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Highway Finacing in Pakistan

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Introduction

The development of country's transport system is both an index and pre-requisite of its economic growth. There is also relationship between the volume of transport and the level of economic activity because each depends on the other. Roads play the pivotal role in development of transport system and hence economic growth in any country.

Roads have also to fulfil social, economic and communal political purposes of the state. It is precisely this part of their task, which particularly accounts for the assertion that the "Road is a service by the community for the community" and not some sort of special arrangement in favour of modern motorized traffic only. Hence Roads are one of the basic factors of the formation of the state and no community whatever its size, can function without roads.

In order, therefore, to evolve some principal for financing roads, it is essential to be constantly aware of the three different functions of a road. It must be borne in mind here that a road's *political function* to the state carries at least same weight as the *Social and communal political function*, and the latter is again at least as important as the *economic function* of the road. Moreover the original purpose for the common welfare is of primary importance.

The conclusion is therefore relatively simple. The financing of road construction, improvement and maintenance, has therefore to be effected primarily from general budget payments. But it can never be definitely ascertained how high the financial contribution of the general budget to the total expenditure for road construction and maintenance should be as it is never possible to judge exactly to what size and extent the welfare of the community is involved.

Extent of Problem

The present problem in Pakistan is substantially one of the improving our existing net work of roads in order to accommodate the ever increasing size and weight of the vehicles and traffic volume and add new roads. This needs large

sums of money, which cannot be diverted from general resources to roads according to our present fiscal policy. However, an early attention to this subject is essential otherwise the present net work of roads may fall resulting in hampering economic growth and involving large sums of money to improve these at a later stage.

All these needs a careful study of the problem from its administrative, economic, financial and technical point of view.

Present System of Highway Financing in Pakistan

In Pakistan road development is financed out of general revenues part of the money is given by Central Government, while the balance is met by Provincial Government. There are practically no toll roads and there is no special fund or specific contribution by any sector for road development in the country.

Existing Budgetary System

The existing basis of budgetary allocations for highway facilities is not a ccording to their actual needs but according to the availability of funds that can be spared for this sector after meeting the requirements of other sectors. Funds sometimes, are provided for projects which have political backings and in other cases which have not been administratively approved or technically sanctioned. This results in execution of projects which have little priority according to their utility, economic and benefit to road users. Provision of funds, for a project in different financial years, due to delayed financing results in excess expenditure than estimated, due to rise in prices. Hence the physical progress attained is not proportional to financial progress, as anticipated.

This low priority is given only to the Highways. Railways which are in a comparatively more developed form were allocated Rs. 96 crores in second Five Year Plan as against a sum of Rs. 29.5 crores for Road Improvements, important bridges and new constructions, this is only 3% of the total plan figure, even though the demand for transport in the Second Plan including the requirement of Indus Basin replacement works, is already estimated to have risen well over 40%. This may be gauged from the fact that the motor vehicle registration in West Pakistan increased at the rate of 17.2% per annum in the decade from 1950 to 1960 and a growth rate of 10% per annum is expected for future.

The Third Five Year Plan is of the size of Rs. 5,000 crores out of which West Pakistan's share will be approximately Rs. 2,500 crores. Share of Road Communications, it is believed will be around Rs. 80 crores, *i.e.*, less than 3.0% This means same allocation for this sector in the Third Plan as compared to the

Second Plan. Furthermore the carry over added to the flood restoration works on the existing roads from Second Plan is expected to be between 50 and 75% of the total contemplated plan provisions, further reducing the actual availability of funds for substantial improvements of existing highways with a view to increase their capacity to cope with the demands.

This alarming situation provides sufficient food for thought to the highway Engineers for suggesting ways and means to obtain more finances for the improvement of roads.

Existing Taxation Structure

Before considering the application of simple rule of making the users to pay for the certain facilities, an appraisal of the existing taxation structure with regards to the highway users is essential.

The road users in West Pakistan is at present paying taxes both to the Central as well as Provincial Government. The taxes being collected by the Central Government are as under together with the actual income figures to the Central Government for years 1956-57, 1957-58 and 1958-59.

Roads Users Taxes Receipts

(Rs. in thousands)

		1956-57	1957-58	1958-59
A. Customs Revenues—				
Mineral Oil	..	65,34	76,82	1,20,53
Motor Spirit	..	3,82,06	4,72,80	4,37,15
Rubber Tyres and Tubes	..	11,78	23,74	21,80
Motor Vehicles and Parts	..	2,07,38	2,17,88	2,87,44
		6,66,56	7,91,24	8,66,92
B. Sales Tax—				
Mineral Oil	..	54	30	—
Motor Spirit	..	Exempted from Sales Tax.		
Rubber Tyres and Tubes	..	43,54	37,30	40,00
Motor Vehicles and Parts	..	83,91	82,76	98,30
Kerosene Oil	..	Exempted from Sales Tax.		
High Speed Diesel Oil	..	28,79	36,30	36,06
Light Diesel Oil	..	38,37	26,39	56,75
Furnace Oil	..	..	..	..
		1,95,25	1,85,05	2,30,84

	1955-56	1957-58	1958-59
C. Central Excise—			
Petrol other than Aviation Spirit	2,82,00	2,28,00	3,28,00
High Speed Diesel Oil ..	..	..	..
Subject to excise duty during 1957-58			
Motor vehicles and other spare parts ..	..	..	..
Tyres and Tubes ..	8,15	12,55	11,57
	2,90,15	3,52,55	3,54,57
Total of B and C ..	11,61,96	13,26,84	14,62,53

The above figures however, exceeded Rs. 16 crores in 1960-61. On 1-1-63 there were a total of 1,16,677 motor vehicles registered in West Pakistan, excepting military vehicles and two wheeled automobiles. Similarly the number of buses in 1950 was only 5252, which increased to 10250 in 1960, an increase of 95%. The number of trucks registered up to 1950 was 7741 which increased to 20553 in 1960, which registered an increase of 166%. These number of trucks is reported to be well over 22,000 by the end of 1962. These figures have increased in spite of governmental restrictions on use of foreign exchange required for the import of spare parts besides restrictions on import of such vehicles and lack of adequate highway facilities. This is phenomenal rate of growth.

Automotive Diesel Fuel consumption has increased from 5594 tons in 1950 to 104,083 tons in 1960, an increase of 1760% while petrol consumption increased by about 85%. By converting these data into miles of vehicle operation, it is estimated that 28.3 crores truck-miles and 13 crores of bus-miles were produced during 1960 in intercity movements. In addition, it is estimated that all other motorised vehicles accounted for 9.3 crores vehicle miles, a large portion of which was intercity or urban traffic.

2. On the recommendations of the West Pakistan C. & W. Department the Central Government has levied an Excise Duty of Re. 1 per gallon on diesel fuel used in automobiles effective 1st July 1963 though such a tax had been recommended as a road development cess like the existing cess of 1.30 rupees per gallon on petrol. This additional taxation on diesel oil being used in automobiles is estimated to yield another Rs. 5 crores to the Central Government annually (about 90% from West Pakistan).

3. In addition to the above taxes being paid by the road users to the

Central Government, the following 25 taxes are being paid to the Provincial Government.

(*a*) Collected by Secretaries, Regional Transport Authorities—

1. Fee for special passes and transfer of permit fee.
2. Permits fee including temporary permit.
3. Fee for countersignatures.
4. Fee for issue of duplicate copies of route permits part A and D.
5. Fee for entertainment of applications of route permits.
6. Fee for supply of copies of Regional Transport Authorities Orders in appeal cases.
7. Other, such as late fee charged for renewal of fitness certificate in NWFP.

(*b*) Collected by Superintendent of Police—

1. Fee for the issue/renewal of learner's licences.
2. Fee for testing of drivers.
3. Fee for issue of driving licences.
4. Fee for renewal of licence including penalty for late payment.
5. Fee for duplicate copies of driving licences.
6. Fee for countersignatures of international driving licences.
7. Fee for addition of higher classes in driving licences.
8. Fee for issue of conductors licences.

(*c*) Collected by registering Authorities—

1. Fee for registration and re-registration.
2. Fee for recording and alternation of Motor Vehicles.
3. Fee for change of address of an owner.
4. Fee for registration of transfer of ownership.
5. Fee for duplicate registration copies.
6. Fee for the issue of trade certificates.
7. Copying fee of the entries of register.
8. Surcharge on goods vehicles.
9. Surcharge on passenger buses.
10. Surcharge on motor cabs.

4. The above Provincial taxes have yielded following incomes to the

West Pakistan Government in 3 years noted against each:

1957-58	..	Rs. 1,32,81,000
1958-59	..	Rs. 1,83,47,000
1959-60	..	Rs. 2,18,43,000

It is expected that with the phenomenal increase in the number of motor vehicles registered since 1960, this income is now well over Rs. 4 crores. The Provincial taxes like quarterly road tax have already been increased by 12½% with effect from the current financial year 1963-64. The road user taxes being collected by the Provincial Government can thus be estimated at about Rs. 4.5 crores annually. In the 5 years of the Third Plan, therefore, the Central and the Provincial Governments will be collecting a sum of Rs. 150 crores from the road users in West Pakistan, alone.

The road user taxes being thus collected by the Central Government and Provincial Government are presented yielding funds to the tune of over Rs. 30 crores annually. These revenues are not placed in specific highway maintenance and construction fund but are credited to general revenues.

Road Financing in Countries with Motorization at Low Level

In countries where motorized traffic is for many reasons still in the development stage, the amount from the specific contribution of this traffic, is of course, still small.

This fact cannot be accounted for merely by making a corresponding increase in the share of road costs to be financed out of general budget means. The general taxation potential in most of these countries is not very great. It will therefore be necessary to give extra-ordinary priority to roads in the list of all Public Works. The reason for such priority is the fact that intensive development of roads accelerates the total economic development of such a state. The saying "Better Roads means Better Living" is especially applicable here. Road construction is the decisive factor in raising the standard of living of the entire population in all developing countries like Pakistan.

Increased attention should therefore be given in this respect by those young countries, like Pakistan, which have only become self governing during recent years.

The countries like Pakistan the problem is considerably aggravated, as their general budget means are much too small, to carry out specially intensified road construction right in the first stage of Planning. The remedy therefore lies in getting finance from outside sources. In such a case, it is necessary primarily to consider non-repayable subsidies for which international funds should be provided, and if it is desired to give real assistance considerable sums must be provided for large scale projects.

Highway Financing in Other Countries

In most countries, special taxes or tolls are collected to compensate in part for road expenditures. But the deficit, if one were to look at road finance the same way as railway finance, is often very large. Few countries come anywhere near the point of raising sufficient revenues to meet the annual cost of the facilities.

The amounts necessary to finance an adequate road programme are large because of the extensive mileage needed to cover the entire area of a country. Yet the amounts being spent in developing countries are small in relation to population and area compared to what is being done in the more developed economies. Even this small outlay constitutes a heavy burden, however.

Road outlays per capita are less than Rs. 5.00 per year in Peru, Tanganyika, India, Iran, Indonesia and Egypt. They are as low as Rs. 2.00 in Pakistan and Afghanistan and 0.50 in Nyasaland. Most of West European countries spend fifteen to thirty times more. Despite the low expenditure per capita in the less developed countries, outlays per vehicle are high because the number of vehicles is low. In many developing countries, the current cost of providing roads is ten times as much per year per motor vehicle as the outlay per vehicle in Western Europe. Roads in less developed areas have users other than motor vehicles, however, including both pedestrians and animals, which reduces outlays per unit of traffic. But the non-vehicular use is generally local movement that could not be charged to help finance the highway programme.

Motor vehicle, gasoline, and other charges related to road use are providing substantial help in financing the road programmes in several countries. User taxes in Nigeria are paying more than 40 per cent of what is spent for roads. These funds include part of the price obtained for exported raw materials moving over the roads. In Kenya an independent road authority collects driver and vehicle licences and fuel tax receipts. These combined with some general tax money are used to finance road building projects.

Motor fuel taxes registration fees have been supplemented by cash tolls on a limited mileage of roads in a number of countries, including Colombia, France, Italy, the United States, Mexico, Venezuela and Japan. Considerable volumes of traffic are required to make the collection of tolls worth the effort, and only on heavy traffic routes has it been possible to cover total costs. But in most countries tolls are collected only as a supplement to other sources of revenue. The economic advantage of paying the toll is that while users pay more for roads, they pay less for transport service when roads are adequate.

The approach to toll financing in Japan may have application elsewhere

Toll roads operated by the Japan Highway Public Corporation include some 500 miles of facilities, most of them short stretches to facilitate tourism or to by pass urban congestion. In addition is a long distance toll facility between Kobe and Nagoya and thence to Tokyo that will provide a continuous toll route of 320 miles. Because tolls by themselves are insufficient to pay the cost of those roads, their collection is combined with other financial support from a variety of sources. Fifty per cent of the initial capital available to the Corporation was provided by the Ministry of Finance, 20 per cent by foreign bonds, 10 per cent by road bonds, 10 per cent from general funds, and only the remaining 10 per cent from toll revenues.

The acquisition and sale of land along proposed new highway routes provide another potential source of highway revenues that might be tapped in developing countries. Sale or lease of the land after development permits the public to recoup part of the added value resulting from the road improvement. This approach to financing part of the road bill is a variation of the nineteenth century policy of federal land grants made to the railroads in the United States to provide a financial incentive to build ahead of the traffic. Consideration should be given to obtaining sufficiently wide rights of way at the time a new road is constructed to permit sale or lease of the land along the highway after it has been completed. Such a policy would also permit control of adjacent land uses to protect the travelled way from the encroachments of undesirable developments that create traffic hazards and congestion.

Suggestion for Highway Financing in Pakistan

1. In 1950, the Transport Advisory Council made following recommen datations which are valuable in developing road system and need complete implementation:—

(*a*) The provinces should prepare six year programme for the construction and improvement of roads and bridges.

(*b*) The government should give financial assistance of at least 50 per cent of the estimated cost of the six year programme.

(*c*) As a matter of general policy, all customs and excise taxes on petrol and import duties on motor vehicles, spare parts, tyres, tubes, etc. as well as the revenue derived from motor vehicle taxes, driving licences, permit fees, etc. should be earmarked for expenditure on roads.

2. In order to further augment the finances of the West Pakistan province, the N.E.C. in May 1962 recommended to levy toll taxes. It has accordingly been decided by Provincial Government to levy tolls on new major bridges and new roads that may henceforth be completed and where road users are directly benefited due to saving of time and distance.

3. International loans can supplement normal methods of financing. These will have valuable initial effect in countries which are weak from the point of view of taxation and capital like Pakistan.

The use of these in developed countries will always be merely a remedy for the financing of certain partial objects and not a general solution.

4. In countries with modern traffic conditions the ratio of the financial contribution from general budget means to the financial contribution from specific taxes on motor traffic varies between 40 : 60 and 15: 85. Also, there are other sources, in favour of road construction such as property taxes, licence fees etc. etc. Modern Highway Financing is therefore characterized by the fact that it is to be effected both from general budget means and from the specific contributions.

In order to handle highway financing in Pakistan more perfectly and in order to achieve road construction undertakings, it is necessary that not only a clear and adequate relationship is created between the specific contribution of motor and the general budget means, but also the specific contributions are used in full for road construction.

5. Aid from foreign countries, in any shape, can be converted to local currency. This can serve as source of finance for road construction.

In this way, a major public works programme has been accomplished in East Pakistan, which was financed through the sale of surplus wheat from the United States, with the proceeds being used for wage payments, materials and tools.

6. Tolls shall also be levied on roads serving special interests such as mine roads or roads leading to quarries or river beds from where buildings or road construction materials are collected.

7. Parking charges shall be collected on all important roads in bigger towns and earnings earmarked for maintenance of roads.

8. In case of new roads, more land width shall be acquired. Surplus land shall then be sold at higher rates after the development starts. These earnings shall be diverted to road construction.

9. System of allocation of funds for Highways shall be changed. Funds shall only be provided on administratively approved and technically sanctioned projects, preferably in full and not in parts to avoid delays in implementation.

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