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Working Paper
for the
West Pakistan Budget
1966-67

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I. BACKGROUND

a) From 1955 to 1965

The accounts for 1964-65, along with a summary of the financial operations of the Provincial Government from the date of intergration to the end of 1964-65, are reproduced below:—

		(In crores of rupees)	
		Actuals of 1964-65	1955-56 to 1964-65
A—REVENUE ACCOUNT			
Revenue Receipts	.. ..	1,71	9,65
Revenue Expenditure	.. ..	1,49	8,46
		22	1,19
B—CAPITAL EXPENDITURE			
(a) Direct Investments	.. ..	47	3,49
(b) Loans and Advances	.. ..	39	2,04
(c) Miscellaneous Debt Deposit Transactions	.. ..	22	44
		1,08	5,97
FINANCED FROM			
(1) Revenue Surplus	.. ..	22	1,19
(2) Public Debt	.. ..	70	3,94
(3) State Trading Surplus	.. ..	5	15
(4) Unfunded Debt	.. ..	3	15
(5) Miscellaneous Debt Deposit Transactions	.. ..	3	48
	Total ..	1,03	5,91
Decrease in Cash balances	.. ..	5	6
	Total ..	1,08	5,97

Total expenditure in the revenue account amounted to Rs. 846 crores against revenue receipts of Rs. 965 crores. There has been a surplus on revenue account of Rs. 119 crores over a period of ten years. Expenditure in the capital account amounted to Rs. 597 crores, of which only Rs. 134 crores have been financed from revenue and State Trading surpluses. The balance of Rs. 463 crores has been met from Debt services

namely Central Developmental Loan, Foreign Loans, Market Loans, Unfunded Debt and Deposit transactions. During this period, cash balances were drawn by a net amount of Rs. 6 crores.

The financial operations of the Province have so far been, on the whole, satisfactory. However, wisdom shown in financing can come to naught if the expenditure is ostentatious and the investments are infructuous. In the absence of an evaluation of end results it will be wrong to assume that we have not been guilty of any financial sins. The overall position is therefore of mere satisfaction and not of any complacency.

b) Public Debt

The Government of West Pakistan borrows from the money market, Government of Pakistan, USAID and other foreign Governments and Agencies. The total public debt incurred upto June, 1965, is Rs. 425.16 crores to which another Rs. 54.23 crores will be added during the current year raising the total debt liability to Rs. 479.39 crores upto June, 1966. It is expected that the cumulative debt liability of Rs. 479.39 crores will increase to Rs. 583.89 crores upto June, 1967. In other words, during the course of 1966-67 an additional liability of Rs. 104.50 crores will be incurred.

The liability for servicing and retirement of debt will increase from Rs. 23.69 crores in 1964-65, Rs. 37.77 crores in 1965-66 to Rs. 45.26 crores in 1966-67. It is estimated that the debt servicing and retirement liability will be of the order of Rs. 75.57 crores by the end of 1970.

The following statement gives the details of the actuals and estimates of Borrowing, Servicing and Retirement:—

		(In crores of rupees)					
		1965	1966	1967	1968	1969	1970
		Actuals	R.E.	Est.	N.F.C.	Projections	
		(Cumulative)			(Additions)		
Borrowing							
	Money market	.. 44.62	52.20	62.20	5.93	6.50	6.51
	Government of Pakistan	.. 314.47	321.30	381.64	} 105.70	122.20	142.50
	USAID	.. 26.03	35.66	35.66			
	Foreign	.. 40.04	70.23	104.39	60.00	64.50	71.10
		425.16	479.39	583.89	171.63	193.20	220.11
	Servicing	.. 20.72	31.33	38.40	43.50	50.10	57.40
	Retirement	2.97	6.44	6.86	11.12	15.33	18.17
		23.69	37.77	45.26	54.62	65.43	75.57

(c) Special features of 1965-66

Financial year 1965-66 had a number of unusual features which necessitated many special and unorthodox financial measures. It was a challenging and difficult year. The fact that it is ending in the next six weeks, with the worst already behind us, shows the strength and resilience of the economy of the country.

Some of the special features adverse as well as favourable are given below:—

- (i) It was the first year of the Third Plan coming in the wake of a widely publicised successful conclusion of the Second Plan. Hopes were high and so were the expenditures. The following figures show the sharp rise in the A.D.P. during 1960-65.

	(In crores of rupees)	
1960—61	76.00	BE
	67.05	RE
1961—62	78.20	BE
	83.86	RE
1962—63	153.26	BE
	135.45	RE
1963—64	181.67	BE
	148.92	RE
1964—65	210.45	BE
	176.60	RE

This sharp increase built not only expectation but also a large capacity to absorb increasing outlays of developmental expenditure. It was, therefore, natural that 1965-66 was expected to continue to show a sharp rise in the development expenditure in keeping with the trend established over the previous five years.

- (ii) In view of the development upsurge, a number of unsanctioned developmental schemes were admitted in the Annual Development Programme in the hope that they will be cleared in due course. In the absence of a new definition of developmental and non-developmental expenditure, some of the expenditure which on the conclusion of the Second Five-Year Plan was to be shown as non-developmental expenditure continued to be shown as developmental expenditure. This will now be transferred to the non-developmental Budget during 1966-67.
- (iii) The Presidential Order No. 23 of 1962 granted a relief of Rs. 4 crores for three years on account of payment of interest. The Province enjoyed

relief to the extent of Rs. 12 crores of interest during the three years ending 30th June, 1965. In the financial year 1965-66 not only that the relief of Rs. 4 crores was not available, the Province had to find another Rs. 2 crores for payment of the first instalment of the arrears of the interest accumulated during the period of relief. In other words 1965-66 was Rs. 6 crores worse off than the previous year.

- (iv) A short military engagement with India had taken place early in 1965 over the Rann of Kutch. This engagement added an element of caution necessitating economy in expenditure which was reflected by an announcement of 5% cut in the developmental and non-developmental expenditure as presented to the Provincial Assembly.
- (v) No sooner the Budget proposals were finalised the meeting of Aid-to-Pakistan Consortium was postponed at the request of the United States. It added an element of uncertainty in regard to Aid under negotiation and the non-committed part of the "Pledges". It also indicated that difficulty may be experienced with regard to the disbursement of commitments already made and the agreements already signed.
- (vi) The last but by no means the least was a full-scale and fierce War with India in September, 1965. Like all Wars it involved an increase in expenditure, a decrease in income and dislocation of economic life.

Against all the above mentioned special features which operated to the disadvantage of the Provincial Finances, there was only one new feature which operated favourably.

The National Finance Commission set up under Article 144(4) of the Constitution recommended that the share of Provinces out of the net proceeds of taxes on income, sales-tax, excise duty on tobacco and beetle-nut and export duty on jute and cotton should be raised to 65% with the Centre retaining only 35%. This recommendation was implemented during the current financial year raising the receipts on account of Central assignments from Rs. 47.57 crores in 1964-65 to Rs. 58.93 crores in 1965-66.

The question naturally arises as to how the situation created by the adverse features mentioned above was met during the current year. Briefly, the measures were as follows:—

- (i) Drastic economy measures were introduced in September. It can be safely assumed that these economy measures were more successful than ever in the past, essentially because of the sentiment created by War. It

is learnt that the amount thus saved in West Pakistan is more than the economies effected by the Centre and East Pakistan put together.

- (ii) Control over the unforeseen non-developmental expenditure met out of the Contingency Item was exercised with greater care as the following comparative figures would show:—

Year	Expenditure sanctioned from Contingency Item
1962—63 (RE)	.. .. Rs. 6.50 crores
1963—64	.. .. Rs. 5.27 ..
1964—65	.. .. Rs. 9.95 ..
1965—66 (upto May)..	.. .. Rs. 3.50 ..

- (iii) The financial burden of the Provincial Government was considerably lightened during the War by the willingness with which sacrifices were made and contributions in cash and kind were offered by the people.
- (iv) Rs. 13.64 crores were due to the Central Government on 1st December, 1965, as the first six monthly instalment of interest. It was arranged with the Central Government to defer the recovery of this amount for two to three months.
- (v) Economic activity picked up strength within a few weeks of the end of the War and the recoveries of the Government dues continued to be realised at the normal pace.

d) Special features of 1966-67.

Features of special interest to financial administration during 1966-67 are as follows:—

- i) The Emergency continues and therefore expenditure will have to be continued on this account. In addition, some margin will have to be allowed for sudden increase in this expenditure.
- ii) In view of the Tashkent Declaration, the Administrative Departments presume that the normal conditions have returned and therefore their previous level of annual increase in the non-developmental expenditure should be maintained.
- iii) In so far as the developmental expenditure is concerned, the Administrative Departments are asking for additional funds to meet the back log as well as short-fall of the first year of the Third Plan. On an average the

developmental expenditure should be of the order of Rs. 270 crores. The back log is of the order of Rs. 130 crores. The Administrative Departments and the Autonomous Bodies are therefore pressing for an Annual Development Programme at a level of Rs. 270 crores per annum plus Rs. 35 crores as pro-rata share of the back log and short-fall.

- iv) Some of the Departments/Autonomous Bodies are making proposals for increased developmental expenditure over the plan level and in excess of sectoral allocations, on the ground of meeting some emergency requirements or the other. It is not difficult to see in one's favourite scheme the only chance of meeting the emergency. Of these Departments and Bodies, the most prominent are Agriculture Department, Communication and Works Department, Irrigation Department, Power Wing of WAPDA, Railways and WPIDC.

Briefly, there has been pressure on the Finance Department to accept arguments in favour of normal non-developmental expenditure, accelerated developmental expenditure and continuance of Emergency expenditure.

II. REVISED ESTIMATES FOR 1965-66

a) Revenue Receipts.

Revenue receipts (excluding developmental grants) are estimated to increase from Rs. 150.50 crores as per budget estimates to Rs. 153.22 crores according to the revised estimates. The variations are summarised below:—

	Budget 1965—66	Revised 1965—66	Variations
	(In crores of rupees)		
Provincial taxes	39.68	42.07	+2.39
Central tax assignments	58.93	54.30	—4.63
Central non-development grants	3.45	3.64	+0.19
Other Provincial receipts	48.44	53.21	+4.77
Total	150.50	153.22	+2.72

The improvement in provincial taxes is due to new taxation in 1965-66. The decrease of Rs. 4.63 crores in Central assignments is mainly due to reduction in sales tax. A rise of Rs. 2.88 crores in other Provincial receipts is due to increase in the rate of abiana from Kharif 1965. The revenues expected from miscellaneous sources also shows a net increase of Rs. 1.89 crores.

b) Revenue Expenditure

Revenue expenditure, on non-developmental account, decreased from Rs. 126.73 crores as per budget estimates to Rs. 118.48 crores according to the revised estimates. The revised estimates are exclusive of the expenditure under the newly created head "64-C-Emergency" against which the expenditure connected with the war efforts has been booked. The decrease in expenditure is mainly due to the fact that various measures to effect economy in non-development expenditure were adopted during the year 1965-66.

c) Capital Receipts.

The budget estimates and revised estimates of Capital receipts are as follows:—

Head of Account	(In crores of rupees)	
	Budget 1965-66	Revised 1965-66
1. Railway Reserves	11.09	8.56
2. Market Loans	7.78	7.56
3. Unfunded Debt	2.95	2.95
4. Associated Cement (Government of West Pakistan) Reserves	1.50	1.50
5. Other Deposits (Net)	2.49	2.49
6. Other Capital Receipts (Net)	1.37	1.37
7. Sales of WPIDC assets	1.02	.27
8. Self-financing by Autonomous Bodies	5.57	4.56
Total	<u>33.77</u>	<u>29.26</u>

Market Loan had been floated before the Emergency. The Railways lost business heavily in War but have made up the deficiency to a large extent. Sale of WPIDC assets has lagged behind the estimated rate of disinvestment.

d) Capital Expenditure

Estimates of Capital expenditure are prepared after the finalization of the Annual Development Programme.

e) Development Programme

The Annual Development Programme for 1965-66 provided for a gross expenditure of Rs. 218.55 crores and net expenditure of Rs. 190 crores. A cut of 5% on account of Rann of Kutch emergency was announced at the presentation of the budget reducing the net programme to Rs. 181 crores. During War in September it was not possible to carry uninterrupted work on the development schemes. Consequently, a revised programme of Rs. 81.59 crores was issued. The object of this revision was to increase the tempo of activities which contributed directly or indirectly to the waging of War, to meet the new demands for resources and to eliminate waste of resources on such projects which War made less important for the time being. The Emergency Annual Development Programme was issued on 10/11th September, 1965, and was substituted by Revised Annual development Programme Rs. of 140 crores on 4th December, 1965.

The sector-wise break-down is as follows:—

	Budget 1965—66	Revised 1965—66
	(In lakhs of rupees)	
Agriculture	3669.36	2423.01
Water and Power	7164.19	4962.84
Industries	1144.33	874.27
Transport and Communications	3939.41	2635.75
Education and Training	1690.53	857.40
Health	990.68	715.80
Manpower and Social Welfare	65.05	38.40
Works Programme	1500.00	1000.00
Physical Planning & Housing	1624.45	498.46
Fuels and Minerals	7.37	—
Lump-sum provision for Regional Development	60.00	—
Total	218,55.37	14005.93

The Revised Annual Development Programme was approved by the Executive Committee of the National Economic Council. It was felt that there was a gap in the resources even on the basis of Revised Annual Development Programme. In order to further economise the developmental expenditure, the departments were directed to plan their programme in such a manner so as to utilize 90% of the revised grant in the course of the current financial year. They were required to obtain specific permission before incurring any part of the balance of 10% developmental outlay.

f) Expenditure on Emergency Schemes.

Grant of Rs. 10 crores was obtained in December 1965 under the newly created head "93-Emergency" later on substituted by "64-C-Emergency". After accounting for the accepted savings and surrenders out of the sanctions authorised by the Finance Department it is estimated that an amount of Rs. 8.50 crores would suffice to meet the expenditure on Emergency schemes. It has been decided not to include any demand under this head in the Budget Estimates for 1966-67 because the schemes sanctioned for Emergency purposes have either been completed or are likely to be completed by the close of the current financial year. However, to meet any unforeseen expenditure on account of Emergency schemes undertaken in the current year the provision under 'Contingency Item' is proposed to be increased from Rs. 12 crores in 1965-66 to Rs. 13 crores for 1966-67.

In all Finance Department sanctioned 149 Emergency schemes of which as many as 67 fall in the Central Government's sphere of responsibility. The Provincial Govern-

ment has thus a claim of Rs. 4.89 crores against the Central Government. The Central Government has been moved to reimburse the expenditure incurred by the Provincial Government on such schemes. A sum of Rs 1.60 crores has since been released by the Central Government on an **ad hoc** basis. It has also been agreed that the expenditure incurred on roads and bridges will be adjusted against the West Pakistan Government's share of the Central Road Fund. This accounts for another sum of Rs. 1.27 crores. Reimbursement of the remaining amount of Rs 2 crores is under correspondence with the Centre.

g) Rehabilitation of War Displaced Persons

The Central Government has accepted responsibility of financing the scheme for rehabilitation of War Displaced Persons which is being executed by the Relief Commissioner. They have agreed to provide Rs. 8.49 crores (Grant Rs. 7.65+Loan Rs. 0.84 crores) for this purpose against which sanctions for Rs. 8 crores have already been received.

The Central Government have not reimbursed the Provincial Government any amount for the damage to the property of the Province such as roads, tubewells, electric transmission, schools, etc.

The Comptroller and Auditor-General has been requested to approve the opening of a new fund for the Rehabilitation of War Displaced Persons to which all grants received from the Central Government would be credited and out of which all expenditure on the Rehabilitation of War Displaced Persons will be met. The creation of this fund has been considered necessary to keep the accounts of expenditure and receipts on account of Rehabilitation of War Displaced Persons separate from the Government Accounts. Moreover, since the grants have been received from the Central Government out of the National Defence Fund specifically for the Rehabilitation of War Displaced Persons it is not proposed to mix these funds with the Provincial Revenues. The expenditure will be authorised direct from the fund instead of through the normal Government heads of account.

h) Ways & Means Position

The ways and means position continues to be difficult for the following reasons:—

- i) A part of the interest liabilities due in June 1965 have been paid in the financial year 1965-66.
- ii) Lump-sum emergency expenditure has been incurred over a very short period.
- iii) The receipts and the economies are accruing gradually spread over the entire year.
- iv) There is gap between the resources available for Revised Annual Development Programme of 1965-66 and the expenditures included therein.

III BUDGET PROPOSALS FOR 1966-67

a) Revenue Receipts

Revenue receipts (excluding developmental grants) are expected to increase from Rs. 153.22 crores in the revised estimates of 1965-66 to Rs. 163.29 crores in the next year's budget estimates. The variations are summarised below:—

	Revised 1965—66	Budget 1966—67	Variations
	(In crores of rupees)		
Provincial taxes ..	42.07	43.56	+1.49
Central tax assignments ..	54.30	62.08	+7.78
Central non-development grants ..	3.64	3.63	—0.01
Irrigation receipts (Net) ..	7.78	6.02	—1.76
Other Provincial receipts ..	45.43	48.00	+2.57
Total ..	153.22	163.29	+10.07

There is a steady though somewhat slow improvement in the receipts from Provincial taxes. An increase of Rs. 20 lac is anticipated on account of motor vehicles tax. Additional income is also expected on account of entertainment tax, surcharge on railway fares and freight and taxes on hotels, professional tax and electricity duty. These taxes and duties account for an increase of Rs. 50 lac under "Other Taxes and Duties".

An increase of Rs. 7.78 crores is expected in 1966-67 in the revenue assignments from the Central Government. The major variations are due to substantial increase in the receipts under Sales Tax (Rs. 4.90 crores) and Taxes on income other than Corporation Tax (Rs. 1.72 crores).

Gross receipts from water rates are expected to go up from Rs. 20.70 crores in the Revised Estimates of 1965-66 to Rs. 21.48 crores in the Budget Estimates for 1966-67. However, the working expenses will increase sharply from Rs. 12.92 crores to Rs. 15.46 crores in 1966-67. As a result, the net receipts are expected to decline by Rs. 1.76 crores.

Other receipts of Government are expected to go up by Rs. 2.57 crores over the Revised Estimates for 1965-66. The principal increase will occur in interest charges

on loans advanced by the Provincial Government. There will also be some increase in the revenues from forests.

b) Revenue Expenditure

Non-developmental revenue expenditure is expected to increase from Rs. 118.48 cores in the Revised Estimates, 1965-66 (and Rs. 126.73 crores Budget Estimates in 1965-66) to Rs. 131.71 crores in the Budget Estimates 1966-67. The increase is broadly due to the following factors:—

	(In crores of rupees)
(i) Increase in interest	2.24
(ii) Re-organization of the Police Force as a result of recommendation of the Police Commission	0.12
(iii) Miscellaneous increase in continuing expenditures	5.14
(iv) New expenditures (subject to the approval of the Council of Ministers)	5.73
Total	13.23

Increase of Rs. 2.24 crores represents mainly interest charges on new loans.

A Sub-Committee was appointed by Government to go into the recommendations made by the Pakistan Police Commission on the re-organization of the police force. As a result of the recommendations of this Sub-Committee, the existing set up of the police force is proposed to be re-organized from the financial year 1966-67 which results in the net increase in expenditure to the extent of Rs. 12 lac.

Miscellaneous increase in the existing expenditures falls mainly under "Civil Works" which is due to the fact that the current year's grant, which was restricted due to the emergency in order to effect economy in non-development expenditure, is proposed to be restored.

Moreover, increase in the Education expenditure as compared with the revised estimates is due to the fact that full provision has been made in the new budget for such schools/colleges which were opened at a very late stage or not opened during the current financial year due to emergency.

c) New Expenditure

New expenditure has been proposed at a cost of Rs. 5.73 crores which includes the provision of Rs. 1.35 crores for such completed development schemes which are to be

transferred to non-development budget during 1966-67. The details of this amount are as under:—

Land Revenue	..	Rs. 19.22 lac
Forests	..	„ 17.25 „
Health Services	..	„ 0.76 „
Agriculture	..	„ 83.87 „
Animal Husbandry	..	„ 7.80 „
Co-operative	..	„ 6.28 „
		<hr/>
Total	..	135.18 lac

The important new expenditure proposals are summarised in the following statement. The details are given in the volume of New Expenditure for 1966-67:—

40-Agriculture	..	Rs. 95.49 lac
29-Police	..	Rs. 87.09
37-Education	..	Rs. 72.78 „
50-Civil Works	..	Rs. 69.85 „
7-Land Revenue	..	Rs. 31.48 „
XVII-Working Expenses	..	Rs. 58.40 „

d) Development Programme

The details of the Development Programme are contained in a separate volume. The summary of the Programme is as follows:—

		(In crores of rupees)
Water and Power	..	70.04
Water (40.13)		
Power (29.91)		
Agriculture	..	33.97
Rural Works	..	9.00
Physical Planning and Housing	..	11.41
Industries, Education and Health	..	42.65
Transport and Communications	..	41.04
Social Welfare and Manpower	..	1.54
		<hr/>
Gross Total	..	209.65
Less Shortfall	..	—19.65
		<hr/>
Net Total	..	190.00

e) Presentation of Annual Development Programme.

The size of the A.D.P. for the Province of West Pakistan has been approved by the Central Government. The Central Government desires that if Provincial Government could raise additional Rs. 22.50 crores it may have an A.D.P. of Rs. 180 crores net or Rs. 190 crores (gross). The size of the A.D.P., as it has now emerged after over four months of labour, is Rs. 210 crores (gross). The presentation of A.D.P. to the Legislature can be in any of the following three forms:—

- a) Scheme-wise details of total expenditure, annual expenditure, internal expenditure, external foreign aid expenditure, external cash expenditure and anticipated expenditure in the future years may be presented to the Legislature with a gross total of Rs. 210 crores. At the end of the document a 'deduct entry' for over-all shortfall may be made reducing the net expenditure from Rs. 210 crores to Rs. 190 crores.
- b) The 'deduct entry' reducing the gross figure to the net can be made at the end of each Sub-sector/Sector and for each Department and Agency reducing the grand total from Rs. 210 crores to Rs. 190 crores.
- c) The estimates of each scheme should be of the order which total upto Rs. 190 crores. The shortfall may be absorbed against this figure.

The first alternative gives a lot of flexibility in diverting funds during the course of the year from some sectors and schemes to other sectors and schemes. On the other hand, it makes it extremely difficult to finance the programme as it raises false hopes in the spending departments and agencies. The position in regard to the second alternative is more or less the same. These two alternatives are supported on grounds of previous experience of short falls which was of the following order:—

Year		Size of ADP. Revised (In crores of rupees)	
1960—61	..	76.00	67.05
1961—62	..	78.20	83.86
1962—63	..	153.26	135.45
1963—64	..	181.67	148.92
1964—65	..	210.45	176.60
1965—66	..	218.55	140.00

The Finance Department is, however, of the view that we should adopt the third alternative for the presentation of the A.D.P. for the following reasons:—

- (i) The Provincial Government have to find Rs. 22.5 crores over their initial estimates even for financing Rs. 181 crores (net) programme.

- (ii) The receipts are not evenly spread over the year and in many cases are subject to considerable procedural delays before they are available to us. A big programme with a large gap in resources would involve very heavy ways and means borrowing throughout the year.
- (iii) A gross programme will give an unwarranted impression of availability of funds and the end of financial stringency.
- (iv) To make up the gap in the resources resort will have to be made to heavy additional taxation. New taxation does not yield full income in the first year of its imposition as the first half of the year is wasted in making rules and regulations.
- (v) The fear of a large short-fall is unwarranted in a Rs. 210 crores programme as Rs. 130.73 crores have merely to be placed at the disposal of the Autonomous Bodies. There are other items of irreducible expenditure. The balance of the programme is too small to offer a short-fall large enough to keep the expenditure within the available resources. The Province of West Pakistan has built a large absorbing capacity of developmental outlay and as such there is no expectation of any large shortfall.
- (vi) Shortfalls experienced in the recent past are manipulated shortfalls rather than actual shortfalls. In other words the release of funds has to be made difficult procedurally to resist the demand for which resources are not readily available.
- (vii) A gross programme with a deduct entry or many deduct entries will keep the Finance Department busy working with two sets of figures throughout the year. In a net programme the audit order will contain only one figure and no reference will be expected except at the time of the preparation of revised estimates. In a gross programme references continue to pour in throughout the year in regard to the individual schemes, sectors, Departments and Agencies unnecessarily increasing the work of the Finance Department and creating a lot of frustration at both the ends.

It is, therefore, proposed that the Council of Ministers may approve the presentation of a programme of Rs. 190 crores without any gross figure and deduct entry or entries.

IV) SOME THOUGHTS ON EXPENDITURE

There are four aspects of expenditure which need careful consideration. Firstly, the non-developmental expenditure of some of the departments is increasing at a very fast rate. It should be checked. Secondly, there is an element of subsidy involved in some commercial and semi-commercial operations of the Government. It should be reduced or eliminated. Thirdly, there are large financial commitments of non-developmental expenditure which have to be met in the next five years. Adequate provision has to be made for meeting such commitments. Finally, some loans are being taken because they are available and some expenditure is being incurred for extraneous rather than domestic reasons.

Some specific instances of expenditure falling under the above mentioned categories are given below.

a) Indus Basin Works

Indus Basin Replacement Works are in an advanced stage of completion. The latest estimates show that the total capital outlay will be Rs. 669.07 crores. The construction schedule is divided into three phases. Phase I pertains to T. S. Link, Sidhnai Barrage, S-M. Link, Mailsi-Syphon and N-B. Link. Phase 2 provides for the construction of Rasul Barrage, R-Q. Link, Qadirabad Barrage, Q-B Link, B-S. II Link, Marala Barrage and Mangla Dam. Phase 3 includes Chashma Barrage, C-J Link and T-P Link. The contracts provide for maintenance and operation cost for one year after completion of each work, but taking into account each system of work as a separate unit, there will be a single date upto which the World Bank will finance the expenditure on maintenance and operations. The works included in phase I have since been completed and the World Bank will finance the maintenance and operation expenditure only upto 30th June, 1966. In other words the transfer of completed part of Replacement Work to the Provincial Government for maintenance will take place for the first time with effect from 1st day of the coming financial year.

Initial estimates of the maintenance cost of Replacement Works are as follows:—

1966—67	..	Rs. 14.46 lakhs.
1967—68	..	Rs. 14.46 lakhs.
1968—69	..	Rs. 64.74 lakhs.

1969—70	..	Rs. 80.56 lakhs.
1970—71	..	Rs. 81.24 lakhs.
1971—72	..	Rs. 86.64 lakhs.
1972—73	..	Rs. 96.76 lakhs.

b) Rural Works Programme

The Third Five Year Plan provides for a total allocation of Rs. 100 crores for Rural Works Programme in West Pakistan. According to the Plan, Rs. 40 crores were to be received as grant-in-aid from USAID under PL480 and the balance of Rs. 60 crores was to be found from own resources. The expenditure on Rural Works Programme has so far been of the following order:—

1963—64	..	Rs. 8.17 crores (actuals)
1964—65	..	Rs. 9.08 crores (actuals)
1965—66	..	Rs. 12.22 crores (RE)

Hitherto the entire amount has been received from USAID as PL 480 Grant Funds.

The Government of Pakistan have informed that no fresh PL 480 Agreement has so far been entered into and the USAID have indicated that under the proposed new Agreement the availability of 70% (50% as grant and 20% as Loan) out of PL 480 rupee generation will be reduced to 60% which will be advanced only as a Loan. The effect of this change will be as follows:—

- (a) Revenue receipts of the Province will fall in the same proportion in which the grant-in-aid is stopped. In other words, at the current year's level of the grant-in-aid the revenue receipts for 1966-67 will be lower by Rs. 12 crores.
- (b) Under capital account, the amount received as Loan from various sources will be increased by the same extent as funds are realised for Rural Works as Loans.
- (c) Interest on Loans is paid from the revenue receipts, therefore, the revenue receipts will fall further to the extent to which the interest is to be paid on loans taken for Rural Works Programme. Similarly, a part of the Capital receipts will have to be earmarked for the repayment of the loan in accordance with its term.

If the Rural Works Programme was continued at the present level for the remaining 4 years of the Third Five Year Plan, it will increase the debt liabilities of the Provincial Government by Rs. 40 crores by 1970, by which date Rs. 2 crores will be

required for repayment (in 20 annual instalments) another Rs. 2 crores as interest (calculated at 5%) and Rs. 4 crores for maintenance of the works by the Local Bodies (at 10% of the capital cost). The annual liability in 1970 would thus be of the order of Rs. 8 crores. Under the circumstances, the following course of action is proposed:—

- (a) The Provincial Government should emphasize on the Central Government that it is most reluctant to borrow funds for financing the Rural Works Programme. The Central Government may be requested to secure grant-in-aid as in the past.
- (b) In case the amount is available as loan the size of the Programme may be reduced to a level of about Rs. 5 crores per annum.
- (c) In case of Loan funds the Provincial Government may change the pattern of financing Rural Works by granting short term soft development loans to the Divisional and District Councils for their productive schemes.

c) Reclamation Projects

Scarp I comprises twelve schemes measuring an area of 1.2 million acres. Its earliest scheme came into operation in 1954 and the last in 1962. The water rate and reclamation fee to be charged in this project area have been finalised only in 1965 and are not adequate to cover capital cost, depreciation, interest and maintenance operations. The special features of this project are as follows:

i) It was the first of the reclamation projects and since it was constructed the cost of construction has gone up considerably. All the remaining reclamation projects will therefore involve far larger capital outlay.

ii) This experiment in reclamation has been conducted in a zone of sweet sub-soil water and fertile soil. As more and more area is brought under reclamation the problems will be greater and the maintenance cost will be higher.

iii) The arrears which have accumulated in the Scarp I area represent for the time being only a temporary loss of revenue but the recovery may show that a good part of it is a permanent loss.

iv) The water rate which has been fixed at an average of Rs. 16 per acre will yield a total income of Rs. 1.92 crores per annum (1.2 million acres × Rs. 16). Against this annual income the expenditure estimates for 1965-66 were of the order of Rs. 3.47 crores. The Budget proposal for 1966-67 raises the level of annual expenditure to Rs. 4.18 crores. In other words, on the basis of Budget proposal for 1966-67, there would be a net loss of Rs. 2.26 crores annually on the maintenance of Scarp I.

The liability on account of interest, depreciation and repayment of the loan will be in addition to this amount.

It is proposed that:

a) the Government may consider the possibility of increasing the water rates; and

b) experiment with the operation of the next project through the Irrigation Department. WAPDA will hand over 1300 tubewells in Scarp II area in the year 1966-67 for which the Land and Water Development Board has proposed a budget of Rs. 1.59 crores. It is proposed that this area may be taken over by the Irrigation Department on experimental basis, and its maintenance cost and results be compared with those of Scarp I to find out the most economical way of operating the reclamation projects.

d) Small Tubewell and Pump Schemes

The Irrigation Department has embarked on the construction of a number of small tubewell and pumping projects with the object of augmenting and developing irrigation supplies through the exploitation of ground water resources. Greater emphasis is being placed on such schemes in view of the high economic returns and the short period of gestation. In the supplementary budget presented after the war the only new development schemes placed before the House were the tubewell schemes of the Irrigation Department.

It has, however, been found that the water rates which are being charged in various tubewell and pumping schemes are not uniform and in many cases do not meet the cost of operation and maintenance. It is, therefore, proposed that a Committee may be appointed to look into the discrepancy of the rates and propose such measures as would enable the Government to realise at least the cost of maintenance and operation of these schemes. The Committee may be directed to report to the Council of Ministers within three months of its appointment.

e) 29-Police

The expenditure under major head "29-Police" now represents the second largest segment of non-development expenditure. It is second only to Education of which the recurring expenditure is termed as non-developmental under the Plan classification of expenditure. The gross expenditure under "29-Police" has increased from Rs. 7.31 crores in 1955-56 to Rs. 14.93 crores in 1965-66 (R. E.) It shows an increase of 104.2% over a period of 10 years. In individual years the increase has varied from 3.1 per cent to as much as 30%. This is by far the largest increase of non-development expenditure in any single Department.

The budget estimates for 1966-67 are Rs. 15.24 crores (gross) which show an increase of 2.1% over the expenditure (R. E.) for the year 1965-66. Since the Schedule of New Expenditure was finalised and printed the Finance Department has received a proposal involving an estimated expenditure of Rs. 1.31 crores. In addition it is understood that a scheme involving an expenditure of Rs. 1.90 crores is under preparation in the Directorate of West Pakistan Rangers. If both these figures are added to the budget proposals for the year 1966-67 the total expenditure under 29-Police would be of the order of Rs. 18.45 crores. It represents an increase of 23.6% on current year's level.

The decision of the Council of Ministers is required on the following issues:—

- (a) The provision made for the implementation of recommendations of Police Commission and the new expenditure on Police as included in the Schedule of New Expenditure may be reduced by 50%.
- (b) An **ad hoc** provision may be made for the increase in strength of West Pakistan Rangers whose services may be utilised by D.I.G. Quetta for a period of six months or so.
- (c) In case a separate force is to be raised for Quetta-Kalat, the Central Government may be asked to meet its cost on the 60:40 ratio as in case of Rangers.

f) Fertilizer

The use of chemical fertilizers as one of the important factors for increasing agricultural production has been fully acknowledged by word and action. The Third Five Year Plan provides for a three-fold increase in the use of chemical fertilizers by the end of the Third Plan as the following figures will show:—

Total (N. P. K.)	Pakistan	West Pakistan
1959—60	.. 32,000 ton	19,000 ton
1964—65	.. 1,62,000 ton	86,000 ton
1969—70	.. 4,84,000 ton	2,50,000 ton

The upward revision of the physical targets is already in hand. The new target is expected to be 6.1 million ton (in terms of ammonium sulphate) against the present target of 4.0 million ton.

The Third Plan provides for a subsidy of Rs 67.77 crores in West Pakistan. It is to be met by the Province and the Centre in equal proportion. In the draft Loan Agreement for \$50 million for the import of commodities from U.S.A., it has been proposed that there will be a progressive removal of subsidy on fertilizers. No time limit has, however, been specified.

It is proposed that the following measures may be approved in this regard:—

- (i) A policy decision should be taken to the effect that an upward revision of the target of fertilizer distribution on increase in price will not affect the Plan allocation of Rs. 67.77 crores as subsidy. In other words, increase in price or quantity will be absorbed by a proportionate reduction in the percentage of subsidy.
- (ii) The Fertilizer Review Committee may be directed to examine the possibility of progressive removal of fertilizer subsidy, at least in the areas where the fertilizer is reported to be sold in black market.

g) Mechanization

The Third Five Year Plan lays considerable emphasis on the mechanization of Agriculture in West Pakistan. The targets laid down are as follows:—

Ploughing: 40,000 acres in 1964-65. 75,000 acres in 1969-70.
(last year of the completion.)

Development of Land: 3,45,000 acres in 1960-65 10,00,000 acres in 1965-70.

The targets are to be achieved by augmentation of agricultural machinery in both the public and private sectors. The Plan allocation for the Public Sector in West Pakistan for the mechanization schemes is Rs. 221.37 crores.

The Agriculture Department proposes to increase its fleet of bulldozers and tractors as follows:—

	1965—66	1966—67	1967—68
Bulldozers	.. 290	637	913
Tractors	.. 31	70	117
Total	.. 321	707	1030

Capital expenditure in connection with purchase of machinery and construction of workshops is estimated to be Rs. 3.59 crores in 1965-66 and Rs. 3.20 crores in 1966-67. The use of this agricultural machinery will be subsidized. The expenditure on account of this subsidy will be as follows:—

1965—66 (RE)	.. Rs. 59.79 lakh.
1966—67 (BE)	.. Rs. 138.84 lakh.
1967—68 (Est)	.. Rs. 201.67 lakh.

The Cooperative Development Board has a fleet of 150 tractors, to which another 50 tractors will be added during 1966-67. The total capital cost of the fleet will be Rs. 44 lakh. The subsidy required to be paid by the Government in 1966-67 is Rs. 5.90 lakh. The full rates calculated by the Cooperative Board are lower than those of the Agriculture Department. It is hence felt that there is a hidden element of subsidy in these rates.

In so far as the A.D.C. is concerned, it has three large programmes of mechanisation confined to its three main Projects, namely, G. M. Barrage (198 bulldozers), Gudu Barrage (128 bulldozers and 4 tractors) and Soan Valley Project (159 bulldozers/scrapers and 26 tractors). The cost of equipment and machinery as shown in the Project Estimates works out to Rs. 6.98 crores. ADC intend to use such a large fleet of machinery on no-profit no-loss-basis. On Kabuli land the cost is to be realised in lumpsum and on the Na-Kabuli land, in ten annual interest-bearing instalments. It is doubtful if the A.D.C. can operate on no-profit no-loss basis. If it does succeed it will be a great achievement; if it does not, the consolation will lie in the fact that its intentions were noble.

The financial liability of the Provincial Government is increasing with every addition in the fleet in the public sector. The liability is on the following account:

- (i) Repayment of interest-bearing cash development loans of the Central Government which are utilised for the implementation of the Mechanisation schemes.
- (ii) Repayment of the interest-bearing Foreign Loans utilised for the purchase of machinery and equipment. These are Tied Loans and the Government is therefore paying more than the world market price for its equipment and machinery.
- (iii) Capital cost incurred by the Provincial Government from its own sources or through Loans for providing engineering, repairing and workshop facilities.
- (iv) Finally, the Provincial Government is paying very heavy subsidy on the operation of agricultural machinery. The subsidy constitutes a part of the A. D. P. and it is likely that it is being paid out of Development Loans thus creating an anomalous position of borrowing for the purposes of subsidising a recurring liability.

In view of the above facts it is proposed that:—

- (a) The total expenditure to be incurred as subsidy during 1966-67 may be pegged at the 1965-66 level of Rs. 59.79 lakh, say Rs. 60 lakh per annum.

The increase in the fleet should lead to proportionate reduction in subsidy.

- (b) A committee of experts may be appointed to examine the rate structure of the Agriculture Department, A. D. C., the Cooperative Board and M. P. O. to ensure that they have been worked out on the realistic basis and there is no hidden subsidy involved, which may finally have to be paid in the form of writing of the assets.
- (c) The Agriculture Department and the Cooperative Board may be directed to conduct their operations on no-profit no-loss basis from the financial year 1967-68.
- (d) In view of the growing size of the fleet with the Agriculture Department, Cooperative Board and the A. D. C. the possibilities of transfer of all the machines to a single agency may be explored. It will ensure better utilisation and lower overheads.

h) Boring

The Agriculture Department has 11 power rigs and 304 hand-boring plants. It is proposed to add 7 new Rotary rigs in 1966-67. There is a heavy subsidy involved in the boring operations of the Agriculture Department, as the following figures will show:—

	Full Rates	Subsidized rates	Subsidy %
Power	Rs. 20 per ft.	Rs. 5.75 per ft.	20.75 71.25
Rotary Rigs	Rs. 30 per ft.	Rs. 5.75 per ft.	19.16 80.83
Hand-boring	Rs. 5.30 per ft.	Rs. 2.35 per ft.	44.33 55.6

The total subsidy involved on the boring operations during 1965-66 is estimated to be Rs 14.43 lakhs. It will increase to Rs. 29.52 lakhs in 1966-67. The boring operations of the Agriculture Department meet only a fraction of the demand and a very large increase in the tube-well installation in the private sector is taking place through commercial operations. It clearly indicates the need for the abolition of the subsidy on departmental operations.

It is proposed that subsidy on boring operations may be withdrawn in the year 1966-67.

i) Plant Protection

The Third Five Year Plan envisages a two-pronged attack on plant pesticides and diseases, namely preventive and curative. The curative measures are expected to cover 6.0 million acres in West Pakistan in 1969-70 against 3.1 million in 1964-65.

The preventive measures are required to cover 8.5 million acres in 1969-70 as against 3.0 million acres in 1964-65. The provision for Plant Protection in the Third Five Year Plan is of the order of Rs. 23 crores.

The expenditure incurred on the purchase of equipment and pesticide is booked separately but that on the staff remains an indistinguishable part of the Extension Staff. The cost of equipment and pesticide is given below:—

Year	Cost of pesticide, equipment etc.
1963—64 (R. E.)	Rs. 2.85 crores.
1964—65 (B. E.)	Rs. 2.96 „
1965—66 (R. E.)	Rs. 1.57 „
1966—67 (B. E.)	Rs. 3.00 „

The cost of the Extension Services is Rs. 162.62 lakh, in 1965-66. It may be assumed that 33% of the cost of Extension Services constitute share of the Plant Protection Services.

The entire cost on Plant Protection both for the staff and equipment is met by the Government. In other words, these services are being provided at 100% subsidy. The Plan recommends that a part, if not the whole, of the cost of Plant Protection should be recovered from the beneficiaries. It is, therefore, proposed that from the year 1966-67, 50% of the cost of Plant Protection may be realised as service charges from the beneficiaries.

V— SOME THOUGHTS ON INVESTMENT

Nowhere is the idiom, one reaps what one sows, more true than in the field of financial investment. It is now a matter of common experience that during the survey, planning and feasibility stage, an attractive Cost-Benefit ratio is worked out which does not hold good on the completion of the project. In a development programme based essentially on borrowing an adverse change in Cost-Benefit ratio as a matter of routine can lead to serious consequences. Among other things it calls for a change in priorities.

The National Finance Commission 1964-65 has made the following recommendation in this regard:—

“Greater and more effective financial discipline should be imposed on development expenditure. It would be desirable to undertake a study of the pattern of investment in the public sector to ensure that investments in unremunerative projects are reduced to the minimum. The authorities recommending schemes for approval must satisfy themselves about the financial returns of the schemes and put forward sufficient reasons in cases where financially unremunerative schemes are recommended for approval.”

In view of the plan discipline, previous commitments and Tied Loans, it has not been possible to implement the above recommendation of the Commission.

The Finance Department has made a provisional assessment of the financial returns of the development schemes and feel that investments in unremunerative schemes is far larger than warranted by the present circumstances. The break up of schemes and costs in terms of returns is given below:—

	Total No. of Schemes	Unremunerative No.	Cost	Low No.	(In crore of Rupees)		
					Yield Cost	High Yield No.	Cost
Second Plan Period (1960—65)	6373	5159	273.07	490	67.22	724	359.95
1965—66 (Revised)	1372	1040	56.49	88	8.91	244	74.66

The Finance Department places on record the dire need of reducing capital and operational cost of sanctioned schemes on the one hand and change in priorities on the other.

a) **WPIDC**

It was brought out in the Memorandum of Budget Estimates 1965-66 presented to the Council of Ministers that return from investments in the WPIDC is insignificant and the Provincial Government was heavily subsidising the Corporation by paying interest on the Debt incurred in connection with the WPIDC investments. The year-wise position is indicated below:—

Year	(In crore of rupees)				
	1962	1962—63 (Accounts)	1963—64	1964—65 (R. E.)	1965—66 (R. E.)
Investment (excluding Foreign Loans)	37.59	42.39	44.08	45.97	47.86
Return to Provincial Government		.25	.28	.47	.92

The Province has been paying since 1962-63 Rs. 1.79 crore per annum as interest at 4.75 % on Rs. 37.59 crore. In other words Rs. 7.16 crore have been paid as interest in the period 1962-63 to 1965-66 against receipts of Rs. 1.92 crore.

Towards ensuring a more adequate return it has been decided that WPIDC shall pay a fixed return on Provincial Government investments. This return is to increase gradually, thus:

1965—66	.. 2%
1966—67	.. 3%
1967—68 onwards:	a rate equivalent to that payable during the year of investment on rupee loans received from Centre.

The WPIDC has made investments in a number of manners, such as full WPIDC investment & management, full WPIDC investment in a Company with WPIDC Managing Agency, Public and Private investment and WPIDC Management, WPIDC and Private investment with Private Management. A review of the Profit & Loss Accounts for 1964-65 of the WPIDC Projects reveals the following position:—

Projects under construction	.. 2
Projects running in loss	.. 5
Projects showing profits less than Bank Rate hence running actually at loss	.. 6
Projects earning nominal Profits	.. 3
Project in Profit for 1964-65 after 10 years of loss	.. 1

Projects earning Profits

2 (Indus Gas & Zeal Pak)

Whereas the return from the investments in the Projects of the Corporation remains nominal, there is an increasing demand for fresh heavy investments by the Corporation as the following statement would show:—

Year	Provisions in A.D.P.
1962—63	Rs 8.43 crores
1963—64	.. Rs 9.12 crores
1964—65	.. Rs 8.29 crores
1965—66	.. Rs 7.55 crores
1966—67	.. Rs 18.10 crores

A number of schemes included in 1966-67 Programme with a token provision will commit the Government to large outlays in the following years. In case a programme of Rs. 18.10 crore is admitted for 1966-67 it will commit the Government to a level of Rs. 25 to 30 crore programme in 1967-68.

In view of the heavy debt liability that the Provincial Government has incurred on the investment already made in the PIDC it would be burdensome to borrow large development loans from the Central Government at 5½% and invest them in the new ventures of the PIDC. The most costly of the new Projects are Capital Goods Projects which have long period of gestation and even according to the PCI proformas will incur heavy losses in the initial years of operation.

Under the circumstances, it is proposed that

- (i) the Programme for disinvestment should be accelerated even if some small sacrifice is to be made in the terms of disinvestment. The funds thus realised can be invested in the new Projects of the PIDC. The disinvestment should be of the order of Rs. 2.5 crore during 1966-67 or else the programme of Rs. 18.10 crore may be reduced in the same proportion in which the disinvestment falls short of the proposed target of Rs 2.5 crore.
- (ii) It is also proposed that whatever is of low priority may be dropped. Whatever can attract private capital may be transferred to the Private Sector or taken up in association with it.

b) WAPDA

The Government of West Pakistan has made a single largest investment through Water and Power Development Authority. WAPDA is, for the purposes of its finances, divided into Water Wing and Power Wing.

The balance-sheet of the Water Wing shows that a total investment of Rs. 77.77 crore has been made by the end of 30th June, 1964. Rs. 65.07 crore have been drawn from the Provincial sources and the balance from debentures, AID Loans and other credit facilities.

On the Water side, there is a project of 'General Investigations' which needs a fresh decision as regards its scope, size and method of financing. The original General Investigations Project was approved at a cost of Rs. 18.60 crore with the stipulation that only Rs. 10 crore will be spent in the Second Plan Period. Against this stipulation Rs. 17.72 crore were spent during the Second Plan leaving only a small provision for the Third Period. Nevertheless, WAPDA revised this scheme with the total cost going up from Rs. 18.60 crore to Rs. 44.45 crore. The revised scheme has not yet been sanctioned by PDWP, CDWP/ECNEC.

The original scheme provided for undertaking 17 specific investigation problems. This concept has now been changed and the revised Project of Rs. 44.45 crore envisages master planning and many general academic studies. It is necessary that the Planning and Development Department should immediately review this revised scheme and decide the size and nature of investigations to be taken up during the Third Plan Period.

There is however a basic question regarding the payment of interest on the cost of this Project which needs to be re-opened. During the Second Plan Period the allocation of WAPDA in the Annual Development Programme was increasing year by year and it was possible for them to borrow even for the repayment of loans already taken. This is an unhealthy practice and should now be discontinued. Whereas interest becomes a part of the capital cost where the feasibility studies immediately are followed by sanction and construction of the project, it is difficult for WAPDA in the absence of any capacity on the Water side to repay the loan or interest on such schemes which do not mature immediately into sanctioned projects. The Finance Department has, therefore, proposed a new formula wherein the expenditure incurred on General Investigations and in fruituous surveys of specific projects will be treated as grant-in-aid. Interest will be payable only on such projects as are taken up for construction.

In so far as Power Wing is concerned, the total fixed assets were of the value of Rs. 179.09 crore upto June, 1965. The increase in the net assets upto June, 1965, has been as follows:—

	(In crore of rupees)
1960—61	66.06
1961—62	80.02

1962—63	..	136.07
1963—64	..	156.07
1964—65	..	179.09

The gross and net return on the investment in the Power Wing has been as follows:—

	(percentages)	
	Gross Return	Net Return
1960—61	.. 10.2	2.3
1961—62	.. 11.6	5.3
1962—63	.. 10.1	3.8
1963—64	.. 12.3	2.0
1964—65	.. 9.3	2.7

The financial objective of the Power Wing was reviewed by WAPDA in 1962-63 and gross return of 12.75% over net assets was considered necessary. This should comprise of the following items:—

a) Depreciation	..	5.75
b) Interest	..	4.75
c) Surplus	..	2.25
		12.75

Until recently, the depreciation was calculated at 2.5% only against 5.75% in U. K. It is proposed that the financial objective may be revised again and interest may be placed at 5%, raising the gross return to 13%. In addition a Committee may be constituted to examine the System, Addition, Replacement and Renewal Programme of WAPDA and the scope of revising the Power Tariff to meet the entire cost of this Programme.

c) **Small Industries Corporation**

Small Industries Corporation has been set up during 1965-66. It was initially intended to transfer functions and staff from the Small Industries Division of WPIDC and the Directorate. The Corporation, however, proposed an expenditure of over half a crore of rupees against the budgeted provision of Rs. 16 lakh for 1965-66 for the Small Industries Division. It has now been decided to sanction Rs 18.36 lakh for 1965-66 and Rs. 24.2 lakh for 1966-67.

The following four Centres have been transferred from the Industries Directorate to the Small Industries Corporation:—

- 1) Government Leather Centre, Hyderabad.
- 2) Reorganisation of Government Metal Surgical and Allied Industries Development Centre, Sialkot.
- 3) Model Tanning and Footwear Centre, Gujranwala.,
- 4) Pottery Centre, Shahdara.

For the running of these Centres grant-in-aid of Rs. 5.85 lakh has also been provided for WPSIC in the N.D.B.E. 1966-67. For the development schemes of the Corporation, a provision of Rs. 66.95 lakh has been made as loan and a provision of Rs. 57.52 lakhs as grant in the development programme 1966-67.

In short there is a provision of Rs. 148.67 lakh in the developmental and non-developmental budget of which Rs. 81.72 lakh will be advanced as grant-in-aid.

In so far as the loans taken by the defunct Corporation and Small Industries Division are concerned they now constitute the liability of the successor Corporation. A study is being undertaken to determine the exact liability and the WPSIC will be required to pay interest and the principal. It is felt that the Government may have to bear losses on this account.

d) Road Transport Corporation

The balance sheet of the Road Transport Corporation for the period ending June 1965 shows that the capital invested by the Provincial Government and the Central Government is Rs. 6.15 crore; of this amount the Provincial share is Rs. 4.58 crore. The Provincial Government charges interest at 4% of its investment and receives in addition dividend at 3%. In other words the Provincial Government gets a return of 7% from the Road Transport Corporation and this is the highest percentage of return. The annual income on this account is Rs. 13.75 lakh as dividend and Rs. 18.34 lakh as interest.

The Corporation improved the rate of profits from Rs. 48 lakh in 1961-62, Rs. 63 lakh in 1962-63 to Rs. 80 lakh in 1963-64. In the year 1964-65 the profits instead of going up have gone down to Rs. 72 lakh. It is understood that if the policy of import of spares on bonus vouchers is not relaxed for the Road Transport Corporation it may run into huge losses in 1966-67. The Finance Department has, as a special measure, approached the Ministry of Economic Affairs for relaxation of the import restrictions so that the spares can be imported against U. K. credit on commercial prices.

The Corporation has built up huge reserves against its capital liabilities. The Depreciation Reserve Fund increased from Rs. 3.77 crore on 30th June, 1964, to

Rs. 4.05 crores in 1965. In addition the Corporation has a General Reserve Fund which improved from Rs. 1.99 crores in 1964 to Rs. 2.30 crores in 1965.

The assets of the Corporation are, however, going down in view of the highly depreciated fleet in use. The total assets have reduced from Rs. 23.86 crores in 1964 to Rs. 22.69 crores by the end of June, 1964. Out of the total assets of Rs. 22.69 crores the fleet, land, buildings and fittings count for Rs. 10.15 crores. The stocks and stores are of the value of Rs. 2.11 crores. The value of stocks and stores was 32% of the value of the fleet in 1964 and 24% in 1965. It is felt that there is further scope for reduction in the value and percentage of the stocks and stores.

VI. SOME THOUGHTS ON REVENUE COLLECTION

a) Organization and Coordination

The major difference between the Finance Department of the Provincial Government and the Finance Ministry of the Central Government lies in the fact that whereas in the Province the Finance Department is only the département of expenditure sanction, the Central Ministry exercises administrative control over the collection of the Central revenues. The Central Ministry of Finance is, therefore, infinitely in a better position to make proper estimates and coordinate the inflow of receipts and the outflow of expenditure in a rational manner.

The Provincial Government receives as much as 50% of its revenue receipts from the Central assignments and grants-in-aid. The estimates and releases of these assignments and grants are arranged by the Provincial Finance Department in consultation with the Central Government. It is only in regard to the Provincial taxes and other receipts that the Finance Department has to depend entirely only on the estimates and the performance of other departments. The land revenue and water rate have an elaborate system of collection. It is, however, in regard to the taxes collected by the Excise and Taxation Department that the importance and the volume is increasing year by year. The gap in performance of the Department and the expectation of Finance Department is fairly wide and with every increase in receipts will become wider still. In 1947-48 receipts under major head "VIII-Provincial Excise", "XII-Motor Vehicles" and "XIII-Other Taxes and Duties" was of the order of Rs. 2.43 crores. The receipts anticipated in 1966-67 are Rs. 20.42 crores. In the near future, this source of revenue collection will become all the more important and the ways and means position will depend on its performance. It is, therefore, proposed that:

- (a) The Department of Excise and Taxation may be re-organised. It was hardly intended to cope with all the new work which is now falling to its lot. The standard of recruitment at all levels will have to be improved.

The organizational structure will also require a complete change.

- (b) The relationship of the Excise and Taxation and Finance Departments should be more or less the same as prevailing in the Central Government

b) Contributions by Local Bodies

On provincialisation of primary education in July, 1962, the District Councils and the Town Committees were required to make contributions in lieu of the transfer of

the subject to the Government. The District Councils have to pay 30% of their local rate whereas the Town Committees pay 10% of their gross revenue receipts. The recoveries on account of these contributions were extremely unsatisfactory till it was decided that the local rate will be deducted at source with effect from the 22nd April, 1965. These deductions have solved the problem in regard to the District Councils but the Town Committees continue to be difficult.

The Local Bodies are also required to pay their contributions towards the maintenance of provincialised hospitals, salaries of District Medical Officers, Health Centres, reservation of beds at Samli and Dadhar, and on account of vaccinators and Medical Bacteriological Laboratory. The recoveries on these accounts are also slow and uncertain.

There are two issues which have to be solved in this regard:—

- a) To devise a programme for the recovery of arrears which are Rs. 2.57 crores for the years 1963-64 and 1964-65 only in regard to Primary Education.
- b) To devise a mechanism by which the contributions of Town Committees are also realised without any difficulty.

It is proposed that:—

- a) A committee comprising of the representatives of the Departments of Education, Health, Basic Democracies and Finance may be required to lay down a phased programme for the recovery of the arrears.
- b) During the period for which the arrears remain unpaid, the Local Body concerned may be required to pay interest at 5½%.
- c) It should be made incumbent on the Controlling Authorities of the Town Committees to see that the contribution is made in the prescribed six-monthly instalments and that there is no delay or default on this account. The Departments of Health and Education may be directed to send a copy of the demand notices to the Controlling Authority.
- d) The Department of Basic Democracies may examine the desirability of quarterly deductions as compared with the six-monthly deductions.
- e) The possibility of deducting amounts equivalent to demand from the Rural Works grants may also be examined.
- f) Six monthly statements of arrears, demand and collection against each should be furnished by the Department of Basic Democracies to the Finance Department.

c) Tax on Trade, Professions and Callings

A comprehensive tax on Trade, Professions and Callings was levied in the year 1964-65. The present rate is Rs. 30 P.A. and it is payable by all such persons who are assesseees of income-Tax and of land revenue above a ceiling. The Budget Estimates for 1965-66 were Rs. 41 lakh but the Department of Excise and Taxation has proposed the revised estimate of Rs. 9.33 lakh only. Similarly, for the year 1966-67 they have proposed an estimate of only Rs. 9.71 lakhs. On the other hand, the demand should be in the neighbourhood of Rs. 35 to 40 lakhs. It is understood from the Department of Excise and Taxation that they are experiencing great difficulty in obtaining information from the Income-Tax Department. It is for the lack of data now with the Income-Tax Department that on the one hand collection is meagre and on the other this regressive tax cannot be made progressive. It is proposed that instead of duplicity of collecting agencies and record the tax law may be suitably modified and its collection entrusted to the Central Board of Revenue. They can easily collect it with the Income-Tax and pass on the receipts with the Central assignments. A small percentage can be allowed as the administrative charges of the Central Government.

d) Tax on Entertainment

Receipts from the Entertainment Tax are estimated to be Rs. 3.40 crores for 1966-67. It is, however, felt that there is consideration scope for prevention of leakage of revenue from this source. If it is assumed that 25 to 30 persons evade Entertainment Tax in every cinema show the leakage would be approximately Rs. 1. crore.

It is, therefore, proposed that proposals for the prevention of leakage from this source may be examined and finalised earlier. The Finance Department proposes that the printing of cinema tickets should be taken up by the Government and arranged through the Security Printing Press.

VII. RESOURCES FOR 1966-67

The resources for financing the A.D.P. fall under the following three categories:—

- i) Provincial Revenue Surplus and Provincial Capital Receipts
- ii) Foreign Assistance in Foreign Exchange
- iii) Central Assistance including rupee aid from foreign sources.

Estimates of Foreign Assistance have been worked out over the last few months in collaboration with the Central Government. The estimates as finalised are given below:—

WEST PAKISTAN FOREIGN ASSISTANCE ESTIMATES 1966-67

(rupees in lacs)

(i) Signed loans	
(a) Central Government loans	3261.94
(b) Guaranteed loans	802.89
	<hr/>
(i) Sub Total	4064.83
	<hr/>
(2) Loans under negotiation	
(a) Central Government loans	646.00
(b) Guaranteed loans	560.00
	<hr/>
(ii) Sub Total	12,06.00
	<hr/>
	Total loans (i+ii)
	52,70.83
	<hr/>
(3) Grants	2,41.99
	<hr/>
	Total
	55,12.82
	<hr/>
	Say Rs. 55.13 crore

The Foreign Assistance availability estimate of Rs. 55.13 crores leaves another Rs. 125.37 crores to be found from the Central and Provincial sources.

The Central Government have informed that they will contribute only the balance worked out as follows:—

	(rupees in crores)
Foreign assistance	55.13
Provincial contribution as per Provincial Estimates	34.72
Additional Provincial contribution as worked out by Dacca meeting of Finance Secretaries	3.21
Extra additional revenues to be found by the Provincial Government	22.50
	<hr/>
Total Rs.	115.56
	<hr/>

On this basis the Central Government have worked out their share as Rs. 64.94, crores, thus:

	(rupees in crores)	
Net A.D.P. 180.50
Provincial Contribution & Foreign Assistance 115.56
		64.94

The issue finally revolves round the Provincial contribution. It is to be seen as to how Rs. 60.43 crores can be raised by the Province. The Revenue surplus is estimated as:

	(rupees in crores)	
Revenue Receipts (As per Abstract) 163.07
Revenue Expenditure 131.71
Revenue Surplus 31.36

This revenue surplus will reduce by the extent to which schemes/expenditure outside the Schedule is admitted and/or the Contingency Item is provided for and additional taxation will have to be levied in the same proportion.

The entire contribution can be raised in one of the two ways shown in columns 2 and 3.

	(rupees in crores)		
	1965—66	1966—67	
	1	2	or 3
a) Revenue Receipts used for Development (surplus in col. 2 & 3 varies with provision for Contingency Item and the outside SNE proposals accepted)	.. 23.77	25.15	27.15
b) Market Loan (net)	.. 7.78	10.00	10.00
c) Self-financing by autonomous bodies	.. 5.57	5.90	5.90
d) Disinvestment by WPIDC	.. 1.02	2.50	2.50
e) Unfunded Debt (net)	.. 2.95	1.95	1.95
f) Railway Reserves (net)	.. 11.09	10.26	10.26
g) Other Deposits (net)	.. 2.49	(—)0.89	(—)0.89
h) Other Capital Receipts (net)	.. 2.87	1.35	1.35
Total	.. 57.54	56.22	58.22
Additional taxation	..	4.21	2.21
Total Provincial Contribution	..	60.43	60.43

Finance Department proposes that the pattern of financing as given in column 3 above, with such marginal adjustments as may be necessary, may be accepted.