CHAPTER 2

RESOURCES AND FINANCING

Resources

THE Plan proposes an expenditure of Rs. 19,000 million. To understand the assumptions underlying the financing of a Plan of this size, it is helpful to look at the sources and uses of national resources, both in the First and the Second Plan periods. These are shown in Table 1.

2. For the First Plan period, gross national product is estimated at an annual average of about Rs. 22,600 million at current prices. Foreign aid and loans, foreign private investment and the use of the country's own foreign exchange reserves added, on an average, another Rs. 1,000 million per annum to the flow of national resources. The total resources available on an average to the country were, therefore, nearly Rs. 23,600 million per annum. Of this, about 9 per cent went into investment, and the rest into private consumption or Government's non-development expenditure, in the estimated proportion of about 80 per cent and 10 per cent respectively. Even though gross investment was only about 9 per cent of total resources during the First Plan period, it increased at a rate faster than consumption : the increase in investment was about 60 per cent as against 45 per cent in consumption. Adjusted to the rise in prices during this period, the real increase in investment and consumption might be about 28 per cent and 15 per cent respectively.

3. During the Second Plan period, gross national product is expected to increase by 20 per cent. It is also hoped that foreign aid and loans and foreign private investment will contribute about Rs. 8,000 million (Rs. 1,600 million annually), and that aid under US P.L. 480 will continue at its present level, adding another Rs. 1,700 million (Rs. 340 million annually) to national resources. On these assumptions, total resources amounting to Rs. 151,190 million (about Rs. 30,000 million annually) should be available during the Plan period.

4. To find Rs. 19,000 million required for the Plan, it will be necessary to increase the percentage of total resources allocated to development from about 9 per cent under the First Plan to 12·5 per cent under the Second Plan. This is possible only if increase in the non-development expenditure of the Government and in private consumption is kept in check through suitable policies. It is assumed that the non-development expenditure of the Government will increase by about 20 per cent and private consumption by 17 per cent during the Plan period. These assumptions should be regarded as upper limits which, if exceeded, will materially reduce the resources available for the Plan.

5. The projection of non-development expenditure of the Government is based on a modest increase in normal administrative expenditure, and an estimated increase in recurring expenditure of development schemes. The basis of this projection is explained below. It is essential that constant watch be kept on the increase in the non-development expenditure of the Government to prevent absorption of resources needed for development.

TABLE 1

Sources and uses of National Resources

(Million Rupees)

	First Plan (*a*)						Second Plan (*a*)						Percentage increase in 1964-65 compared with 1959-60
	1955-56	1956-57	1957-58	1958-59	1959-60	Total First Plan period	1960-61	1961-62	1962-63	1963-64	1964-65	Total Second Plan period	
***Sources*:**													
Gross national product ..	18,200	22,630	22,200	24,500	25,430	112,960	26,235	27,090	28,215	29,370	30,580	141,490	20
Inflow of foreign resources													
Aid, loans and investments ..	525	515	577	710	1,125	3,452	1,250	1,350	1,550	1,800	2,050	8,000	60
Foodgrain and other aid (US P.L. 480)	145	430	358	315	370	1,618	340	340	340	340	340	1,700	
Foreign exchange reserves(*b*)	—340	90	300	50	—270	—170	—	—	—	—	—	—	—
Total resources	18,530	23,665	23,435	25,575	26,655	117,860	27,825	28,780	30,105	31,510	32,970	151,190	23
***Uses*:**													
Investment(*c*):													
Public	770	920	1,210	1,370	1,680	5,950	3,100	3,350	3,700	4,150	4,700	19,000	75
Private	900	930	1,000	1,000	1,000	4,830							
Consumption..													
Public	2,000	2,250	2,700	2,550	2,500	12,000	2,600	2,700	2,800	2,900	3,000	14,000	20
Private(*d*)	14,860	19,565	18,525	20,655	21,475	95,080	21,985	22,590	23,465	24,320	25,130	117,490	17
Total uses	18,530	23,665	23,435	25,575	26,655	117,860	27,685	28,640	29,965	31,370	32,830	151,190(*e*)	23

(*a*) First Plan estimates are in current prices whereas the Second Plan estimates are in constant prices, with 1959-60 as the base period.

(*b*) Minus sign indicates that reserves where built up, thus reducing the availability of resources, and *vice vessa*. Figures for 1959-60 are till March 1960.

(*c*) First Plan estimates have been adjusted to the definition of development expenditure used in the Second Plan.

(*d*) Obtained as a residual. It includes non-Plan investment for which no estimate is available.

(*e*) Includes Rs. 700 million of local expenditure on Indus Basin replacement works.

6. Private consumption is expected to increase during the Plan period but at a rate slower than the increase in gross national product. The strategy of the Plan is to capture a substantial part of the additional income for investment purposes. About 15 per cent of the total increase in gross national product—or about 25 per cent of the additional income per head will have to be recaptured and invested during the Plan period. This target of marginal saving represents a reasonable balance between the need for raising the current standard of living and the long-term requirements of the country for capital formation and self-sustained growth. But the target will not be attained without strenuous efforts. The average rate of saving is estimated at 6·5 per cent at present ; the marginal rate of saving during the Plan period will have to be twice as high as the current average rate. This means that out of additional incomes generated by the Plan, as much as Rs. 2,000 million must be saved. In order to do this, it is proposed to impose additional taxation of Rs. 1,000 million, particularly of a kind which reaches the ordinary incomes, and to provide all possible incentives for higher savings by raising interest rates, creating new savings institutions, and adopting appropriate fiscal and monetary policies. Some of these aspects are discussed in the next chapter.

Gross capital formation

7. The proposed investment of Rs. 19,000 million is in gross terms. It includes expenditure on depreciation and replacement. Not all the expenditure included in the Plan will, however, lead to physical capital formation. Some of the expenditure on village AID, scholarships, research, and social welfare activities, for instance, will not lead to the formation of any physical assets, even though it is a part of development expenditure. On the other hand, some capital formation will take place in the economy which it has nor been possible to include in the Plan for lack of reliable estimates : for instance, private investment in rural housing and commercial inventories, a part of the direct private investment in agriculture, and non-monetary, investment in various sectors of the economy. Plan expenditures, therefore, provide only an approximate index to gross capital formation in the country.

8. Gross investment was about 9·5 per cent of gross national product in the First Plan period, as shown in Table 2. Total investment increased almost at the same rate as gross national product during the First Plan period, with some annual fluctuations. It is premature to say at this time what the actual performance will be in the last year of the First Plan, but the indications are that gross investment will be above the level of the previous years. Several factors account for this : determination of the present Government to complete as much of the First Plan as possible ; the austerity drive launched by the Government, particularly in the import sector ; generous tax concessions to individuals and firms for investment purposes ; increase in interest rates on saving deposits ; and streamlining of the non-development expenditure of the Government.

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TABLE 2

Estimates of gross capital formation (a)

	Gross national product	Gross investment (b) Public	Private	Total	Total gross investment as proportion of GNP	Gross domestic savings	As proportion of GNP
	(Million Rupees)				(Per cent)	(Million Rupees)	(Per cent)
First Plan :							
1955-56 ..	18,200	770	900	1,670	9·2	1,440	7·9
1956-57 ..	22,630	920	930	1,850	8·2	1,015	4·5
1957-58 ..	22,200	1,210	1,000	2,210	10·0	1,175	5·3
1958-59 ..	24,500	1,370	1,000	2,370	9·7	1,500	6.1
1959-60 ..	25,430	1,680	1,000	2,680	10·5	1,650	6·5
Total ..	112,960	5,950	4,830	10,780	9·5	6,780	6·0
Annual average ..	22,592	1,190	966	2,156		1,356	
Second Plan :							
1960-61 ..	26,235			3,100	11·8	1,850	7·0
1961-62 ..	27,090			3,350	12·4	2,000	7·3
1962-63 ..	28,215			3,700	13·1	2,150	7·6
1963-64 ..	29,370			4,150	14·1	2,350	8·0
1964-65 ..	30,580			4,700	15·4	2,650	8·6
Total ..	141,490			19,000(c)	13·4(c)	11,000	7·8
Annual average ..	28,298			3,800		2,200	

(*a*) The estimates are in current prices for the First Plan period and in 1959 prices for the Second Plan period.

(*b*) The estimate of gross investment is in accordance with the definition of development expenditure in the Second Plan. The breakdown of gross investment between public and private sectors is not given for the Second Plan period, since the total programme has now been divided into three sectors—public, semi-public and private.

(*c*) Excludes investment in Indus Basin replacement works. Including replacement works, average gross investment will be about 15 per cent of GNP.

9. During the Second Plan period, total gross investment is expected to be over 13 per cent of gross national product on an average. The annual phasing of this investment will depend on the resources that can be mobilised every year, but it is tentatively assumed that gross investment will increase from over 10 per cent of gross national product in 1959-60 to over 15 per cent by 1964-65. This increase will be dependent on a substantial increase in domestic savings and foreign assistance.

Gross domestic savings

10. It is difficult to obtain a reliable estimate of domestic savings when direct information is lacking about aggregate consumption. A rough estimate has been prepared, however, by taking actual investment and deducting the part financed by foreign aid and loans, private foreign investment and use of foreign exchange reserves. (Table 2). In these calculations domestic savings have been estimated by excluding all foreign assistance (both food and non-food) except for non-development expenditure out of counterpart funds, *e.g.*, expenditure on induction of military aid and on U.S. Missions in Pakistan.

11. Gross domestic savings averaged around 6 per cent of gross national product during the First Plan period. The high level of domestic savings in 1955-56 can be attributed partly to accumulation of foreign exchange reserves as a result of devaluation. Since 1956-57, domestic savings have increased steadily, and are expected to rise to about 6·5 per cent in 1959-60. The figures for 1959-60 are, however, still provisional and it will not be correct to impute any particular trend to these estimates. The estimates for the Second Plan period should not be based on the experience of a single year, 1959-60. In an economy like Pakistan, savings can vary a great deal, depending on the success or failure of crops. It would be safer to base future projections on the average saving rate realized during the First Plan period.

12. The average saving rate experienced in the First Plan period was about 6 per cent. There are reasons, however, to believe that saving potential in the economy was higher than was actually realized, because a sizeable amount of potential savings was spent unproductively on such things as elaborate ceremonials and jewellery, or was left idle because of the lack of import component of development due to shortage of foreign exchange or because of other disincentives for private investment. Also, the level of domestic savings in 1959-60 can well be taken to reflect the austerity drive launched by the present Government, and the growing confidence of the investors in the future of the economy. Considering all these factors, it seems reasonable to assume current potential savings at about 7 per cent of gross national product for the purposes of future projections. The target of marginal savings is 15 per cent for the Second Plan period ; the average savings rate is expected to rise steadily from 7 per cent in 1960-61 to 86 per cent in 1964-65, averaging around 7·8 per cent over the entire Plan period. On this basis, domestic savings amounting to Rs. 11,000 million can be mobilised for development.

Foreign assistance

13. The Plan requires Rs. 8,000 million of foreign assistance: Rs. 6,500 million to meet the foreign exchange component of the Plan and Rs. 1,500 million as balance of payments support. In addition, foodgrain and other assistance under US P.L. 480 is expected to continue at its current annual level, yielding roughly Rs. 1,700 million during the Plan period. This is discussed in detail in Chapter 4 : here only the contribution of foreign assistance to total resource availability is summarized.

14. The Plan indicates only the requirement of foreign assistance. It is not possible to forecast the amount of foreign assistance that will actually be available. It is hoped, however, that the amount of aid and loans that are needed will be forthcoming in view of what has been received in the past and the current level of aid commitments.

15. In the public sector, total commitments of external aid and loans, excluding foodgrain aid, stood at Rs. 1,334 million in 1958-59, as shown in Table 3 below.

TABLE 3

Commitments of external aid to public sector (1958-59)

(Million Rupees)

U. S.	
Project aid	16
Development Loan Fund (DLF)	455
Commodity aid (P.L. 665)	454
Sub-total	925
Non-U. S.	
Project aid (capital and technical assistance)	70
Commodity aid	16
Sub-total	86
Special loans	
U. K. loan	133
German loan	190
Sub-total	323
Total	1,334

If these commitments, excluding the special loans from the U.K. and Germany, were to continue at the 1958-59 level, the public sector would receive about Rs. 5,000 million of aid and loans during the Plan period.

16. Again, it is difficult to estimate the amount of private foreign investment that will be attracted to Pakistan, but it is intended to give every encouragement to potential investors and the resulting flow of foreign capital

might be considerable. Provisionally, it is assumed that about Rs. 1,500 million of foreign investment and loans will be available to the private and the semi-public sectors during the Plan period.

17. Foreign investments in oil and gas explorations and oil refining are expected to be about Rs. 440 million. In addition to direct foreign investment, private industry will also be assisted by loans from the World Bank, the International Finance Corporation, the International Development Association, the Development Loan Fund and other international agencies. These loans are expected to amount to about Rs. 500 million and will be channelled primarily through the Pakistan Industrial Credit and Investment Corporation. Foreign loans to the semi-public sector, which have been quite substantial in the past, are estimated at about Rs. 400 million for the Plan period. The total amount of foreign investment in the private and semi-public sectors is estimated at Rs. 1,500 million.

18. In the last few years, assistance under US P.L. 480 has contributed over Rs. 300 million annually as foodgrain aid. The requirement for foodgrain aid will diminish as foodgrain self-sufficiency is gradually reached during the Plan period. Instead, it is hoped that P.L. 480 assistance will be forthcoming in providing such non-food items as tobacco, cotton, oils and fats. Tentatively, it is expected that assistance under US P.L. 480 will amount to Rs. 1,700 million in the Plan period: Rs. 1,000 million in the form of foodgrains and Rs. 700 million in the form of non-food items. The counterpart funds generated by the latter will help to finance the local currency expenditure on Indus Basin replacement works.

Financing

19. It is proposed to finance the Plan as follows:

TABLE 4

Sources and uses of resources for development

(Million Rupees)

Sources		*Uses*	
Domestic savings	11,000	Public sector	9,750
Foreign aid, loans and investments	8,000(a)	Semi-public sector (public corporations)	3,250
		Private sector	6,000
	19,000		19,000

(a) The total foreign resources, including food-grain aid, are expected to be Rs. 9,700 million, of which Rs. 1,000 million will be required for non-development uses by the U.S. and Rs. 700 million for Indus Basin replacement works, leaving Rs. 8,000 million for the Plan.

20. Specfic financial plans are needed for the public, semi-public and private sectors. Domestic savings and foreign assistance may accrue to one sector and be utilized in another sector, thus requiring financial transfers. The following discussion gives a brief analysis of the proposed financial arrangements for these sectors.

Public sector

21. The public sector is expected to mobilize Rs. 11,500 million of resources. Of this, Rs. 9,750 million will be needed by the public sector programme, and Rs. 1,750 million will be transferred to the semi-public sector. These resources are expected to be mobilized by adoption of the means described below.

TABLE 5

Financing of the public sector

(Million Rupees)

Sources	
Surplus on revenue account	800
Capital receipts	1,500
Counterpart funds (*a*)	2,500
Customs on commodity aid	500
Foreign aid and loans (*b*)	4,000
Resources of local bodies	200
Additional taxation	1,000
Deficit financing	1,000
	11,500
Uses	
Public sector own development programme	9,750
Loans to the semi-public sector (public corporations)	1,750
	11,500

(*a*) Excluding Rs. 700 million to be used for Indus Basin replacement works and customs on commodity aid.

(*b*) Excluding defence support and P.L. 480 aid.

22. *Surplus on revenue account.*—It is expected that the Government will have a surplus of Rs. 800 million on revenue account, after meeting all non-development revenue expenditure. (Table 6). As a result of the increase in national income the tax revenues in 1964-65, at the present rates of taxation, are expected to be nearly 25 per cent higher than in 1959-60. This projection is based on past experience regarding the relationship between the growth in income in various sectors and the growth in tax revenues. The sectors from which tax revenues are mainly raised are industry and commerce ; income in these sectors will increase at a rate much faster than the national average. This explains the increase in tax revenues by 25 per cent, while national income increases by only 20 per cent. The revenue from public undertakings is also expected to increase in line with the increase in national income.

TABLE 6

Surplus on revenue account

(Consolidated accounts of Central and Provincial Governments)

(Million Rupees)

Revenue Receipts

Receipt head	1959-60	1964-65	Total Second Plan period
Taxes			
Customs	490	550	2,580
Excise duties (Central and Provincial) ..	310	390	1,800
Sales tax	285	390	1,700
Income and corporation tax	265(*a*)	400	1,820
Land revenue ..	295	320	1,550
Other taxes	205	220	1,060
Total ..	1,850	2,270	10,510
Revenue from public undertakings			
Irrigation and electricity	80	90	435
Railways and posts and telegraphs.	135	175	785
Currency and mint ..	30	35	160
Total ..	245	300	1,380
Other revenues	405	500	2,390
Grand Total ..	2,500	3,070	14,280

Revenue Expenditure

Expenditure head	1959-60	1964-65	Total Second Plan period
Defence	860	880	4,340
Administration	630	680	3,260
Debt services	170	230	1,000
Development departments			
Normal expenditure	400	480	202
Recurring cost of First Plan	150	150	750
Recurring cost of Second Plan ..	Nil	250	750
Burden of compensations	40	50	250
Other miscellaneous expenditure	170	180	930
Total ..	2,420	2,900	13,480
Surplus	80	170	80
Grand Total ..	2,500	3,070	14,280

(a) Excluding extraordinary collections of income tax.

23. Defence will claim the major share in the revenue expenditure of the Government. It is expected, however, that absolute expenditure on defence will be stabilized at about its present level, barring any extraordinary developments in the international situation. Defence expenditure is currently claiming nearly 40 per cent of the total revenue expenditure of the Government and about 3·5 per cent of gross national product. It is hoped that the increase in normal administrative expenditure such as on general administration, foreign affairs, police etc., will be held in check, so that it does not increase by more than 2 per cent per annum. The burden of debt services will increase in the line with government borrowings. The estimate of debt services does not include large payments to be made by the Provinces to the Centre : these are inter-government transfers and do not affect the overall availability of resources.

24. Provision has been made in these projections for likely increase in the normal expenditure of the various departments mainly responsible for implementing the Plan. These departments will need considerable strengthening if development expenditure is to be effective, especially in East Pakistan. Furthermore, the recurring cost of development schemes in certain sectors, such as education and health, completed during the First and the Second Plan periods will also have to be included. These recurring costs are an essential part of the Plan, and an adequate provision must be made in the normal budgets to cover these, so that the facilities established by the Plan are fully utilized. The recurring cost of schemes completed during the First Plan is estimated at Rs. 150 million in 1959-60; the total liability on this account will be Rs. 750 million during the Second Plan period. To this will be added the recurring cost of schemes to be undertaken during the next five years. It is estimated that recurring liability of the Second Plan schemes will increase gradually to Rs. 250 million by the end of the Plan period, the total recurring liability on this account being Rs. 750 million during the Second Plan period and Rs. 1,250 million during the Third Plan period.

25. Expenditure on payment of compensation in lieu of the acquisition of rental interests in East Pakistan is estimated at Rs. 250 million.

26. *Capital receipts.*—Net capital receipts are expected to amount to Rs. 1,500 million during the Plan period (Table 7). The main sources of these receipts will be small savings, public borrowing from non-bank sources, sale of PIDC assets, and depreciation funds of the railways and posts and telegraphs.

27. Small savings have been increasing rapidly in the past as a result of the facilities provided by the Government, and the special incentives given by way of yield on small saving certificates. The present yield on Ten-Year National Development Saving Certificates is 6 per cent tax-free. Small savings increased from Rs. 24 million in 1950-51 to Rs. 68 million in 1954-55,

and are likely to be Rs. 120 million in 1959-60. These are expected to increase by about 25 per cent during the Plan period. This should be possible if the present maximum ceiling of Rs. 25,000 on saving certificates is raised, and a vigorous publicity drive is undertaken to popularise them.

TABLE 7

Net capital receipts

(Million Rupees)

Capital receipts	1959-60	1964-65	Second Plan period
Small savings	134 (*a*)	150	700
Borrowings from non-bank sources	60	100	400
Sale of PIDC assets	34	40	200
Railways and P. & T. depreciation funds	72	110	500
Other receipts	110	130	600
	410	530	2,400
Capital liabilities			
Defence services	19	Nil	60
Foreign debt repayment	30	50	300
Other liabilities	11	40	140
Loans to finance corporations and private sector ..	Nil	100	400
	60	190	900
Net capital receipts ..	350	340	1,500

(*a*) This is the budget estimate but current expectation is that actual receipts will amount to Rs. 120 million. Future projections are based on this assumption.

28. Public borrowings from non-bank sources (individuals, insurance companies, trusts, and joint stock companies) amounted to Rs. 95 million in 1959: Rs. 60 million of net borrowings and Rs. 35 million by conversion

of old loans. Notwithstanding the exceptional circumstances in 1959, when there was excess liquidity in the market, the Plan target of net borrowing of Rs. 400 million over the five year period should be achieved if interest rates are revised and capital market is developed. This is discussed in the next chapter.

29. The sales of assets of the Pakistan Industrial Development Corporation (PIDC) were about Rs. 80 million during the First Plan period. The Government is now anxious to dispose of PIDC assets at an accelerated rate. The present public share in the assets of PIDC amounts to about Rs. 800 million, to which another Rs. 970 million of public assets are proposed to be added during the Second Plan period. There will thus be a sufficient number of profitable projects which could be sold to the private sector in the next five years. A careful policy of disposal will have to be worked out in this connection, keeping in mind the nature of the various projects, their completion and maturity dates, and the future role of PIDC. A tentative target suggested in the Plan is that about Rs. 200 million of PIDC assets should be sold to the private sector during the Plan period.

30. The capital liabilities are estimated at Rs. 900 million, mainly on account of foreign debt repayment and loans to government finance corporations and the private sector. The requirement of government financing for these corporations and for the private sector is discussed later in this chapter.

31. *Counterpart funds.*—Counterpart funds will be generated by defence support aid and assistance under US P.L. 480. In the case of defence support, 95 per cent of the counterpart funds are owned by Pakistan and are available for uses approved by the United States, and 5 per cent are owned by the United States for use by the United States Government agencies only. In the case of aid under P. L. 480, the entire counterpart funds are owned by the United States, and may be released in instalments to Pakistan for specific development projects, in the form of loans and grants.

32. The releases from counterpart funds are subject to future agreements about which nothing can be forecast at this stage. For planning purposes what is relevant is the accrual of counterpart funds during the Plan period, after account is taken of the amount that is required for the induction of military aid and for local currency expenditures of the United States Missions in Pakistan. The accruals of counterpart funds should be matched by simultaneous releases to avoid any expansionary or contractionary influence from this source. If formal releases fall short of (or exceed) accruals in any particular year, there should be corresponding borrowings from (or retirement of debt to) the State Bank to keep the inflow and outflow of cash in balance. Such a treatment of counterpart funds may create difficulties in actual budgeting every year, especially if the formal release of counterpart funds exceeds the current accruals. However, it is not possible at this stage to predict the likely nature of such difficulties.

33. The total accrual of counterpart funds is estimated at Rs. 4,700 million, of which Rs. 1,000 million may be required for US uses and for the induction of military aid; Rs. 700 million to cover the local currency expenditure on Indus Basin replacement works; and the balance of Rs. 3,000 million will be available for development projects under the Plan. (Table 8).

TABLE 8

Accruals and releases of counterpart funds, 1960-61 *to* 1964-65

(Million Rupees)

Accruals		Releases (*a*)	
P.L. 665/138 counterpart funds (defence support)		PL. 655/138 counterpart funds (defence support)	
Arrivals of commodity aid	2,500	Induction of military aid ..	625
Customs on commodity aid	500	Five per cent ICA expenditure	125
		Releases for development projects	2,250
P.L. 480 counterpart funds		P.L. 480 counterpart funds	
Foodgrains	1,000	US uses..	250
Non-food items	700	Releases for development projects	750
		Releases for Indus Basin replacement works ..	700
Total ..	4,700	Total ..	4,700

(*a*) The concept of "releases" used here is not the same as in aid agreements. The balance of counterpart funds, after allowing for US uses, has been taken as available for release irrespective of whether it is formally released or not.

34. *Foreign aid and loans.*—Foreign aid and loans, other than defence support and P. L. 480 aid, are expected to amount to Rs. 4,000 million during the Plan period. Commitment from the Development Loan Fund in 1958-59 was Rs. 455 million. Additional commitments will have to be negotiated for DLF and other capital assistance during the Plan period. This is discussed in Chapter 4.

35. *Local bodies.*—The institutions of Basic Democracies have recently been given increased powers of taxation as well as additional responsibilities for development work. It is too early to estimate the contribution that the local bodies may make to national development. Tentatively, it is expected that they will be in a position to undertake a development programme of at least Rs. 200 million during the Plan period.

36. *Additional taxation.*—It is proposed to raise at least Rs. 1,000 million in additional taxation during the Plan period. Actually, if other resources in the public sector fall short of expectations, it may be necessary to impose even a higher amount of additional taxation. The proposals for additional taxation are discussed in Chapter 3.

37. *Deficit financing.*—It is estimated that deficit financing of Rs. 1,000 million will be consistent with monetary stability during the Paln period. The rationale of deficit financing and the inflationary danger implicit in it are discussed in Chapter 3.

Semi-public sector

38. The semi-public sector consists of government-sponsored corporations which draw their finances both from the public and private sectors. The decision-making power of the corporations rests with a board of directors which combines representation from the Government and from private enterprise. These corporations have been set up to supplement and encourage private enterprise, not to replace it. The criteria guiding their policy must be much broader than considerations of private profitability, but this does not mean that the corporations should not be run on commercial lines. There has been a tendency in the past for some of the corporations to rely on large government loans or substantial subsidies, rather than to contribute to capital formation in the economy. It is essential that the commercial nature of the corporations be greatly emphasised and their future policies be so framed as to promote maximum efficiency and growth; their price policy should, no doubt, be guided by considerations of social gain, but the need for financing their future expansion out of their own resources must also be given due weight. The corporations should increasingly reduced their dependence on government finance by reinvestment of their own profits and through share flotations in the market.

39. It is estimated that the corporations will undertake a total investment programme of Rs. 3,250 million (Table 9). Of this, the Government is expected to contribute Rs. 1,750 million through loans and grants. It may be possible to reduce further the extent of government finance by promoting internal capital accumulation and by enlisting greater private participation. For instance, the public policy in respect of PIDC projects is to invite private financing to the maximum possible extent. Similarly, the Karachi Development Authority (KDA) is expected gradually to become a self-financing concern. The Improvement Trusts are expected to finance their programmes mainly out of sale proceeds of improved housing sites, though a significant contribution can also be expected from local bodies. It is expected that in the Plan period as much as Rs. 560 million of investment will be financed by the corporations from their own resources. This will necessitate some crucial revisions in the past practice of these corporations; for instance, the price of electricity will need to be reviewed by KESC, adequate provision for depreciation and replacement will need to be made by PIA, the economics of transport charges will need to be examined by the Transport Boards, and KDA will need to review its terms regarding interest and instalments on houses built and distributed by it.

TABLE 9

Financing of the semi-public sector, 1960-61 *to* 1964-65

(Million Rupees)

Corporation	Plan allocation	Sources of finance				
		Government loans	Foreign loans	Own resources	Private participation	Loans from banks
Pakistan Industrial Development Corporation (PIDC).	1,310	970	..	..	340	..
Small Industries Corporations (SIC)	410(*a*)	250	..	..	..	160
Karachi Electric Supply Corporation (KESC).	190	..	150	40	..	..
Pakistan International Airlines (PIA).	196	33	98	65	..	..
Karachi Port Trust (KPT)	124	..	60	64	..	..
Chittagong Port Trust (CPT) ..	15	..	3	12	..	..
West Pakistan Road Transport Board (WPRTB).	75	..	44	31	..	..
East Pakistan Road Transport Corporation (EPRTC).	13	8	5	..	..	..
Karachi Road Transport Corporation (KRTC).	32	17	15	..	..	..
Inland Water Transport Authority (IWTA).	80	55	25	..	..	..
Karachi Development Authority (KDA).	310(*b*)	110	..	160	..	40
Dacca Improvement Trust (DIT) and Chittagong Development Authority (CDA).	160(*c*)	160	..	..	..	..
All other Improvement Trusts and Authorities.	320	130	..	190	..	..
Industrial Workers Housing Corporations (IWHC).	20	20	..	..	..	..
Total ..	3,250	1,750	400	560	340	200

(*a*) In addition, Rs. 90 million of recurring expenditure will be incurred, bringing the total expenditure by SIC. to Rs. 500 million.

(*b*) Rs. 110 million is for water supply scheme and Rs. 200 million for housing programme.

(*c*) Dacca and Chittagong water supply and sewerage works.

40. An investment of about Rs. 400 million is expected in these corporations from foreign sources, mainly from the DLF and the World Bank. Private participation is likely to be sizeable in the case of PIDC

projects. The figure of Rs. 340 million mentioned in Table 9 is based on past experience and is only an expectation and does not constitute a ceiling. It should be possible to associate even more private capital with PIDC projects. The corporations will need some accommodation from the banking system also. The Small Industries Corporations are expected to raise Rs. 160 million from the banking system to set up a revolving fund for advances of raw materials to small industrialists. The KDA may also have to turn to the commercial banks for a part of its financial needs.

Private sector

41. An investment of Rs. 6,000 million is expected in the private sector during the Plan period. It will be financed mainly by private savings and foreign private investment, and parlty by commercial banks and government finance corporations (Table 10).

TABLE 10

Financing of the private sector, 1960-61 *to* 1964-65

(Million Rupees.)

Sector	Plan allocation	Sources of finance					
		Government loans	Foreign loans and investment	Self-financing	Loans from commercial banks	Loans from specialised credit institutions	Stock exchange
Agriculture	880	100(*a*)	..	380	50	350	..
Industry, fuels and minerals							
Large scale industry ..	2,130	..	700	900	230	..	300
Small scale industry ..	250	..	..	200	50	..	..
Fuels and minerals ..	550	..	330	140	20	60	..
Transport and communications							
Shipping	103	..	20	83	..	..	..
Inalnd water transport	95	..	50	5	..	40	..
Road transport ..	520	..	..	480	40	..	..
Tourism	111	..	..	61	50	..	..
Housing and settlements ..	1,135	..	..	935	..	200	..
Other sectors	226	..	..	166	60	..	..
Total ..	6,000	100(*a*)	1,100	3,350	500(*b*)	650(*c*)	300

(*a*) This will be in the form of *taccavi* loans to the private sector and is shown as a capital liability of the Government. In addition, the Government will also be lending Rs. 100 million to the Agricultural Bank and cooperatives, Rs. 80 million to Pakistan Industrial Finance Corporation, and Rs. 120 million to House Building Finance Corporation. All these loans are shown as a capital liability of the Government.

(*b*) The commercial banks are expected to lend to the private sector a total sum of Rs. 700 million; Rs. 500 million to the sectors mentioned in the above Table, and Rs. 200 million to the semi-public sector, mentioned in Table 9. This is discussed in Chapter 3.

(*c*) The specialieed credit institutions are expected to lend Rs. 650 million during the Plan period by raising thier funds partly from the Government (Rs. 300 million), partly from the commercial banks (Rs. 100 million) and rest (Rs. 250 million) from the market. This is discussed in Chapter 3.

42. Foreign loans and investment will be forthcoming mainly for industry, fuels and minerals. It is expected that about Rs. 500 million may be channelled to private industry through the medium of PICIC. There will also be some direct investment in private industry, especially through capital imports by established foreign firms, and an investment of Rs. 110 million in the proposed oil refinery. A further investment of about Rs. 330 million is expected in oil and gas explorations. The total private foreign investment is expected to be about Rs. 1,100 million.

43. Self-financing operations will be the most important means of financing the requirements of the private sector. The growth of the capitalist sector in industry, in particular, is expected to lead to a cumulative process of self-financed industrialization. It is estimated that at present the large scale inudstrial sector can provide at least Rs. 200 million annually for reinvestment out of its own profits, after allowing for taxes and distribution of profits. The average tax incidence on industry in not very high: the combined incidence of income tax, sales tax and excise duties does not come to more than 30 per cent on an average, because of the liberal depreciation allowances and tax concessions enjoyed by industry. The wage bill is also a relatively small part of the total value added in industry, being less than 40 per cent. This means that a significant share of total value added accrues to the industrialist for distribution as well as for further reinvestment. The share of profits in gross national product is expected to increase during the Plan period, along with the proposed increase of about 60 per cent in value added in large scale industry. The rate of expansion in the profit share can well be higher than the increase in industrial output, as has been the experience in most of the developing countries. It is tentatively assumed that over Rs. 1,500 million of profits will be available to large scale industry during the Plan period for ploughing back into investment. The Plan also proposes to strengthen incentives for reinvestment of profits. Private industrialists are expected to purchase existing PIDC assets worth Rs. 200 million as well as to contribute about Rs. 340 million to new PIDC projects during the next five years, in addition to building up their cash reserves as their output increases. After making allowance for these factors, it is estimated that private industry will have about Rs. 900 million of investment funds at its disposal for its further expansion.

44. A substantial amount of self-financing will be needed for private housing and road transport. In the case of private housing, it is expected that rationalization of existing rates of taxation on property, removal of rent controls on new construction, special tax incentives for low-cost housing, and increasing supplies of key construction materials will bring forth substantial savings usually earmarked by individuals for owning their houses. The road transport programme contains a large element of replacement, and it should be possible to finance it out of accumulated replacement funds as well as from the profits being made by priavte operators in this field.

45. The agricultural sector will present a more difficult problem because the traditions of reinvestment of increased productivity are not so well established. However, the Government will give direct assistance to this sector through *taccavi* loans in addition to the credit facilities extended by the Agricultural Bank, cooperatives, and commercial banks. Total assistance from these sources is projected at Rs. 500 million. It is expected that the private sector will be adequately supported by good credit arrangements as well as by the development of the capital market. This is discussed in detail in Chapter 3.

Financing of the Provincial programmes

46. A preliminary survey of the financial resources of the Centre, East Pakistan and West Pakistan highlights the fact that the present mode of federal financing will have to be re-examined if the total requirements of the federal units, both for development and non-development expenditures, are to be adequately met during the Plan period.

47. Table 11 presents a summary of the financial requirements and resources of the federal units, bringing out the magnitude and nature of the financial transfers needed during the Plan period. Both East and West Pakistan will have substantial deficits on their revenue accounts, in view of the inflexibility of their revenue receipts and the large burden of recurring liability on completed development schemes and for the servicing of development loans. The recurring liability of the development schemes completed in the First Plan and of those to be undertaken in the Second Plan is tentatively estimated at Rs. 500 million and Rs. 750 million in East and West Pakistan respectively, and the expenditure on debt servicing will amount to some Rs. 600 million and Rs. 800 million respectively.

48. The overall deficit, after considering the possibilities of additional taxation, is expected to be Rs. 900 million on revenue account and Rs. 3,310 million on capital account in East Pakistan, and Rs. 700 million on revenue account and Rs. 2,800 million on capital account in West Pakistan. The problem of financing the Provincial programmes is essentially a problem of federal financing. In overall terms, the resources to be raised should be sufficient to cover both the development and non-development expenditures during the Plan period. The problem is that of transferring the surplus funds from the Centre to the Provinces in a form which meets their needs.

49. So far as the deficit of the Provinces on the capital account is concerned, most of their capital expenditure is of a nature which will be eligible for Central loans. This means that Central loans will have to be increased from Rs. 302 million and Rs. 277 million in 1959-60 to an average of about Rs. 660 million and Rs. 560 million for East and West Pakistan respectively during the Plan period.

Table 11

Financing of the Provincial programmes 1960-61 *to* 1964-65

(Million Rupees)

	Centre	East Pakistan	West Pakistan	Total
Expenditure :				
Non-development expenditure	8,770	2,780	4,230	15,780
Revenue account	7,900	2,770	4,210	14,880
Capital account	870	10	20	900
Development expenditure	4,080	3,870	3,550	11,500
Revenue account	200	400	500	1,100
Capital account	3,880	3,470	3,050	10,400
Total expenditure ..	12,850	6,650	7,780	27,280
Resources :				
Revenue receipts	9,300	2,070	3,710	15,080
Capital receipts	2,740	100	160	3,000
Counterpart funds	2,500	..	..	2,500
Customs on commodity aid	500	..	..	500
Project aid and loans	4,000	..	..	4,000
Additional taxation	500	200	300	1,000
Deficit financing	1,000	..	..	1,000
Local bodies	20	70	110	200
Total resources ..	20,560	2,440	4,280	27,280
Financial gap : ..	7,710	—4,210	—3,500	..
Revenue account	1,700	—900	—700	100
Capital account	6,010	—3,310	—2,800	—100
Financial transfers: ..	—7,710	4,210	3,500	..

Note :—Table includes a payment of Rs. 1,400 million by the Provinces to the Centre on account of debt servicing. This adjustment should be borne in mind while comparing this Table with Tables 6 and 7.

50. The deficits on revenue account can be financed partly through Central grants. These grants, however, cannot ordinarily cover non-development expenditures. This raises a real difficulty. It is logical that Central assistance should be extended only for development pruposes, and the Provinces be expected to expand their own revenue resources to meet their recurring needs. But adequate provision for recurring liability of development schemes is as essential to effective development programming as any other expenditure and, in the absence of suitable arrangements, there is a real danger that the facilities established by the Plan will not be fully utilized for want of operating expenses. To some extent, additional taxation can cover the deficit, but a sum of about Rs. 500 million will still be needed by East Pakistan and Rs. 200 million by West Pakistan. So far as development items on the revenue account are concerned, these can be financed by Central grants. This means that Central grants will have to be increased from Rs. 75 million and Rs. 90 million in 1959-60 to an average of Rs. 80 million and Rs. 100 million in East Pakistan and West Pakistan respectively.

51. It appears that some special arrangement will have to be made to transfer about Rs. 500 million to East Pakistan and Rs. 200 million to West Pakistan to cover their non-development liability on the revenue account. This may necessitate a revision of the Raisman Award. Or a block grant can be put at the disposal of the Provinces for the specific purpose of meeting the recurring liability of completed development schemes.

52. Apart from the problem of meeting the financial requirements of the Provinces, there is the general question of establishing the criteria that should guide Central assistance to the Provinces. The general criterion should be that any project included in the Plan should be eligible for Central assistance either in the form of loans or grants. If, however, the whole of the Provincial development programme is dependent on Central financing, it can seriously restrict the flexibility and autonomy of the Provinces in budgeting their programmes. There seems to be a strong case for revision of the Raisman Award so as to place more resources at the disposal of the Provinces during the Plan period. The Raisman Award was an *ad hoc* arrangement, and its rationale should be reviewed in the light of the present revenue resources of the Provinces and their future requirements for development and non-development expenditure.

Estimates of gross national product

53. The estimates of gross national product, used in this chapter and in the rest of the Plan, are given in Table 12. These have been prepared in consultation with the Central Statistical Office and are provisional. The projection of gross national product for the Second Plan period is based on an evaluation of the physical targets of the Plan and on the proposed time-path of investment in various sectors. These estimates should be taken only as illustrative of the kind of structural changes that are implicit in the Plan.

TABLE 12

Gross national product at factor cost
(Prices—average of 1949-50 *to* 1952-53)

(Million Rupees.)

	1954-55	1955-56	1956-57	1957-58	1958-59	1959-60 (Estimates)	1964-65 (Projection)
Agriculture	12,407	11,877	12,778	12,449	12,102	12,647	14,390
Major agricultural crops ..	7,139	6,713	7,657	7,480	7,107	7,564	8,850
Minor agricultural crops	1,625	1,470	1,370	1,454	1,470	1,500	1,755
Livestock	2,584	2,597	2,609	2,623	2,636	2,650	2,780
Fisheries	1,026	1,064	1,109	859	856	900	970
Forestry	33	33	33	33	33	33	35
Mining	39	43	46	51	52	53	63
Manufacturing	2,151	2,488	2,689	2,805	3,010	3,150	4,640
Large scale	1,112	1,428	1,608	1,702	1,885	2,000	3.200
Small scale	1,039	1,060	1,081	1,103	1,125	1,150	1,440
Government	1,049	1,130	1,164	1,318	1,463	1,500	1,800
Banking	71	75	79	100	104	110	145
Transport and communications	546	565	583	609	643	680	815
Services	1,672	1,705	1,727	1,749	1,784	1,800	2,160
Rental income	1,108	1,109	1,124	1,139	1,159	1,180	1,387
Wholesale and retail trade ..	1,871	1,851	1,997	1.987	1,961	2,000	2,400
Gross national product :							
(In constant prices) ..	20,913	20,840	22,186	22,200	22,277	23,120	27,800
(In current prices) ..	14,800	18,200	22,630	22,200	24,500	25,430*	30,580
Population (in million) ..	81.3	82.5	83.6	84.7	86.1	87.5	95.2
Per capita income (Rs.):							
(In constant prices) ..	257	253	265	262	259	264	292
(In current prices) ..	182	221	271	262	285	290*	320*

*In 1959 prices. It is provisionally estimated that the general price index was 110 in 1959 compared with 100 in 1951-52.

Explanatory notes : 1. The estimates of gross national product for 1954-55 to 1958-59 differ from the published national income accounts of the CSO in the following respects :

(*i*) Terms of trade are excluded.
(*ii*) Depreciation is not deducted from estimates of gross value added.
(*iii*) The figures for minor agricultural crops, livestock and fisheries, which are shown as constant in the CSO national income accounts, have been adjusted on the basis of the latest data collected by the CSO.
(*iv*) Population estimates are those of the Planning Commission. Figures relate to the beginning of the period.

2. Estimates for 1959-60 are based on recent crop forecasts and past trends.
3. GNP figures are adjusted to current prices on the basis of a study prepared in the Institute of Development Economics.