reduced by 98 percent. This is scandalous to say the

least, as the cadet colleges cater to the needs of middle and upper middle sections of society, who can afford to send their children to private schools as well. The public funds must be utilized efficiently and with a focus on education for all; and not to serve the elite and affluent segments of society.

4.6. The allocation for development projects of some important ministries has been drastically reduced. One such example is that of Ministry of Labor, Manpower and Overseas Pakistanis. The overall development budget of the Ministry has been reduced by 42.54 percent. In view of the fact that workers make substantial contributions to our economy through remittances and various other means, government should have realized the importance of this sector by developing and implementing appropriate development projects. Another Ministry whose development allocation has been decreased is the Ministry of Food and Agriculture. Its budget in 2008-09 was RS 19.6 billion, which is RS 17 billion this year, indicating a decrease of 13 percent.

4.7. The approval of Bt. Cotton in Pakistan with the help of Monsanto will jeopardise not only the cotton sector but all associated sectors like textile. Researches from ActionAid and National Agriculture Research Centre underscore that Bt cotton cultivation has devastated thousands of hectares resulting huge losses to poor farmers. Therefore, the decision should be reverted back and a broader consultation with farmers group and NGOs should be started on this issue.

4.8. For the environment sector, the allocation for current expenditures on revenue account has increased from RS 257 million (revised in 2008-09) to RS 283 million in 2009-10. This is a meagre increase of 9.6% even in nominal terms, especially when analysed in view of the 15 percent increase in salaries and a very high inflation in the country. On the other hand, the development allocation on revenue account (i.e. RS 2.2 billion) is 17.4 percent less than even the previous year's revised estimate of RS 2.7 billion. In this year, the Environment Division will be managing 45 development projects out of which 42 are ongoing while only 3 are

new. The new projects will be getting only 26 million rupees or 1.15 percent of the total development budget for 2009-10.

4.9. The current budget of the Ministry of Health has risen from Rs. 4.2 billion in 2008-09 to RS 4.9 billion in 2009-10, meaning a 16.7 percent increase. On the other hand, the development budget of the Ministry of Health has increased from Rs. 19 billion in 2008-09 to RS 23 billion in 2009-10, which shows an increase of 21 percent. These increases in the current and development budget hardly offset the high inflation in the country. The increase in the current budget is mostly consumed by the increase in employees' related expenses.

4.10. Huge allocations have been made for public sector organizations like WAPDA and Railways to compensate their very high losses and costs associated with inefficiencies and corruption. This situation needs to be reversed through effective reforms and efficient management, so that these organizations become profitable and are able to provide quality services to the people of the country.

4.11. It is encouraging that the government has announced to create social security protection program for harais. However, the scope of this program needs to be broadened to cover other agricultural labourers including muzaras and sharecroppers across the country.

5. Salaries and Wages:

5.1. The salary of government employees has been increased by about 20 percent, which is inadequate in view of high level of inflation in the country. At least, the salaries of low grade employees should have been increased by at least 20 percent.

5.2. The annual budget includes no announcement for increase in the minimum wage of workers, which had been fixed at RS 6000 per month. Given the high rate of inflation in the country, this omission is a matter of serious concern, as it would adversely affect a highly vulnerable section of the society. It is also a deplorable fact that even the minimum wage of RS 6000 is not being paid to a large number of workers in many public and private organizations as well as in the informal sector.

6. No Special Allocations for Backward Regions:

Budget 2009-10 was tabled without any consensus on mandatory National Finance Commission (NFC) Award, providing the basis for equitable and fair distribution of resources between the centre and provinces. No special funds are earmarked to improve the human development index (HDI) in the neglected and poverty-stricken regions, particularly Balochistan, Sindh and Seraiki belt of Punjab.

7. Transparency in Budget:

6.1. The annual budget is prepared in a completely non-transparent and non-participatory manner, as the relevant stakeholders are not consulted in the process of defining priorities, assessing needs, making current allocations or identifying new development projects. This concern should be addressed, as without the participation of real stakeholders, the budget would continue to serve the interests of powerful groups, as opposed to the general public.

6.2. The budget approval process should start in March each year and parliamentary committees should be allowed and empowered to analyse draft budget documents of respective ministries and finalize recommendations after public hearings involving independent experts, stakeholders and civil society.

6.3. The process of budget implementation should also be made completely transparent especially with regard to any revisions, re-appropriations, cuts, releases and utilization. In the existing situation, the allocated budgets of social sector are generally reduced after the parliamentary approval; and even smaller amounts are actually utilized. It is urged that government must put all the relevant information on website in order to ensure maximum transparency in budget utilization.

6.4. It is further demanded that the government must introduce the system of participatory budgeting involving people from local levels in the process of preparing local, provincial and national budgets, as it is being practiced in Brazil.

Endorsements

1. Shehersaz, Islamabad
2. Sustainable Development Policy Institute (SDPI), Islamabad
3. Sungi Development Foundation, Islamabad
4. Pakistan Institute of Labour Education and Research (PILER), Karachi
5. Participatory Development Initiative, Karachi
6. Women Workers Helpline, Lahore
7. Consumer Watch Pakistan, Lahore
8. Sustainable Agriculture Action Group (SAAG), Islamabad
9. Balochistan Institute for Development (BIFD)
10. South Asia Partnership Pakistan (SAP-PK), Lahore
11. Citizen's Rights for Social Development (CRSD)
12. Aurat Foundation, Islamabad.
13. Shirkat Gah, Lahore