Rebuilding the social compact: Urban service delivery and property taxes in Pakistan

Mahvish Shaukat, Benjamin Olken, Adnan Khan

- If citizens perceive little benefit from their tax payments, or if local services are disconnected from local decision-making, the social compact between citizen and state can be broken, thus creating a vicious cycle of low quality services, low levels of local tax revenue, and lack of trust in the state.
- This study, conducted with neighbourhoods in two of the largest cities in Punjab – Lahore and Faisalabad – examines how communication and tax-allocation interventions can help break this cycle.
- Citizens in these neighbourhoods were given the opportunity to better understand and express their preferences for local urban services and to link the provision of these services with the amount of local taxes paid.
- Despite successfully drawing out preferences and service delivery, the study found that most citizens were unaware of being in a special scheme or having received greater local goods.
- The government must ensure service delivery happens at a faster pace and accompany delivery with better messaging to increase clarity amongst citizens.

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Overview

The social compact between citizen and state – whereby a citizen pays taxes and receives (public) goods and services – is a critical link in the development process. This link is especially salient in the context of local governments and a significant metric on which they are judged. However, if citizens perceive little benefit from their tax payments, or if local services are disconnected from local decision-making, the link between citizen and state can be broken. This can create a vicious cycle where citizens do not receive high quality services because resources are limited by low levels of local tax revenue. The low quality of services further leads to a low willingness to pay taxes in addition to a broader lack of trust in the state.

This study seeks to examine how to break this cycle through a series of reforms that strengthen the link between the provision of local services and local property tax collection in urban Pakistan. While a proportion of property tax revenue collected currently goes to the local government responsible for such local urban service provision, citizens currently have no sense of how much of their taxes, if any, is spent on local services, how those services are chosen, or whether those services are the ones they desire. We aim to increase the link between taxes paid and local services received. We intend to do so by enabling citizens to better and more credibly express their preferences for types of local urban services and to link the provision of these services with the amount of local taxes paid.

Our main research questions are:

1. Does increasing tax-benefit linkages, by committing to increase the share of local taxes used to deliver services within a small geographic neighbourhood, enhance citizens' tax morale and their willingness to pay taxes?

2. Does giving citizens voice by eliciting preferences over service provision and delivering those preferences to local government affect their trust in the state, the type and quality of local public goods provided and, in turn, increase citizen willingness to pay for those services through greater tax payment and tax morale?

3. Is eliciting preferences sufficient, or is it necessary to mandate that local governments follow elicited preferences and actually deliver goods in accordance with those preferences in order to improve trust in the state and increase tax performance?

Study design

To answer these questions, we leverage a randomised controlled trial in collaboration with the Government of Punjab, Pakistan. In this trial, neighbourhoods in two of the largest cities in Punjab – Lahore and Faisalabad – are assigned to one of three interventions described below:

1. **Local Allocation**. In the status quo, revenue is collected from administrative tax units and transferred to local governments that allocate these to city-level services. However, there is no linkage between taxes paid and services received at a lower and likely more salient geographical unit – the neighbourhood (a contiguous set of typically 100-400 households). To strengthen the link between taxes paid and services provided, local governments commit to allocate a portion of property tax collected from a neighbourhood to that same neighbourhood.

2. **Voice**. Tax staff will inform citizens of the tax-service linkage and give them a more direct voice in how their taxes will be utilised by soliciting citizens' preferences on which types of local goods and services should be prioritised in their neighbourhood. The results of this preference elicitation will be shared with the local government in an effort to improve the allocation of services.

3. **Voice-based Local Allocation**. This intervention combines the previous two. By both eliciting citizen preferences and requiring local governments to allocate a portion of property tax collected from a neighbourhood to that same neighbourhood in accordance with these preferences, it seeks to make the tax-services link even more salient and credible. Citizens will be informed of this earmarking, and the subsequent service expenditures will be carried out in their locality.

There are, however, two key challenges to implementing these interventions. The first challenge is low credibility: if citizens do not trust the state, they may not believe the government will successfully deliver services when the interventions are first announced. To the extent that this is true, we may not see changes in citizen tax morale unless the interventions are implemented again, when the success of the first round can be publicised and therefore the promise of future service delivery considered more credible. The second challenge is low awareness: citizens may lack information about service improvements – even after the state takes action. The results from our first round of interventions suggest news of service improvements does not travel fast or widely – even when the state is improving, citizens may remain unaware.

Results and policy relevance

Results from the first round of interventions suggest that, despite successful preference elicitation and service delivery, citizens for the most part were indeed unaware of being in a special scheme or having received greater local goods. For such a scheme to be the most effective, the government must ensure service delivery happens at a faster pace and accompany delivery with better messaging to increase salience amongst citizens so they are aware of what is happening and see the clear link between the interactions they have with the government and the services that they receive.

Given these results, we are focusing on raising citizen awareness in the second and third rounds of service delivery so that we can examine whether greater awareness will lead to increased tax payments and improved attitudes towards the state.

To increase citizen awareness, we are implementing a new marketing and outreach campaign via flyers, banners, mass text messaging, and digital-out-of-home advertising (DOOH) in all intervention neighbourhoods. Furthermore, we have introduced a cross-cutting intense outreach treatment to better understand the impact of increasing saliency among citizens. This treatment is motivated by the literature that shows personalised messages are likely to be more effective than mass messaging in conveying information effectively (e.g. Nickerson 2006, Arceneaux and Nickerson 2006). Preliminary evidence from the intense outreach treatment suggests that personalised messaging may be an effective way to increase citizen awareness of the interventions.

Qualitative evidence from the field suggests that, at the beginning of the phone call, many respondents are unaware of the interventions implemented in their neighbourhoods or having received greater local goods, consistent with our empirical analysis of the first round of interventions. However, by the end of the phone call, most respondents typically understand how and why their preferences for local goods and services were collected (if in the Voice or Voice-based Local Allocation interventions) and which services they received (if in the Local Allocation or Voice-based Local Allocation interventions). Enumerators report most respondents (around 75%) are engaged or very engaged during the calls. Many respondents offer their opinions and suggestions about the interventions, also signalling high engagement.

Furthermore, respondents who receive a phone call are much more likely to view the information flyer sent via text message (the average click rate during and after a phone call is roughly 12% compared to 2% before the intense outreach treatment started). We will be able to measure the effects of intense outreach treatment more formally after completing the phone survey.

The following types of text messages are sent to respondents who are randomised into the treatment arm of the experiment. Each text message contains a link to the scheme flyer:

Text Message A	This text message is sent to respondents during the call right after they consent to the interview. The purpose of this message is to encourage respondents to click on the flyer link and discuss the flyer content with our team during the call.
Text Message B	This text message is sent to respondents right after they complete or partially complete the call. This text message contains the flyer link and information about the lottery the respondents will be entered into if they successfully answer some scheme-related questions in a follow-up call.
Text Message C	This text message is sent to respondents a few weeks after they complete or partially complete the call. This text message contains the flyer link and a reminder about the lottery the respondents will be entered into if they successfully answer some scheme-related questions in a follow-up call.
Text Message D	At the end of the call, respondents are sent a WhatsApp message with a picture of the No Objection Certificate issued by the Punjab government as proof that the call has been authorised by the latter. This message also contains the flyer link.

Table 1A shows click rates for these flyer links. These click rates are higher than those in Table 1B which shows click rates recorded before the information experiment began. This suggests the information treatment played a role in improving click rates.

Table 1A: Information experiment click rates (08/21-10/20)

Text message A			
City	**Total number of clicks**	**Total number of phone numbers/Individuals who were sent an SMS**	**Click rate (total clicks/ total phone numbers)**
Faisalabad	85	740	11.49%
Lahore A	99	776	12.76%
Lahore B	103	691	14.91%
Total	**287**	**2207**	**13.00%**

Text message B | Call status: Completed			
City	**Total number of clicks**	**Total number of phone numbers/Individuals who were sent an SMS**	**Click rate (total clicks/ total phone numbers)**
Faisalabad	77	503	15.31%
Lahore A	62	518	11.97%
Lahore B	96	492	19.51%
Total	**235**	**1513**	**15.53%**

Text message B | Call status: Partially completed			
City	**Total number of clicks**	**Total number of phone numbers/Individuals who were sent an SMS**	**Click rate (total clicks/ total phone numbers)**
Faisalabad	4	237	1.69%
Lahore A	4	258	1.55%
Lahore B	5	199	2.51%
Total	**13**	**694**	**1.87%**

Text message C | Call status: Completed			
City	**Total number of clicks**	**Total number of phone numbers/Individuals who were sent an SMS**	**Click rate (total clicks/ total phone numbers)**
Faisalabad	53	590	8.98%
Lahore A	31	636	4.87%
Lahore B	31	509	6.09%
Total	**115**	**1735**	**6.63%**

Text message C | Call status: Partially Completed			
City	**Total number of clicks**	**Total number of phone numbers/Individuals who were sent an SMS**	**Click rate (total clicks/ total phone numbers)**
Faisalabad	8	273	2.93%
Lahore A	6	276	2.17%
Lahore B	5	203	2.46%
Total	**19**	**752**	**2.53%**

Text message D | WhatsApp image with image of the NOC and flyer link			
City	**Total number of clicks**	**Total number of phone numbers/Individuals who were sent an SMS**	**Click rate (total clicks/ total phone numbers)**
Faisalabad	20	319	6.27%
Lahore A	25	340	7.35%
Lahore B	32	324	9.88%
Total	**77**	**983**	**7.83%**

Table 1B: Click rates before the information experiment began (02/27-04/30)

Text Message C | Call status: Partially completed			
City	**Total number of clicks**	**Total number of phone numbers/Individuals who were sent an SMS**	**Click rate (total clicks/ total phone numbers)**
Faisalabad	54	2468	2.19%
Lahore A	68	2463	2.76%
Lahore B	97	2318	4.18%
Total	**219**	**7249**	**3.02%**

We anticipate that, if we are indeed able to increase awareness of the interventions, the main interventions strengthening the link between taxes and services will have a larger impact on attitudes towards the state and tax payments given that we already find small positive effects despite low awareness.