

EXPENDITURE PLANNING ISSUES

**BY
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1. INTRODUCTION.

1.1 National Finance Commission (NFC) Award, 1991 transferred resources to the provinces in order to create an atmosphere of autonomy and self-financing. But, at the same time greater devolution of authority generated pressures on the provinces to live within the resource base decided in the Award. The practice of picking up provincial deficits and non-obligatory grants was discontinued. It was envisaged that the current revenue expenditure of provincial governments will grow at a rate of 14% while the growth of provincial receipts was projected at 8%. This gap, to some extent, was anticipated to be bridged by transfers from divisible pool taxes anticipated to grow at an average of 16%. These projections make it imperative that either there is a concerted effort for resource mobilization or the growth of current expenditure is slowed down. Resource mobilization by the province is constrained by the fact that the provincial taxes are in-elastic. This inelasticity, to some extent, can also be attributed to lack of initiative to convert fixed rates into ad-valorem taxes, but by and large, provincial tax base is so narrow that new measures attract public criticism disproportionate to resource generation.

1.2. It is very difficult within the existing socio-political frame-work to reduce government expenditure from the existing level at current prices. Government is still the single largest employer and there are legal constraints to lay off the government servants/workers or link their employment with productivity. Even if a project has completed its cycle or a certain activity is terminated, there is no reduction in staff and the government employees are usually placed on surplus pool with no corresponding economies in expenditures. It becomes all the more important that instead of taking drastic

measures, a proper care is undertaken for expenditure planning. The appropriate approach to such planning may be to look into the growth pattern based on historical trends and then fix priorities of future expenditures in such a way to get maximum efficiency in resource utilization by being cost effective.

2. PERSPECTIVE OF PUBLIC EXPENDITURES:

2.1. An analysis of provincial expenditures of one decade i.e. 1983-84 to 1992-93 shows that, contrary to common belief, the percentage allocations to general administration and law and order has gone down from 11.95% of the total budget in 1983-84 to 10.75% in 1992-93 as is evident from the following table: -

STATEMENT SHOWING TOTAL NON-DEVELOPMENT REVENUE EXPENDITURE DURING 1983-84 AND 1992- 93 OF VARIOUS FUNCTIONS/SECTORS.

(Figures in thousands)

S No.	1983-84	% Total Budget	1992-93 (Estimates)	% of Total Budget.
1. Organs of State/ Law and Order.	1,31,17,03	11.95	4,66,15,37	10.75
2. Community Services.	61,59,46	5.62	2,49,09,75	5.74
3. Social Services.	3,56,75,81	32.52	16,97,15,54	39.14
4. Economic Services.	2,22,10,96	20.25	5,33,93,50	12.31
5. Subsidies.	39,71,23	3.62	74,33,37	1.72
6. Debt Servicing.	2,13,39,72	19.46	10,10,43,34	23.30
7. Others.	72.14.54	6.58	3.05.47.74	7.04
Total:	10,96,88,75	100.00	43,36,48,61	100.00

2.2. There has been a clear shift in expenditure priorities. The allocations have changed in favour of social services at the expense of economic services. There is a marginal increase in allocations to community services. This change in pattern can be attributed to similar shift in allocations to Social Sectors in the development budget. The massive expansion of Social Sectors in the 1980s has increased allocations from Rs.356 crores in 1983-84 to Rs.1697 crores in 1992-93. It has registered an average growth rate of 17.3% which is much higher than the projected rate in the NFC Award. Even at the present allocations it is becoming difficult to sustain the existing level of services. The Social Sectors are also the biggest employers and any change in the salary structure or pay revision leads to greater percentage allocation.

2.3. The increased allocations to Social Sectors do not necessarily mean that the quality of Social Services has proportionately gone up as most of it has been absorbed by increased salary bill.

**STATEMENT SHOWING NON - DEVELOPMENT
REVENUE EXPENDITURE FOR EDUCATION AND
HEALTH SECTORS DURING 1983-84 & 1992-93.**

(Figures in Crores)

Name of the year.	Salary	% of total allocation	Non-Salary	% of total allocation	Total
13	289.34	86	45.34	14	334.68
1992-93	1388.49	89	179.21	11	1567.70

In Education and Health Sectors, the percentage allocations to salary component has increased from 86% to 89% while the non salary component has gone down from 14% to only 11%. This percentage for non-salary component would have been much lower if the Punjab Government had not

revised the yard-stick to increase allocations from Rs.64.96 crores in 1991-92 to Rs. 105.50 crores in the current budget for commodities and services in the Health Sector. This decline in allocations to non-salary component has a direct reflection on the quality of services.

2.4. The decline in percentage share of economic and community services is having an adverse impact on the maintenance of existing economic infrastructure. The allocations for maintenance of Roads, Buildings and Irrigational net-work are below the norms and standards required to meet depreciation cost of the capital stock.

**STATEMENT SHOWING THE ALLOCATIONS FOR M&R
1983-84 TO 1992-93**

(Figures in thousands)

Year	M&R Grant	Total Budget	Percentage of Total Buderet.
1983-84	1,12,93,70	10,96,88,75	10.29
1991-92	2,24,79,54	37,05,27,86	6.06
1992-93	3,29,60,00	43,36,58,61	7.60

The allocations for M&R were kept at constant levels from 1986 to 1990 and marginally increased in 1991-92. The rate of depreciation allowance was frozen at the level of 1982. It was only revised in the current budget when allocations were increased by Rs.105 crores.

2.5. The most disturbing area of provincial expenditures is debt servicing which has increased from 19.46% of the total budget to 23.30%. The major contributory factor is the cash development loan advanced by the federal government for financing the development budget.

**STATEMENT SHOWING THE CASH DEVELOPMENT
LOAN & ITS DEBT SERVICING 1983-84 TO 1992-93.**

(Figures in thousands)

Year	C.D.L.	Debt Servicing	Net Capital Inflow
1983-84	3,43,20,65	1,88,12,64	+1,55,08,01
1992-93	6,68,63,84	9,81,38,61	-3,12,74,77

Debt Servicing for CDL has increased from Rs.188 crores in 1983-84 to Rs.981 crores in 1992-93 resulting in net capital outflow of Rs.312 crores.

2.6. If we segregate the expenditures on salaries and pensions of all sectors, then, its percentage share has gone up from 50.68% to 56.24% as indicated below:

**STATEMENT SHOWING EXPENDITURE ON PAY &
PENSION 1983-84 TO 1992-93.**

(Figures in thousands)

Year	Allocation for Pay	Allocation for Pension	Total Budget	% of Total Budget
1983-84	5,01,51,52	54,37,91	10,96,88,75	50.68
1992-93	22,38,72,70	2,00,00,00	43,36,58,61	56.24

2.7. The expenditures on debt servicing combined with salaries and pension account for 79.54% of the total budget leaving only 20.46% for maintenance of existing assets and improving the quality of social and community services.

3. INTER-SECTORAL PRIORITIES.

3.1. In the development process government has assumed greater responsibility in both the production and services sectors which is now in need of review in the changing socio-economic priorities. The role of public and private sectors has to be defined precisely and clearly. As the public-resources

are scarce, therefore, the pre-requisite of efficient allocation is to formulate a priority list of activities to be undertaken by the public sector. The pronounced policy of the Government for privatization is a recognition of the problem. However, the privatization and devolution of authority may be extended from projects to sectors and within sectors the inter/intra-sectoral priorities be determined. Public Sector programmes had already undergone a change and this must continue to achieve efficient use of resources.

3.2. The analysis of past trends has revealed that Social sectors have gained priority over economic services and general administration. This seems to be in line with the current thinking but a critical and dispassionate analysis can bring out one reality that the basic function of the government is being relegated to the secondary position. An efficient government is known by a cost effective administration to achieve a crime free society for saving investment activity to have free access to resources. It is fundamentally the primary function of the state. Provincial governments are directly involved with law and order and any deterioration has an adverse impact on economic activity. It is not necessary that this sector may be given enhanced allocations but the performance can be improved by efficient use of resources. The grass root institutions of general administration and police are in desperate need of upgradation, improvement and modernization. In expenditure planning the ranking of this sector may be reviewed so that in the flush of emphasis on social sectors, the primary function of the state is not over-looked.

3.3. The economic services and government infra-structure are public goods and its quality has a direct impact on G.D.P. Expansion of infrastructure adds to the capital stock but lack of adequate allowance for depreciation decreases its net worth with adverse results on productivity of services. The decline in allocation to economic services is quite disturbing and

is in serious need of rectification/revision. Within current expenditures highest priority may be allocated to maintenance of existing capital stock which will yield better economic rates of return.

3.4. The government has assumed a much greater responsibility, disproportionate to its resource capability, in providing the community and social services because of following reasons :-

- (i) It was an attempt to rectify the past neglect to the social sectors. The allocation to these sectors had lagged behind in the 1960s and 1970s but the trend was reversed in 1980s.
- (ii) All over the world, community and social services are provided by the local government institutions which generate sufficient user charges or raise local taxes to finance these activities. As these services are disaggregated at the micro-level, effective monitoring and supervision can only be undertaken by the community deriving social benefit. The failure of local government institutions to deliver these services has led the government to arrogate their responsibilities. Perhaps, the truth may be to the contrary, and can be assumed, that the local government institutions were never allowed to grow and act independently.
- (iii) Nationalization and provincialization of private and local government educational institutions discouraged the local bodies, private sector and NGOs to invest in education. Reversal of the policy in 1980s did not elicit the same response and it is only in the last 2 years that the activity is picking up and that too in the urban areas. The Government had to invest heavily in primary education in rural areas to arrest the deterioration in literacy rate.

3.5. The increased allocations to social sectors have been consumed by greater share of salaries component which may be due to over employment, under utilization of capacity and in-efficient use of allocations. There seems to be little evidence of positive impact on literacy rate, participation ratio and health coverage in rural areas. Lack of monitoring and supervision of the delivery system has emerged as the critical factor which is difficult without community participation. It is becoming increasingly important to have a necessary balance in the salary and non-salary components of social sectors so that the quality of services could be improved.

3.6. The social sectors are also the biggest employers with tendencies to create more jobs disproportionate to requirements. There are local pressures, therefore. Social Sectors have emerged as a major source of extending political patronage in the rural areas. In certain cases, the demands are not based on genuine needs but preferred for generation of jobs. It is for this reason that the growth of current expenditures in these sectors had been much higher than anticipated. At the existing level of allocations to social services, even a 10% growth rate will be at the cost of other sectors. The envisaged SAP programme will generate further pressures on the non-development budget. It will be difficult for the province to meet these liabilities in the existing resource base unless budgetary support is provided out of SAP funds.

3.7. The cost of debt servicing has reached a level where there is a net capital out-flow with a consequential squeeze on provincial resources. Upto 1987-88 CDL was more than its debt servicing with a positive impact on resources. After 1987, Debt Servicing has been increasing at an average rate

of 15% which will be difficult to accommodate in the projected growth of receipts/resources of the province. The existing institutional arrangement is in need of serious review.

4. DEVELOPMENT EXPENDITURES.

4.1. Development expenditures have traditionally been financed either through the cash development loan arranged by the federal government or by generating surplus in the current budget. It is assumed that these expenditures increase economic activity, contribute to GDP and add to capital stock. The increased income enables the government to repay the loan/clear the debt. Its theoretical basis is possible to achieve where there is strict discipline of project evaluation and resources are allocated by observing norms and standards. An analysis may reveal the following problems:

- (a) The projects only reflect the departmental priorities with no direct impact on the target group. Project components may have no co-relation with the objectives. It has been witnessed that, in some cases, projects are only prepared to enhance the size of the department resulting in over-employment and excess capacity.
- (b) The institutional arrangement of performance evaluation at the completion of project cycle has fallen in disuse. The project may be successful or unsuccessful but it is very rare that the employment has been linked with performance. It, then, becomes one of the major sources of net addition to recurring expenditures without net addition to income or production.
- (c) The departments, some times frame projects not to achieve realizable development targets but to get promotion posts and v consumer durables. The tendency is much greater in the projects

financed by foreign loans/assistance as the priorities of the lending agencies, which are usually in line with the departments, lend weight to such pressures.

4.2. In view of the above referred contributory factors,, such development expenditures have led to over employment, under-utilization of existing capacity and greater size of the current budget. It will be appropriate, at this time, to have a review of existing institutional arrangements of formulating the development projects/plans. The long term perspective with a macro view of inter-sectoral complementarities need to be developed to achieve not only cost efficiency but also cost effectiveness. Expansion is always very attractive but getting the maximum rate of return depends more on consolidation and upgradation of the existing capital stock.

4.3. Another major area of cost escalations is the Tammir-e-Watan Programme funded on the priorities indicated by the public representatives. It has resulted in thousands of projects at the local level which are now in dire need of stock taking. These projects have been implemented to satisfy local needs with no corresponding linkage with the social and economic infrastructure of the province. These projects are in desperate need of providing the missing links to make them more useful. As no stock taking has been undertaken so far, therefore, the issue of O&M cost of these projects is still undecided. It may be worthwhile to allocate resources for the next 2 to 3 years from the same programme to upgrade and consolidate the projects which have already been established or are in various stages of implementation.

CONCLUSION

1.1. The above analysis of the past trends in expenditures and inter-sectoral priorities give rise to the following issues/policy options:-

- (i) General/fiscal administration, administration of justice and law and order is in need of upgradation and modernization by better training and effective use of resources. These are the basic function of the state which cannot be ignored.
- (ii) There is a need to have an appropriate balance between salary and non-salary components of the current expenditures so that the quality of social services could be improved. This can only be made possible if a greater emphasis is placed on consolidation rather than expansion.
- (iii) The resource base and institutional arrangement of local government institutions are in desperate need of upgradation. Their confidence to undertake the community and social services should be revived. Unless this is done, it will become increasingly difficult for the provincial governments to undertake the increased responsibility as envisaged in the SAP Programme.
- (iv) In the non-development budget, the maintenance of the existing capital stock may be assigned the highest priority. The expansion in infrastructure without an adequate maintenance allowance will not yield the desirable rate of return.
- (v) The development and non-development expenditures should be redefined to bring them in line with increased emphasis on social sectors. The existing institutional arrangement is, that the cost of building and structures come from the development budget, while the salaries of teachers and doctors are financed from the non-development budget. For social services the salary component is an investment in human capital.

- (vi) In the development budget, an appropriate balance is required between allocations for new and on-going projects. The over emphasis on expansion in the last five years has brought the province to a point where the throw-forward of ongoing projects will absorb an allocation of 700 to 800 crores per year to complete them. These annual requirements are equal to availability of funds for development budget. This situation is more relevant for economic infra-structure and projects initiated under the Taamir-e-Watan Programme. It is imperative to review it, and if possible, the new projects should not be undertaken till such time all the on-going projects are completed in the shortest possible time. This will be more cost effective with greater returns.
- (vii) There is a lack of knowledge or realization about the cost of funds for development budget which carry a very high rate of interest. The system of project approval may be made more rigid in order to check waste of resources on uneconomic projects and schemes. An attempt can be made to develop the system of "performance budget" to ensure efficient allocation of resources.
- (viii) The institutional arrangement for the cash development loan may be reviewed. In order to provide relief to the provinces, federal government may consider to reschedule, and if possible, waive off the debt burden of the provinces. It may be followed by allowing the provinces to raise loans in the market for development budget as envisaged under Article 167 of the Constitution. It will create greater budgetary discipline and generate pressures on the provincial governments to economise in development expenditures. Moreover, the response of the market will be an automatic check to remain within the resources.