South Asia Region

**Objective**

The working document for the Urban Roundtable was the recently completed study on "Municipal Management and Finance - A Comparative Study of Four Cities in Southern Punjab," supported by the Water and Sanitation Program-South Asia (WSP-SA). The agenda was designed to solicit views from city level actors on municipal management and finance, and to ensure that policymakers get acquainted with ground realities faced by medium sized cities in Punjab.

The objectives of the roundtable were:

- Assess the nature of changes required in consultation with the operational people.
- Review the potential of implementing changes in medium sized cities in Punjab.
- Develop a realistic time frame for the implementation of the agreed changes.

Apart from local government participants from medium sized cities, representatives of non-governmental organizations (NGOs), community based organizations (CBOs), sector professionals and donors active in this field were also present.

**Conclusions and Recommendations**

Following the discussions of the day and the deliberations of the working groups, several policy recommendations were made emphasizing:

- More operational control by Municipal Committees (MCs) over their management, their capital budgets, development plans, revenue sources and expenditures
- The need to provide incentives and continuously upgrade the skills and capacities of MC staff, in order to implement sound financial management procedures in municipalities
- The need to develop a tenable formula for calculating the 'octroi compensatory grant', rather than basing it on historic levels of octroi revenue
- The involvement of communities in the design and amendment of tariff rates and structures
- The need to study the ability of beneficiaries and MCs to pay for services, prior to the implementation of donor initiatives
- The involvement of all stakeholders at the local level in planning and the capital budgeting process
- The need for strategic planning and increased collaboration between the provincial government and municipal staff in the management of municipalities
- Recognition of MCs as independent legal entities with greater powers to raise and collect revenue
Dr. Parvez Tahir from the Federal Planning Commission praised the WSP-SA supported Municipal Management and Finance study for the insight it provides into the current situation. He emphasized the need to see the financial and management issues faced by local councils in the context of other government systems. Only recently had the country’s external debt accounting been computerized. He said the underlying political and economic causes can only be tackled by strengthened local institutions. Revenue is dependent upon the manner of collection, which is a conceptual issue.

Mr. Asad Naqvi from SDPI and Ms. Shazia Khan from YCHR felt that perverse practices within municipal management, such as collusion between MCs staff and contractors, were contrary to good governance. They proposed that governance issues be added to the agenda for discussion.

Mr. Shahid from CAP expressed the need for beneficiary involvement and bridging the communication gap between users and providers. He felt accountability was critical to the recovery of user-charges and community participation was key to the imposition of new taxes and recovery of existing ones.

Mr. Khatib Alam from FAUP highlighted the resistance to change in government departments. He felt incremental cultural change prior to implementation of reform is crucial, without organizational change even training is doomed to fail.

Mr. Zafar Parvez Sabri spoke about the relationship between service provision and payments and the concept of cost-centres. He emphasized the need to focus on the urban poor and cited the example of octroi, which was an inverse cross-subsidy that led to the poor contributing a higher proportion of their income to meet levies, as compared to the rich.

MC Peshawar officials cited the example of an intervention to change over to double-entry accounting that failed despite systems development, as MC staff lacked ownership.

MC Lodhran officials emphasized the need to train existing MC staff as they possess more than 25 years experience, rather than undertake fresh recruitment. They suggested training at the divisional level instead of provincial headquarters.

Mr. Akbar Zaidi identified the real issue as the distribution of power between the three tiers of government. He said MCs are not to be blamed, as they are not the problem; even if systems are improved they will not be able to deliver within the given institutional structures.

Mr. Reza Ali drew attention towards tackling the issues within present rules/laws. He said devolution of power to provinces will not necessarily translate into more powers to local institutions, or improvements in the present state of affairs, unless the role of provincial government is made transparent and that of local government is rationalized. He pointed out that the basic right of citizens to participate in the affairs of municipal government through democratically elected institutions is being taken to mean endorsement by selected NGOs; NGOs are not answerable to the citizens in the manner that elected representatives are to their electorates. NGO endorsement is neither a proxy for elected government nor is it citizens participation; at its very best it is a poor form of stakeholder consultation.

He pointed out that the basic right of citizens to participate and inspection departments are being taken to mean endorsement by selected NGOs; NGOs are not answerable to the citizens elected institutions is being taken to mean endorsement by selected NGOs; NGOs are not answerable to the citizens; at its very best technical competence in all departments.

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The Chief Guest Mr. Humayun Farshori, Secretary, Local Government & Rural Development, acknowledged the present neglected state of local government/municipal institutions and its direct relationship to the poor state of services to the people. He pointed towards the inadequate delegation of powers by provincial governments as one of the causes for the current state of affairs. He said the problem is not the scarcity of financial resources but their injudicious management.

He acknowledged the need for improvement in aspects of municipal management and the increase required in the revenue resource base, particularly in the absence of octroi. He highlighted the need to improve the quality of personnel, upgrade their skills, and to introduce a performance oriented reward system. To use his own words “at present urban local council (ULC) staff are neither trained nor qualified to take on the tasks that are to be entrusted to them. For instance, even for the introduction of a double-entry accounting system, the staff in a number of municipalities will be unable to use the system unless provided with appropriate training through (say) a pilot phase”. He remarked that, whether the business of ULCs is computerized through a pilot project or as an initiative under the Punjab Municipal Development Fund Company (PMDFC), the crux is to build their capacity.

The WSP-SA study provided a detailed analysis of the past six years actual revenues and expenditures of the four municipalities of Khanpur, Rahim Yar Khan, Sadiqabad and Dera Ghazi Khan. The recommendations of the study (see section on Group Discussion) were based on the fundamental premise that significant improvements in all aspects of budgeting, accounting, revenue collection and financial management are possible if the government’s prescribed system is followed. A double-entry system is not the only alternative. Some of the key findings highlighted in the presentation were as follows (for details please see other publications in this series):

- Octroi was the largest component of Own Source Revenue (OSR) contributing between 23 to 80 percent to OSR
- The Revenue and Expenditures are declining in constant rupee terms
- In the absence of external sources of finance MCs can become viable entities only if OSR is adequate
- Scarcie resources are diverted away from development, repair and maintenance towards establishment expenditure, which varies between 49 and 86 percent of Total Expenditure
- Unit cost of services is unknown and cost recovery is very poor

The presentation by PMDFC highlighted several institutional problems that exist in ULCs such as:

- Prevalence of single-entry manual accounting systems
- Poor budgeting practices rendering record retrieval impossible
- Lack of asset valuation and liability records
- Poor quality of personnel in Accounts and Finance and inefficient Audit and Inspection departments
- Lack of adequate capacity to collect taxes
- Uncertain OSR due to the abolition of octroi
- Inefficient collection of Urban Immovable Property Tax (UIP) by the Excise and Taxation Department
- Professionally weak top management with low commitment and low technical competence in all departments
- Political interference in staff recruitment, postings and transfers, and staff redundancy
Feedback from Participants

An analysis of the feedback from this Urban-Roundtable shows a positive response from the majority of participants. The local government representatives, however, felt that the duration should have been longer as the subject touched the core of local government issues in medium-sized cities. There was a consensus on the need for reform and the views ranged from ‘changes in procedures’ to ‘how local government might be protected constitutionally’. While the focus of this consultation was highly appreciated, it was pointed out that future consultations/roundtables should be held at the local level.

Almost 50 percent of the participants wanted the proceedings in Urdu and English. 54 percent found the discussion informative, while 46 percent found it interesting. 63 percent found the presentations informative while 38 percent found them interesting. 66 percent felt the facilitation was good. Some suggested topics for future roundtables include ‘Devolution’, ‘Alternative Delivery Mechanisms’, ‘Role of Politics in Infrastructure & Physical Upgradation’, and ‘Community Participation and Local Bodies’.

AGENDA

Inaugural Address by Mr. Humayun Farshori, Secretary, Local Government & Rural Development Department, Government of Punjab

Introduction & Objectives by WSP-SA Country Team

Workshop Organization and Methodology

Introduction of Participants

Findings & Recommendations on Municipal Management and Finance - A Case Study of Four Cities In Southern Punjab

Presentation by Mr. Tanawwur Ali Hyder, Consultant WSP-SA

Discussion

Local Government Finance in the Punjab

Presentation by Mr. Zafar Iqbal Qureshi, Punjab Municipal Development Fund Company (PMDFC)

Discussion

Methodology for Group Discussion

Lunch Break

Group Discussion and Presentations

Discussion in Plenary and Summary

Closing Remarks by Mr. Imtiaz Ahmed Sadiq, Director General, Katchi Abadis & Urban Improvement, Local Government & Rural Development Department, Government of Punjab

Background

The Water and Sanitation Program-South Asia has been facilitating a consultative process for policy development at the federal and provincial levels in Pakistan. As part of this process, a roundtable discussion on operational issues of Municipal Management and Finance in Medium Sized Cities was held on November 23, 1999 in Lahore in collaboration with the Department of Local Government and Rural Development, Government of Punjab. This Urban-Roundtable was a sequel to a series of stakeholders meetings held at both the national and provincial levels. The first of these meetings was at the national level held in Islamabad in March 1998 and involved a range of stakeholders. Three other meetings have been held in Peshawar, Karachi and Faisalabad in November, December 1998 and March 1999 respectively. Primarily stakeholders active at the provincial and local levels attended all meetings. All of them identified operational problems as well as policy issues, with the objective of helping policymakers to make informed decisions.
Participants
Dialogue with Operational Staff
Improvements in Municipal Management and Finance
November 23, 1999, Holiday Inn, Lahore

Syed Asad Abbas
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GHKI/Faisalabad Area Upgrading Project, Faisalabad
Mr. Noman Ahmed
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Mr. Khatri Alam
DFID/Faisalabad Area Upgrading Project, Faisalabad
Mr. Saqib Alem
Planning and Development Board, Lahore
Mr. Reza Ali
Consultant, Lahore
Mr. Sadaqat Ali
Quetta
Mr. Muhammad Afzal Arain
Municipal Training & Research Institute, Karachi
Mr. Muhammad Arif Arbab
Municipal Corporation, Peshawar
Ms. Sahr Ata Ullah
Human Rights Commission of Pakistan, Lahore
Mr. Muhammad Bashir
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Mr. Muhammad Ashraf Chatha
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Mr. Abrar Ahmed Chishti
Faisalabad Area Upgrading Project, Faisalabad
Mr. Sultan Mahmood Dahir
Municipal Committee, Khanpur
Mr. Anwar Ali Dogar
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Mr. Humayun Farshori
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Municipal Committee, Sadiqabad
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Mr. Husain Naji
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The Dawn, Lahore
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Municipal Committee, Sadiqabad
Mr. Muhammad Shohid
Community Action Program, Faisalabad
Haji Shamshad
Municipal Committee, Sadiqabad
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Ministry of Environment, Local Govt. & Rural Development, Islamabad
Dr. Pervez Tahir
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Consultant, Lahore

WSP-SA, Islamabad
Syed Farrukh Ansar
Raja Rehan Arshad
Rahat Asad
Sara Fatima Azfar
Mehreen Hosain
Allah Jawaya
Azmat Sohail

Consultants (WSP-SA), Islamabad
Malika Hussain
Fatima Shah
Recommendations of the WSP-SA Study

- Maintain and update prescribed schedules and registers and improve quantitative record keeping and reconciliation
- Maintain single-entry schedules of Liabilities and Assets
- Prepare medium and long term capital budgets taking into account operations & maintenance and debt servicing liabilities
- Raise OSR through effective levy and collection
- Survey and map existing facilities
- Create beneficiary awareness, set performance indicators/benchmarks & gradually ensure accountability
- Computerize systems over time
- Increase involvement of all stakeholders in the planning and capital budgeting process
- Improve coordination between provincial and municipal government staff
- Incrementally build capacity of existing staff

Actions Proposed by the PMDFC

- Formulate a comprehensive urban development strategy
- Implement systems as per International Accounting Standards based on Generally Accepted Accounting Principles including internal and external audit
- Right-size ULCs and build and upgrade staff capacity through training
- Induct trained managers on contract or appoint District Management Group officers at the top professional level
- Introduce new forms of management such as outsourcing of specialized functions to the private sector
- Procure machinery and equipment
- Restore balance of power between Administrator and Chief Officer
- Introduce computer based accounting, budgeting & record control systems

Group Discussion

The recommendations made for improvements in municipal management and finance practices in the working document were divided into three subheadings: Cost Accounting and Cost Recovery; Municipal Management and Finance; and Resource Mobilization. Consequently, three working groups were formed and their Terms of Reference were to review (add, modify or delete) the recommendations, to define a time frame for their implementation (short, medium or long term) and to prioritize them.

The working groups consisted of a mix of representatives primarily from cities and municipal training institutes, NGOs and CBOs, sector professionals and donors. The Municipal Management and Finance working group had a majority of local government participants.

The working groups came up with priority recommendations as follows:

Working Group on Cost Accounting & Cost Recovery

RECOMMENDATIONS FROM THE WORKING PAPER

Cost Accounting/Unit Cost of Services
- Establish cost centers to allocate the overhead per unit
- Improve statistical and quantitative record keeping pertaining to service provision
- Maintain records of electricity consumed
- Reconcile units of electricity consumed and amount adjusted
- Separate records for electricity consumption of different services
- Maintain record for water pumped and review efficiency of tubewells
- Maintain record for water pumped, supplied to consumers and consumed by others (fire brigade etc.)
- Maintain proper updated network maps with information on installation and repairs/replacement
- Separate capital and revenue expenditures in both budgeted and actual accounts
- Calculate per capita or per unit cost of providing a service
- Compare cost of providing a service between MCs

User Charges
- Examine possibility of calculating water connection rates such that a major part of the capital cost of the system is recovered. Water user rates should recover O&M expenses
- Examine possibility of calculating sewerage connection and user rates along similar lines as water
- Conduct a survey of illegal water connections
- Charge and collect connection charges and water rates from consumers with illegal connection even if water quality is unsafe for drinking but is used for other purposes

WORKING GROUP PRIORITY

It was proposed that all activities listed in the recommendations should be initiated in the short term, however the following were considered an immediate priority:

- Develop procedures and accounting systems for valuation of existing assets
- Improve interagency coordination so that procedures and systems for allocation of overheads may be developed
- Recruit additional professional staff (despite overstaffing)
- Develop and implement progressive tariffs and system of accounts
- Increase staff resources for creation of cost effective network maps/GIS
- Improve record of services by involving communities and providing incentives to local council staff to survey legal and illegal connections
- Recruit and train staff in computerized billing
**Working Group on Municipal Management and Finance**

**RECOMMENDATIONS FROM THE WORKING PAPER**

<table>
<thead>
<tr>
<th>WG Recommendations</th>
<th>Short Term</th>
<th>Medium Term</th>
<th>Long Term</th>
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<tr>
<td><strong>Improvement in Municipal Management and Finance</strong></td>
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<td>Recurrent Expenditure Planning, Budgeting and Control</td>
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<td>Improve budgeting system</td>
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<td>Complete/fill prescribed schedules attached to budgets which provide information on arrears and liabilities</td>
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<td>Prepare budgets of revenues and expenditures on the basis of needs-assessment</td>
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<td>Prepare and analyze budget variance with justifications and take remedial actions</td>
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<td>Prioritize the repair of existing infrastructure in the budget</td>
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<td>Improve monitoring at frequent intervals</td>
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<td><strong>Capital Expenditure Planning, Programming and Budgeting</strong></td>
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<td>Plan capital expenditure taking into account O&amp;M expenses and debt servicing</td>
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<td>Prepare a priority list of projects</td>
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<td>Prepare capital budgets so when funds are available they are used judiciously</td>
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<td>Allocate development funds to councilors based on objective criteria</td>
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<td>Involve beneficiaries in project planning and O&amp;M for better execution of projects and recovery of user charges</td>
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<td>Use alternative cost-effective and participatory methods of development for providing civic facilities</td>
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<td>Improve coordination between MC and provincial departments. Figures of revenue and transfers should be obtained and reconciled</td>
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<td>Ensure filling of prescribed schedule of liabilities attached to the budget, so that figures relating to long term loans, interest and other liabilities should be available</td>
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<td><strong>Improvement in Financial Management and Accounting</strong></td>
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<td>Establish performance indicators</td>
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<td>Devise benchmark indicators in order to monitor actual progress</td>
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<td>Computerize establishment records, billing, demand and collection, budget analysis and monitoring</td>
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<td>Computerize resource-related information such as land use cadastre and property tax maps</td>
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<td>Improve the process of accountability of public expenditure, involve residents in all activities of the local council as envisaged in the Local Government Ordinance-1979</td>
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<td>Maintain registers required under the Punjab Local Government Rules, in order to have proper control of MC’s assets</td>
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<td>Examine the possibility of change from single-entry to double-entry system so that a balance sheet could be prepared</td>
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**WORKING GROUP PRIORITY**

It was recommended that the short term proposals should be considered an immediate priority:

- Strategic Planning for the urban sector for improved technical and financial coordination between provincial and local governments
- Preparation of needs-based revenue budgets, monitoring and analysis of variance
- Implementation of mandatory allocations of capital budgets for debt servicing, operation, repairs and maintenance
- Involvement of stakeholders in all activities to ensure transparency as envisaged in the Local Government Ordinance including project planning and prioritization of projects
- Availability and simplification of government’s prescribed proforma in order to have regular maintenance
**Working Group on Resource Mobilization**

**RECOMMENDATIONS FROM THE WORKING PAPER**

**Resource Management**

**Octroi**

The Octroi Compensatory Grant an inter-government transfer of resources should be free from arbitrary and ad-hoc considerations, and should be based on criteria such as: population, needs assessment, ability of local government to raise revenues etc.

**Property Tax**

Conduct annual surveys and enumeration of property instead of surveys after 3-5 years; retrain redundant octroi staff

Index and update Gross Annual Rental Value (GARV) each year rather than wait for surveys conducted after 3 or 5 years

Check whether property is owner or self-occupied (use the redundant octroi staff)

Change basis of levy of property tax on owner occupied properties (so that annual increase is at least equivalent to population growth rate plus inflation rate)

Prepare a city property tax map for street-wise property enumeration. The MC is required to maintain street maps and registers, which may be utilized for property tax as well

Clearly demarcate residential, commercial and industrial properties on the property tax map (see above)

Develop a property numbering system such that subdivision of property and change of use may be marked on the map

Include additional property related criteria such as level of services in the yardstick of property tax

Extend municipal limits/tax rating area in view of rapid urbanization, include peri-urban areas

Form survey teams for (joint) assessment and valuation of property tax

Treat occupant/tenant as assessee in case of default

Reconcile and record adjustments in loan repayments, interest, electricity charges made by the provincial government out of property tax collection

Regularly pursue the provincial government to pay MC’s share of property tax on time

**Tax on Transfer of Immovable Property**

Fix price for land registration in line with current market rate. The rate should not be too high to act as a disincentive

**Vacant Plots**

Subject vacant plots in developed sites to tax as MC has to provide water supply, sanitation, sewerage, roads and other services for the entire area/locality whether plots are vacant or constructed

**Human Resource Development**

Provide training prior to the first posting of an employee

Allow exemption from training only for valid reasons

Provide in-house training to existing staff, particularly in view of the need to retrain the redundant octroi staff

Initiate computer training programs for current staff (this would depend on the introduction and use of computers)

Introduce orientation and training programs for councilors, CBOs and NGOs to update them with the techniques of project identification, planning, control and monitoring

Implement monitoring systems prescribed in the Local Government Ordinance-1979 and related Rules

Encourage public participation so that people can play a positive role in MCs decision making and implementation

**WORKING GROUP PRIORITY**

- Improve tax administration without which no increase in revenue is possible. Change collection mechanism and introduce punitive actions where there is reluctance to pay
- Change accounting and reconciliation mechanism even if the system is on a cash-basis
- Improve inter and intra-departmental coordination in order to transfer revenue in full without deductions
- Change legal and administrative procedures to hedge discretionary actions of individuals. Allow only collective/committee actions
- Introduce constitutional amendment to have a basis for the Octroi compensatory grant and ensure it guarantees cost-sharing
- Change legislation governing IIP tax and its administration
- Change legal definition of ‘tax on transfer of property’ transactions in order to bring all transactions within the purview of taxation
- Allocate resources protected from cuts/diversions to upgrade personnel skills continuously
- Promote personnel on the basis of merit alone
Responses to Working Group Recommendations

In the afternoon plenary a number of participants expressed concern over the abolition of octroi, the major source of revenue in the past. This was viewed as an attempt to ‘re-centralize’ power.

Mr. Zafar Ismail from SPDC spoke about the imposition of 5 percent tax on transfer of UIP. Only 2 percent goes to the MC, while 3 percent is retained by the provincial government. He explained the definitional constraint that led to gifts and mutations falling outside the purview of this tax and suggested changes.

Mr. Reza Ali considered the recommendations of the Cost Accounting/Cost Recovery and Resource Mobilization groups impractical, since they stepped outside the limits of the current system. He felt that there was a need to have clarity on the concept of cost recovery since users already pay for services through a number of taxes, fees and charges (octroi, property tax etc.). Full cost recovery from users needs to be debated in the context of the relationship envisaged between citizens and the state. On the question of interference, he felt that it is not just from politicians but also from others including the provincial bureaucracy. He was skeptical regarding the suggestion to induct outside professionals in MCs and considered retraining of the present work force much more of a priority.

Several MC representatives also expressed strong reservations regarding induction of outside professionals. Examples were quoted where such a practice had proved to be a drain on the MCs resources with virtually no impact on their effective functioning or management. They requested that this suggestion should be dropped.

Mr. Asad Naqvi described hijacking of processes by vested interests as a governance issue, while Ms. Shazia Khan highlighted the need to make departments answerable to beneficiaries.

Dr. Shakeel Khan from ADB expressed a need to provide incentives to the managers of the system. Despite a lot of donor assistance to institution building, dedicated people are not attracted due to unattractive terms of employment. Thus training should not be an end in itself.

Concluding Session

There was a strong recognition by all participants of the fact that the resource base of local councils was extremely limited. Both the presentations had illustrated that the expenditure and revenue of the councils have declined in real terms over the years. However, the trends in population growth showed a rapid increase in urban areas, where more than 50 percent of the future population of Pakistan is going to live in the next 25 years. This poses a major challenge in the future to local government institutions in terms of strategic planning, mobilization of resources, their management and their judicious utilization.

In his summing up Mr. Imtiaz Ahmed Sadiq, Director General, Katchi Abadis and Urban Improvement, Local Government & Rural Development Department, Government of Punjab, thanked WSP-SA for organizing a useful meeting. He acknowledged that the present municipal management systems had ceased to be responsive to the needs of the present time and required reform. However, he pointed out that change has to be incremental and must be accompanied by appropriate training. He underlined the need for MCs to raise their own resources and to adjust user charges over time in order to recover operations and maintenance costs. He endorsed the recommendations made during the urban-roundtable and indicated that the Government of Punjab would seriously consider the specific proposals by the participants.

Information from WSP-SA's publications may be freely reproduced.
Proper acknowledgements will be appreciated.

Other related publications including a summary of the Working Paper, 'A Comparative Analysis of the Municipal Finance of Four Cities in Southern Punjab', Newslink on 'Octroi in Four Municipal Councils of Southern Punjab' and Newslink on 'Costing Basic Services for the Poor' are available with the WSP-SA.

Please send your comments and requests for more information to the Water and Sanitation Program – South Asia

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WSP is an international partnership to help the poor gain sustained access to improved water supply and sanitation services. The Program's main funding partners are the governments of Australia, Belgium, Canada, Denmark, Germany, Italy, Luxembourg, Netherlands, Norway, Sweden, Switzerland and the United Kingdom; the United Nations Development Program and The World Bank.