

Balochistan

Introduction

On 18th of June 2021, amid chaos of political parties in the Balochistan Provincial Assembly, the Finance Minister of Government of Balochistan (GoB), Mir Zahoor Ahmad Buledi, was able to present his government's third budget of PKR 584.08 billion for financial year 2021-22. The current budget added a new sweetener being named as a Development budget as government allocated PKR 237.22 billion for development expenditure (PSDP and other development expenditure included). The present budget promises to focus the attention in the post-pandemic time to development expenditure that would drive more sustainable jobs. This development enthusiastic budget is actually a 126% jump from the previous year's revised figures. This would surely raise a lot of ears as people struck with continuous lockdowns are looking for relief from governments. Balochistan government is expecting to get PKR 499.36 billion in total revenues which involves additional PKR 60 billion through provincial receipts. This would surely add more taxes on masses in order to minimize the budget deficit, which unfortunately isn't the case yet. Federal Divisible pool (NFC award) which is the major source of revenue for Balochistan, the government would be shared PKR 355.94 billion that would provide a breathing space to exchequer of the provincial government.

The cash scarce province faced a

budget deficit of PKR 50.03 billion in FY 2020-21 which is quite lesser than what budget estimates were set and for next year, the government is estimating deficit to rise to PKR 84.72 billion with growing current expenditures. The Balochistan government has targeted to generate PKR 34.2 billion in provincial tax revenue which is a 57% increase in taxes as compared to last years (R.E. PKR 21.78 billion). For the upcoming year, government is hopeful to meet tax revenue targets like previous year. During budget sessions, Chief Minister of Balochistan had promised incentives for the people; from additional 5,854 government jobs, to an increase in pay and pension of the provincial government employee, to health card facilities for additional families and many more. All eyes are on the government as it is nearing its tenure end.

The major part of expenditure is the current expenditures of the government. Out of the total current expenditures of PKR 346.86 billion (B.E. 2021-22), 63% would be used to pay salaries and pensions of the employees. This creates an increasing burden on the provincial finances as the government is faced with lesser revenue streams which makes them reliant on the federal pool for revenue. The figure below is a brief on estimated budget for fiscal year 2021-22.



Taimoor Ali Butt

Student, PIDE



Head of Account	Budget Estimate 2021-22 PKR in billion
Federal Receipts	355.93
Provincial Receipts	103.21
Foreign Project Assistance (FPA)	17.35
Other Receipts	7.37
Cash carry on (already received cash from FPA, etc)	15.48
Total Provincial Consolidated Fund Receipts	483.88
Current Expenditure	346.86
Development Expenditure	237.22
Total Provincial Consolidated Fund Payments	584.08
Net Consolidated Fund Surplus/(deficit)	(84.72)

Moving on, the three areas of the budget will be briefly discussed i.e. Revenue Generation, Government

expenditure (Current and Development) and Provincial Debt.

Revenue Generation

Balochistan depends mostly on receipts from federal side in form of Federal Divisible Pool, Straight Transfers and Grants. The share of federal receipts in total receipts is 72% which is as per the 18th Amendment through NFC Awards. It is unlikely that the province is only able to generate around 15% of receipts on its own. For the Fiscal Year 2021-22 the gov-

ernment has targeted to generate PKR 499.36 billion in revenue which will comprise of PKR 323.39 billion from Federal receipts and PKR 103.20 billion from own receipts as shown in table 1 above. The provincial consolidated fund receipts is classified into two heads and sub classified further each will be briefly discussed ahead:

1. Federal Revenue Receipts

Federal revenue receipts received for FY 2020-21 were at PKR 302.31 billion which are targeted to be increased to PKR 355.94 billion. These receipts are sub-classified into:

- Federal Divisible Pool (as per NFC Award share received);
- Straight Transfers (Royalties paid on extraction and use of minerals),
- Arrears of Gas Development Surcharge (Under Aghaz-e-Haqooq Balochistan each year PKR 10 billion paid to government of Balochistan) and;
- Federal Development Grants (Federal PSDP Grant and budget support by foreign development partners).

2. Provincial Revenue Receipts

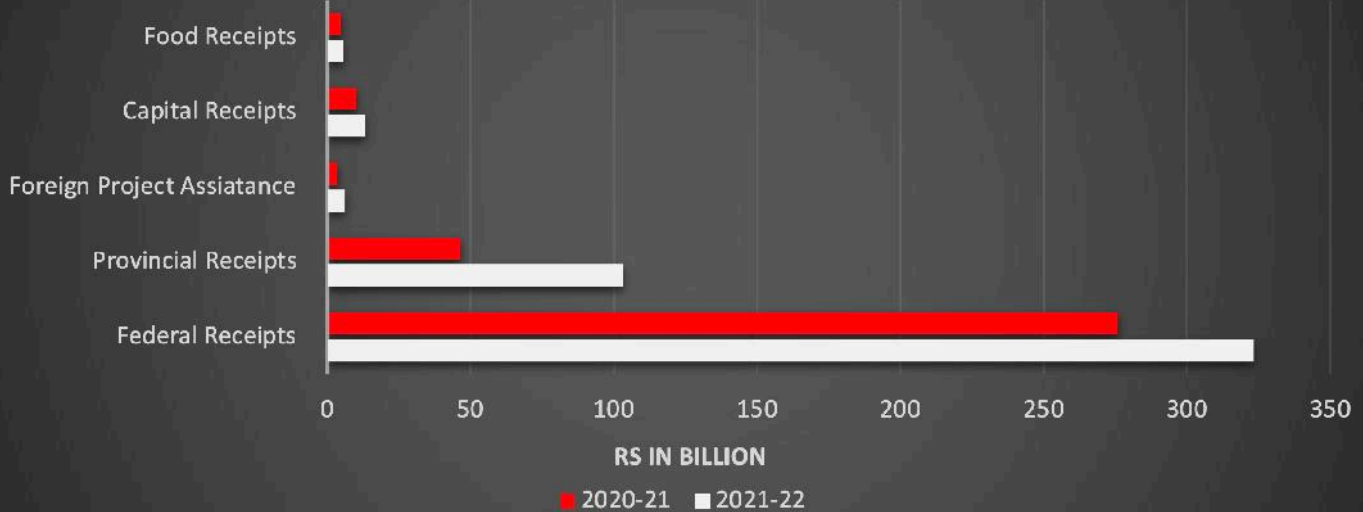
The other source of revenue for the government is through its own sources. That maybe tax revenue or non-tax revenues. Around 122.4% growth

has been recorded since last year in provincial receipts. The major share is by non-tax revenue which includes receipts from civil administration or publicly owned property, toll, fee collected by departments or extraordinary receipts, recoveries etc. The other part is the tax revenue which is collected by Excise and Taxation Department, Balochistan Revenue Authority, Transport Department, Energy Department and Board of Revenue. Government plans to collect PKR 103.21 billion from its sources for FY 2021-22 which is quite a hypothetical figure as it would mean 263% increase.

3. Current Capital Receipts

These include receipts from all loans borrowed or raised by the government, or recovery of loans, withdrawal of any investment, and food account which is the food/commodity trading by state. The figure below shows a comparison between budget estimates for revenues for FY 2020-21 and FY2021-22.

Receipt Budget Estimates FY 2020-21 & 2021-22



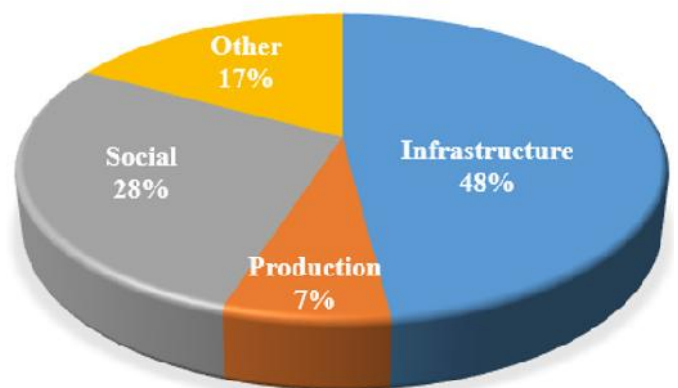
Government Expenditures

Article 118 of the Constitution of Pakistan classifies provincial expenditures as Provincial Consolidated Fund and Public Account. The total outlay for the Budget 2021-22 is estimated to be at PKR 584.08 billion. Majority of the estimated allocations under this budget are being made for current expenditure which stands at PKR 346.86 billion of which approx. PKR 218.52 billion is allocated for salaries, pensions and other benefits for the Government of Balochistan employees. On the other hand, the other part of the expenditure is the development expenditure for which the provincial government had allocated PKR 172.53 billion as provincial PSDP or ADP, PKR 16.61 billion is expected through Foreign Project Assistance and PKR 48.02 billion will be allocated through Federal Development Grant.

The government of Balochistan has endorsed a significant feedback-based formulae for provincial PSDP. This is made possible via “bottom to top approach” under which the public identifies the problems and proposes solutions and programs which are then considered under development projects. For this purpose, the Department of Finance had conducted Pre-budget surveys and seminars in different universities. The current PSDP comprises of additional 2286 projects that will cost PKR 76.65 billion (1525 existing projects costing PKR 336.93 billion have been carry forward). The focus of attention for the present

government is to expand and develop infrastructure that would create spillover effect in job market. Hence the majority share is in infrastructure development. Preference has been given to the Communication sector in infrastructure development where it holds 24.15% of share in PSDP having 873 projects, then health 14.46% with 976 projects and irrigation occupying 10.58% budget with 262 projects.

SECTORAL ALLOCATIONS



Debt Management

Since the 18th amendment of the 1973 constitution, Article 167 allowed provinces to raise domestic or international loans as per their requirement but up to 0.85% of national GDP. As yet, no province had raised debt on its own except Punjab. Balochistan obtained foreign loans that were obtained by the federal government on-lent to Provincial Government basis. Total debt of Balochistan Government will be PKR 48.2 billion as of 30th June 2021. The present provincial government established the Debt Management Unit (DMU) that ensures that the financing received is feasible for the government and portfolios are effectively managed. The majority of the foreign debt is from World Bank (International Development Association, International Bank for Reconstruction

Key Interventions

Since the federal government came into power, the austerity drive was initiated to manage the rising fiscal deficits that would curb the rising current expenditures. Covid-19 had an abrupt impact on all segments in society and all sectors of the economy. The focus of government immediately had shifted to working on health and social protection. Due to lockdowns, unemployment rose which led to more than 3 million people becoming unemployed. Other than that, a PBS survey on the impact of covid-19 found that in Balochistan around 51% of the total household's income was disturbed due to lockdowns. These factors need direct interventions. Since the time government came into power, government officials didn't get any salary raise. Following the footsteps of the federal government, Balochistan Government also announced a 15% rise in salaries of BPS 1-19 employees of the provincial government. Further, the government has also increased allocations to employee retirement benefits in form of pensions and gratuity with additional PKR 7 billion. The government to provide social service to masses has made multiple funds such as:

- KUMAK-Special Person's Support Fund- PKR 2 Billion.
- Balochistan Minority Communities Welfare Fund- PKR 500 million.
- Balochistan Food Security Revolving Fund- PKR 1 billion.
- Balochistan Education Endowment Fund- PKR 1 billion.
- Apna Ghar (Balochistan Employees Housing Finance Fund)- PKR 3 billion.

and Development) and Asian Development Bank. Looking at the sector-wise distribution of debt, it was found the following are key sectors that absorb most of the provincial debt;

- Education (23.4% i.e. PKR 11.2 billion debt)
- Communication & Works (17.2% i.e. PKR 8.25 billion)
- Water (14.75% i.e. PKR 7.12 billion)
- Agriculture (11.7% i.e. PKR 5.39 billion)

During the FY 2021-22, the government will be repaying PKR 7.28 billion including interest payments which is lesser as compared to last year's PKR 5.72 billion.

- Sarsabz Balochistan Scheme (Solarization of Agriculture tube wells)- PKR 2 billion.
- Establishment of Bank of Balochistan.

Further, the government had announced PKR 5.55 billion for health insurance scheme for general public which will include health cards for marginalized. It is to be mentioned that due to pandemic, government's expenditure on the health sector had automatically risen. This year, not only current but development expenditures have increased for health sector of Balochistan. The government has separately allocated PKR 700 million for emergency use for Covid-19 pandemic. For FY 2021-22, the Balochistan Government will be paying Subsidies, provide Grants and Write-off loans worth PKR 54.62 billion.

Review of Fiscal Year 2020-21

The previous fiscal year 2020-21 had been a test phase for all the provinces and federal government as well. With consistent lockdowns, the government had to provide subsidies to multiple sectors to keep them running. But since the industries revival after the second quarter, and with a lower interest rate in the country. There has been increased growth in the economy which had led to 3.94% GDP growth last year. The previous GoB's Budget for FY 2020-21 provided tax reliefs to mitigate the Covid impact on individuals and corporations. It was expected to generate PKR 46.4 billion from its own sources (tax and non-tax revenue) but was only met half-way as per revised estimates, the government was able to collect

PKR 28.37 billion which is a major fallout in previous years performance. Further, the capital receipts target was also not achieved which remained low; PKR 2.01 billion as compared to a target of PKR 10.04 billion. Overall, the total revenue target was set at PKR 377.9 billion but only PKR 336.98 billion was achieved.

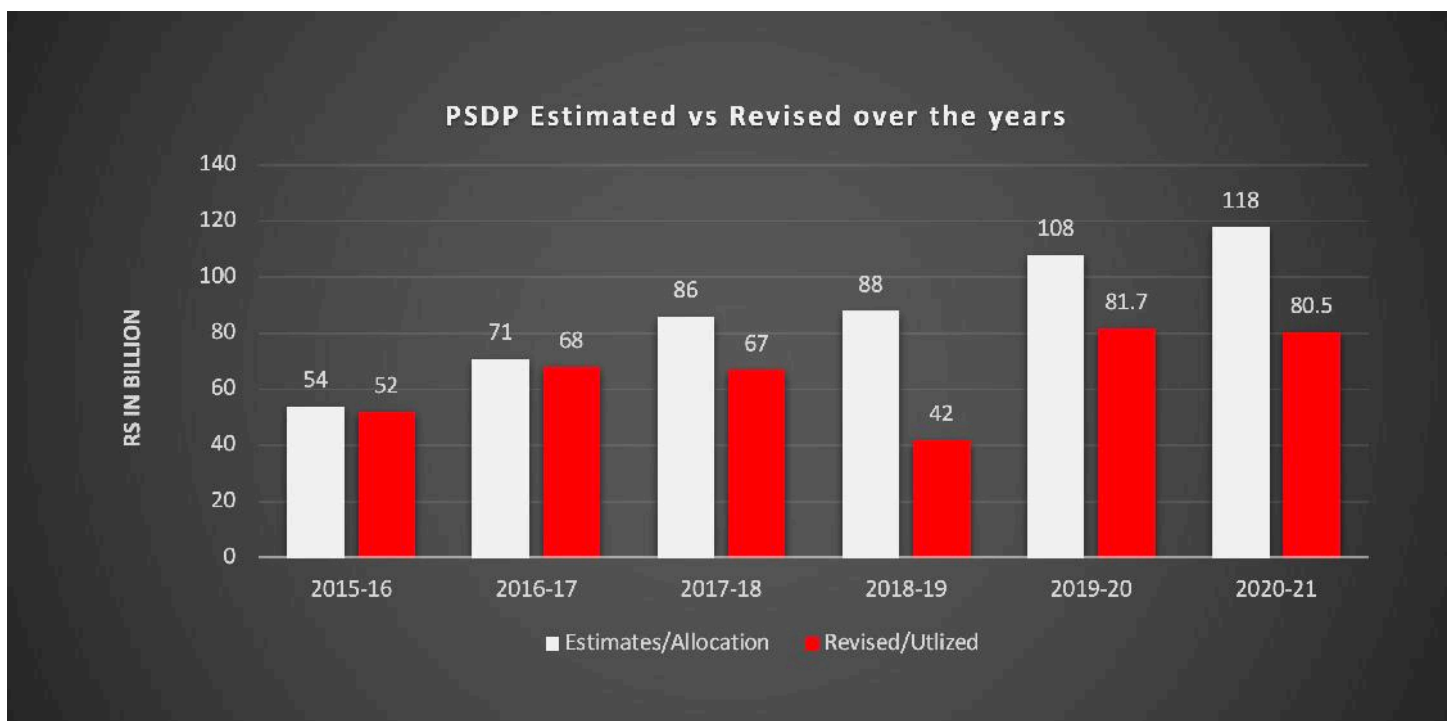
Looking at the expenditure side of the budget 2020-21, the government had reduced its expenditures as compared to the targets/estimates at the start of the

Comment

Like always, the first comment on any budget is political in nature which usually comes from the leader of opposition in all assemblies. The goal for every government is to not only ensure that the public, as well as their opposition in assemblies, remain satisfied. For which we can see that the slogan of “Tax-Free Budget” is sold to the people. But what one fails to understand is collecting revenue is the only source that will keep the economy running. With time, expenditures will rise as more development projects would mean more current expenditures, more loans would mean more interest, grants and subsidies are needed to keep the sectors running. The present budget seems to be a try to manage expenditures but also hold the political ground.

As federal and provincial governments in tenure of PTI had shrunk their spending as an austerity move, but with 2 years remaining in power, it seems that they

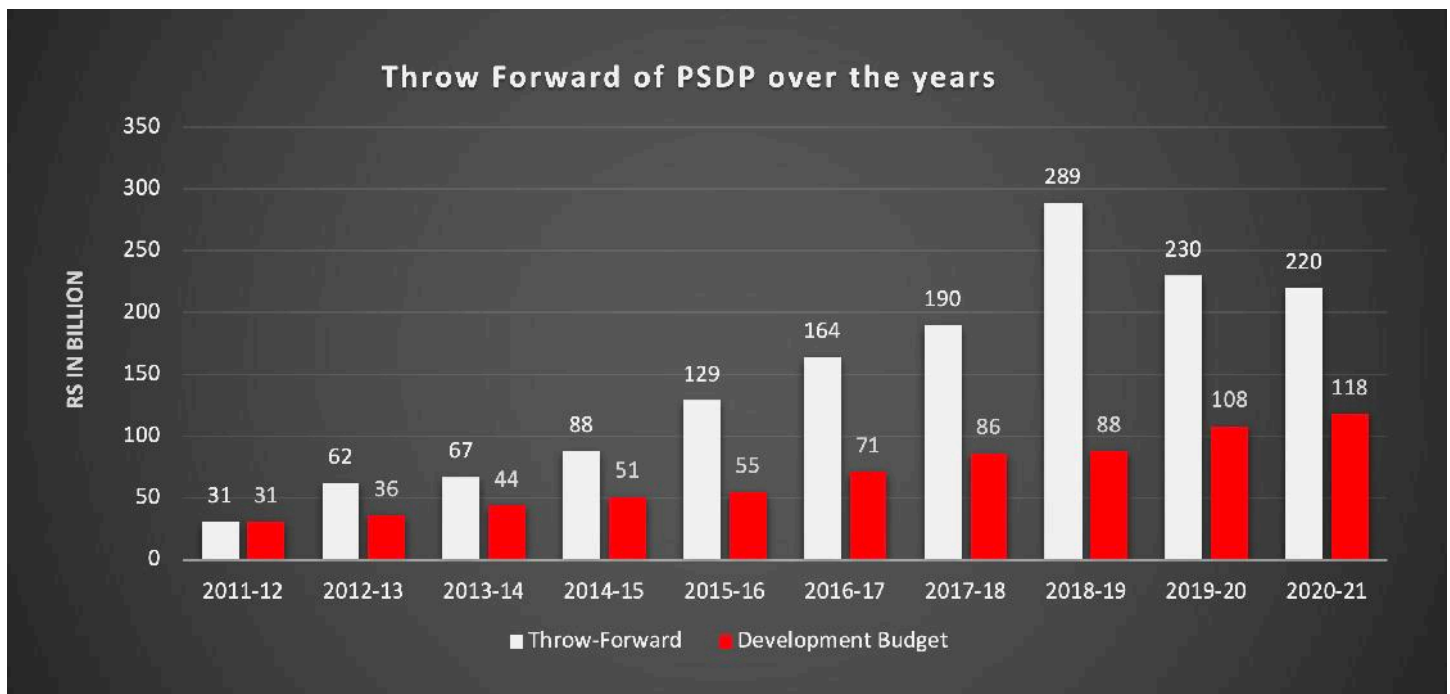
will be utilizing maximum development budget in upcoming years which will be adding more physical infrastructure to the network. Although it is easier to set targets, yet it is difficult to arrange them. The first major concern to me was the blatant target of PKR 103.21 billion provincial receipts. This is a jump of 122% as compared to the previous year’s estimates. The above statement isn’t just a sweeping statement that it’s hard to manage targets because there is a failed track record of governments at the federal and provincial levels to achieve these goals. Revised estimates for last year show that only half of provincial receipts were collected (PKR 28.37 billion as compared to PKR 46.41 billion) which was a similar case for FY2019-20 (PKR 22.93 billion generated as compared to a target of (PKR 34.18 billion). So it’s fair to say that these targets are mere political winning stunts.



The expenditure side for FY 2021-22 looks promising as government has allocated to spend PKR 237.22 billion as development expenditure (Federal, Provincial and Foreign combined). Previous years allocations show a trend of government not able to utilize its development budget allocation completely. The figure here shows how much with years there has been a difference in the estimated/ promised vs what is happening. These have to be addressed rather than being ignored with a possible explanation. Further, every year PSDP throw-forwards are increasing not only at federal level but also at the provincial level. Latest data showed that the throw forward in Balochistan is around three times the original PSDP that year. This always leaves less space for government to add newer projects as the old costs and projects have to be completed in a priority. This shows

administrative as well as political failure to complete projects on time. The figure below shows position of throw forward in last 8 years. Comparing previous year (FY2020-21) and current year (FY2021-22), the ratio of ongoing and new projects has risen from 51:49 to 60:40. This implies that it is expected to rise again putting pressure.

To attain the goal of citizen-friendly budget, these loopholes have to be addressed and matters have to be addressed not politically. Taxes will have to be increased to manage deficits at national and provincial levels. Current expenditure is surely like a shooting star at this at all levels which cannot be addressed easily with austerity measures but with effect reform policy that would mean effective productive taxes to be generated enough to balance the equation.



Q: Why should you always try to order rare goods from economists?

A: They can always supply anything on demand.

