

Lessons from IGC Pakistan

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Priority Themes for IGC Pakistan

- Macroeconomic management and new growth initiatives
- State capabilities and conflict
- Social services and inclusive growth
- I will talk today on a few specific projects possibly relevant for Bihar
 - Property tax project in Punjab
 - Floods: providing evidence base for effective public interventions
 - Design of Local Government System

Context of Property Tax Project

- Resource mobilization is a priority issue in many countries – especially ones dependent on vertical transfers.
- Enhancing local revenues is a priority for Punjab as its transfers from the Centre suffer from a low and declining tax to GDP ratio
 - ▶ 35% in developed countries, 15% developing countries
 - ▶ 9.5% in Pakistan in 2008 (12.5% in 1996)
- Property tax is potentially an important source of provincial revenue – but current collection level is roughly one-fifth of international average
- Traditional solutions have been implemented but have never been rigorously evaluated
 - E.g., salaries of various public sector units were doubled in recent years
 - but policymakers perceive this had not any impact on performance
- Increasing recognition within government of the need to find deeper solutions for pressing public problems – hence the need to engage with national and international researchers

Project Concept/Design

joint work with Ben Olken (MIT) and Asim Khwaja (Harvard)

- Testing the role of wages, incentives and audit on tax inspectors' behavior
- Randomized Control Treatment over 240 tax circles covering most of Punjab involving
 - Pure wage increase
 - Pure wage plus audit
 - Output based incentive
 - Output based incentive plus audit
- Pilot project involving 11 tax circles currently underway, with full project set to be launched next year

Process of Engagement

- What's in it for policy makers:
 - International expertise
 - Strategic design engagement
 - Build reform support
 - Generalize lessons to other areas (civil service reform more broadly)
- Why it's worked well:
 - The project has been designed on the basis of close engagement between the tax dept and researchers – already a year and expect it to continue.
 - Multi-tiered engagement:
 - all tiers in the tax dept (from constables, clerks and inspectors to senior tiers), and
 - with all stakeholders in other depts (Finance, Planning and Development, Law and Regulation Depts, and with elected policymakers).
 - Chief Minister has approved the design and its costs for both the pilot and full project
 - Truly joint venture:
 - Intellectual partnership – researchers with tax dept experts
 - Resource partnership – Researchers fund survey/design costs (20% of project costs) & Govt funds actual incentive pays (80% of project costs)

Lessons for Researchers and Policymakers

- Broad buy in of all players, and continuous engagement, though time consuming, is key to ensuring sustainability
- There need not be a mismatch in time horizons of researchers and policymakers, so long as there are multiple products, not just the final evaluation. For example apart from the main project evaluation:
 - Tax Inspector Performance Measurement
 - Statistically & Objectively estimate tax personnel performance
 - Data Guided Circle Redrawing
 - Rationalize tax circle boundaries using empirical analysis
 - Capacity Building within Government
 - Data Compilation and Analysis
 - Quality and extent of data will improve
 - Data analysis will improve dramatically as a result
- We hope this is start of many such interactions!

Floods in Pakistan

- Unprecedented scale of disaster!
 - estimated 20 million people have been affected, more than the 2004 tsunami, the 2005 Kashmir earthquake and the 2010 Haiti earthquake combined
 - “the biggest humanitarian crisis in recent history” - United Nations
- The conventional approach to rehabilitation – comprising of Rescue, Relief, Rehabilitation and Reconstruction – needs to be augmented through
 - Providing information base for rehabilitation efforts and better flood management
 - Transforming the flood-affected areas through more effective public interventions

Floods in Pakistan

- IGC Pakistan team (led by Dr Sohaib Khan, LUMS) is supporting the flood relief effort through several projects, including developing an information portal with spatial data available to all stakeholders (government, media, NGOs, donors, citizens)
- Updated geo-spatial GIS-ready data made available to all. This covers:
 - base layers (villages, roads, infrastructure, population spread);
 - Thematic layers (hospitals, shelters, hydrology, fault lines etc.);
 - Event related data (disaster footprint, response resources, up-to-date satellite imagery)
- <http://floodmaps.lums.edu.pk/>

Floods in Pakistan

- Objective: no village or locality is left behind and no affected voice is left unheard
 - Lowering the cost of coordination
 - Public supply of information to ensure that public programs become accountable to the public
- Medium term research: analyzing determinants of development funding and rehabilitation spending; exploring collective action and government spending choices in flood affected districts at the local level

Decentralization and Local Democracy

- Decentralization important for better service delivery, Competitive local democracy is also vital for strengthening national democracy – by increasing competition and supply of democratic politicians with reputations
- This is especially true for Pakistan due to the counter-cyclical pattern of local and national democracy
- Current ongoing work with Asim Khwaja (Harvard) and Ali Cheema (LUMS), we explore impact of the 2001 decentralization reforms in Pakistan, especially the effects of fiscal and political incentives on public provision
- IGC-supported ongoing work with Roger Myerson (Chicago) and Ali Cheema (LUMS) providing input to the government in institutional design of local government institutions
- Scope for shaping the policy debate on the optimal design of such institutions – electoral mechanisms, fiscal sharing and optimal design of transfer mechanisms.