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61:3 (2022) pp. 511–517

Strategies to Improve Revenue Generation for Islamabad Metropolitan Corporation

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Like most Pakistani cities, Islamabad has a fragmented administration, weakening its revenue base and service delivery.

This duality of structure was introduced through the Islamabad Capital Territory Local Government Act 2015, which led to creation of Metropolitan Corporation Islamabad (MCI) for the city's governance, in line with the city management practiced around the world.[1] The fragmented administrative resulted in an MCI that is dependent on CDA and Federal Government for its finance.

Box 1. Budgetary Issues

Given the administrative relationship, there is little clarity in services as well as budgets. Some key points to note:

- CDA considers itself a developer as well as a regulator. It earns through auctioning developed plots for construction. It does seek infrastructure finance from the federal government through the PSDP specially to build roads and flyovers. In 2017-18 CDA's total expenditures were Rs 34 billion while its revenues are about Rs 23.7: the shortfall is financed by the GDP
- MCI earns only through some property tax and user fees. It continues to have a has a large budget deficit which GOP finances through CDA.
- Salaries remain high in both departments owing to the legacy factors. In 2017-18 the salaries of the CDA and MCI (Rs 10 billion) accounted for about 83% of CDA revenue.

1. THE DUALITY OF ADMINISTRATIVE STRUCTURE

The responsibility for the planning, development and maintenance of the Master Plan for Islamabad stayed with CDA.[2] while MCI was delegated the responsibility for managing and providing municipal services and infrastructure, regulating markets and promoting cultural, social and economic development activities.

The most productive tax base remained with CDA while the expenditure accruing public services became the responsibility of MCI.[3]

This duality in the administrative structure of the city means that MCI, which has the mandate of city administration, is likely to remain in deficit and dependent on financing from either the CDA or the Government of Pakistan (GOP).

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[1] See Framework for Economic Growth (2020) which did recommend this approach.

[2] According to the rules set out in the CDA Ordinance 1960 and the ICT Zoning Regulations 1992. This largely includes land management, state development and building control and regulation.

[3] The primary revenue streams for the city, however, remained sale of commercial and residential land, building control and regulation fee and licensing with little effort to expand revenue streams and develop new.

It will be hard to plan services or to maintain a level of quality service in the city. As the functions and responsibilities of the local government evolve, it is important to consider the financial resources available to provide the increasing number of responsibilities being allocated to local government.[4]

It would be wise to consider eliminating this fragmentation as a part of the plan to put Islamabad on a sustainable financial plan**.**

2. CURRENT REVENUE STREAMS OF MCI

MCI has limited sources to earn its revenue from (see Box 2). It has revised some of the tax rates in Islamabad. It collects its revenue through two departments (see Box 3)

Table 2

Detail of Receipts of DMA (2017-18)

Head	Amount (Rs)
License Fee	329,356,945
Sign Boards/Banners	78,902,797
Open Spaces Rent	57,954,762
Telecom Unit	47,534,722
Weekly Bazaars	21,991,442
Trade Licensee	8,909,750
Birth & Death Certificates	1,884,980
Court Fines	843,900
Rent of Dhobi Ghats	114,150
Coffin Carrier & Graveyard Digging	897,980
Misc.	196,100
Total	548.59 Million

Box 2. Financing Streams for MCI

- Water rate
- Drainage rate
- Conservancy rate
- Fee for approval of building plans
- Fee for change of land use of a land or building
- Fee for licenses, sanctions and permits
- Fee on the slaughter of animals
- Tax on professions, trade, c and employment
- Market fees
- Tax on sale of animals in cattle market
- Toll tax on roads, bridges and ferries maintained by MCI
- Fee at fairs and industrial exhibitions
- Tax for the construction or maintenance of public utility
- Parking fee
- Water conservancy charges
- Tax on installation of base transceiver station/tower
- Any other tax or levy authorized by the government

2.1. Analysis of Revised Tax Rates

MCI has revised some of the tax rates in Islamabad. The revised tax rates as of 1st July 2019 is estimated to considerably increase the revenue of MCI.

(a) The rates of property tax rates have been revised upward and the estimate for increased revenue is about an additional Rs 1 billion.

However, several issues that need to be addressed in moving to a tax system that is more in line with market forces. Some considerations are:

Box 3.

MCI collects its revenues through; 1. Revenue Department and, 2. Directorate of Municipal Administration (DMA)

The Revenue Department collects taxes from three sources; (1) property tax, (2) water charges, and (3) conservancy charges These taxes are levied on the basis of covered area multiplied by the established rate of land based on its usage, for instance residential, commercial, industrial, government institutions etc.

Revenue Department collections for the year 2017-18 are:

- Property tax: Rs 860 million
- Water and conservancy charges: Rs 250 million
- Total revenue: Rs 1,110 million

[4] In addition, while CDA under the 1960 Ordinance was responsible for only a select number of sectors, the Local Government Act 2015 has expanded the region under the jurisdiction of MCI. This has led to a number of new rural areas being included in the administrative boundaries of MCI where MCI is now responsible for all planning and development of land, infrastructure and public services, increasing the burden on its limited pool of resources.

- The levies are not related to market valuations but purely on basis of square footage of land and covered area.
- Location too does not seem to matter in this calculation although valuation and use of property clearly depends on location.
- Similarly, the differences been residential and commercial are also not reflective of market conditions.

Given that Islamabad real estate, both in valuation and rentals, is the most expensive in the country and among the most valuable in the world, the expected revenue of Rs. 2 billion does suggest that there is room for improvement.

(a) The revenue department also plans to install meters to estimate water consumption by companies and levy taxes accordingly- a welcome step in a water-short country.

3. DEVELOPING A REVENUE PLAN FOR ISLAMABAD

MCI is a new entity established through the recent Local Government Act. It is wise to develop such a strategy around budget and financing issues. Islamabad's finances as well as public service provision will improve substantially if the consolidation and rationalisation of the budget, the agencies and public service delivery were carefully evaluated.

3.1. Property Taxes

MCI has taken steps to revise the property tax system that is more in sync with the market-based rates. Scope for improvement in property taxation is huge as currently less than 10% of MCI/CDA revenue comes from this source.

Some important points for this are as follows:

(a) Property taxes must be related to market valuations which will vary by location,
(b) Use - e.g. residential, commercial, community, etc.
(c) Possible economic gains such as rent and capital gains
(d) When fixing rates due consideration should be given to incomes and ability of people to sustain the increase.
(e) City administration should try to establish a real estate market which is transparent in its inventory for sale, the transactions as they take place and the swift exchange of property. This will help increase valuations and the revenue collected in Islamabad.
(f) According to census, the number of pucca houses in Islamabad is about 1.1 million units. Assuming that the average value is Rs 1 million, the valuation of the real estate stock would be about Rs 1 trillion. Setting property taxes at .5 percent of value, the estimated tax revenue is around Rs 5 billion.
(g) We have no estimates for commercial real estate. Currently we can assume that it can be no less than residential real estate.

3.2. Utility Fees

Currently, utility fees are charged on a system that is a derivative of the current system for property tax. Designing a system based on proper metering and charging on the basis of actual use would increase the yield. Assuming metering will give utility yield of about .05 percent of value, the potential revenue from metering should be about Rs 1 billion.

3.3. User Fees

Revenue generation from user fees is an area where considerable progress can be made in Islamabad. Currently, cars, cattle, bazar fees, tolls and other licenses including telephone towers, constitute only about Rs. 200 million, which is equivalent to about 1% of the CDA/MCI budget.

Box 4.

1. Street Parking: Designated spots on streets. No parking beyond these spots.
   a. If 50,000 such spots at Rs. 100 an hour between 7am-10PM 6 days a week
   b. 50% occupancy
   c. Revenue =Rs 11.7 billion
2. Parking lots: 10 in city with 20,000 capacity total at 1000 a day
   a. With 50% occupancy
   b. Revenue: 3.6 Billion
3. Fast Track: Fast lanes during rush and other areas to alleviate congestion and rationalize traffic. % arteries in Islamabad average of 100 Rs affecting 20,000 cars a day. Revenue 7.3 billion.

3.3.1. *Possible Revenue from Cars*

Car parking can generate considerable resources for MCI. Efficient solutions for collecting revenues can be developed using cameras and mobile technology without the need for outsourcing it.

(a) The design of parking policy begins with clearly designated parking spots for street parking and a clear policy that parking beyond designated spots is not allowed. The principle is that streets are public property and car-owners are renting it for a particular period of time.

(b) If the cost and supply of street parking is clearly defined, parking lots can generate high amount of revenue. Even at a non-trivial tax rate, Rs. 20 billion can be generated from parking spaces alone.

(c) Islamabad has engaged in the old school approach of addressing congestion and traffic control through the expansion of roads, and construction of underpasses, overpasses and bypasses at considerable cost. World over. the most important form of traffic control is paid parking in cities that rationalizes use of private vehicles through high costs.

(d) One alternative that the world uses is *Fastrack*; paid fast lanes for users who need to travel fast and reach their destination in shorter time. These lanes clear congestion while also creating an opportunity to earn revenue for the local government.

(e) Apart from parking spaces, higher revenue can also be generated by renting out open spaces. MCI can earn almost Rs. 1 billion through better utilization of assets (Box 5).

Box 5. Possible Revenue from Small Street Commerce

An inclusive approach to city development is to allow street commerce for poor entrepreneurs. Even mature cities like New York, London, Singapore, DC and Paris allow a large amount of street commerce. Not only is this a revenue item, it also makes for better city living and a more cohesive and inclusive community. If Islamabad allowed this through licensing a well-organized street kiosk system throughout the city, it could generate substantial revenues. If there were an estimated 30,000 kiosks renting out space at a daily rate of Rs. 100, the annual revenue would be about 1 billion rupees. In addition, the employment, social and economic benefits will be huge while creating an attraction for the city’s diplomatic community.

3.4. Asset Ownership and Management

The city of Islamabad owns a number of assets that could be better utilised to generate revenues through renting out these public spaces to private sector.

Table 3

Proposed Asset Utilisation

Asset	Daily Use	Revenue
Jinnah Convention Centre	100,000	30,000,000
Jinnah Sports Stadium	100,000	30,000,000
China Centre	50,000	15,000,000
Shakaparian	20,000	6,000,000
Monal and Neighbouring Areas	20,000	6,000,000
Zoo	30,000	9,000,000
PNCA	20,000	6,000,000
Total	340,000	102,000,000

Although the city has developed assets over time, but it has done so without a clear focus on utilizing the assets for maximum yield. An inventory should be taken of all assets in the city, followed by systematic efforts to improve their management.

3.5. Increasing Value Through Urban Regeneration

(a) The market value of land in Islamabad has increased rapidly.

(b) The city faces acute shortage of shopping areas, schools, offices, commercial buildings, ware-houses, entertainment, hotels, as well as housing.

(c) The zoning laws of Islamabad have restricted growth in commercial activity and discouraged the development of affordable housing schemes by restricting high rise buildings and mixed use of land.

(d) The zoning regulations need to. be reviewed on an urgent basis.as they are holding back city's development and hence, the ability to levy tax.

Box 6.

Building Regulations of CDA restrict the development of High-Rise buildings. This has not only increased real estate values significantly for the common man but also eliminated an important source of revenue for the local government. Allowing for the development of apartments in High-Rise buildings and formalizing the regulations for transfer of apartment ownership can be an important source of revenue for the local government as well as provide affordable housing for the low- and middle-income families.

Restrictive zoning is driving residents out into suburbs in search of affordable housing, causing the city boundaries to expand while burdening the capacity and resources of local government. The inflexible zoning laws that have not been updated with the changing needs of the city have restricted growth in productivity and potential revenue streams for the local government.

Box 7. Efficient Use of Land

The amount of revenue that a piece of land can generate is contingent upon its efficient use and allocation. A prime example of it is the provided by the contrast between the revenue being generated by the Centaurus mall versus the Blue Area. The commercial hub in the centre of the city, known as Blue Area, is estimated to generate a total of Rs 79 million annually through property, water & conservancy charges. In contrast, the three towers of Centaurus mall occupying a much smaller land area is generating Rs 15 million from advertisement, Rs 18 million from property, water & conservancy charges, and Rs 5.6 million annually from 700 apartments. This equates to a total of 38.6 million being generated from the mall of Centaurus alone. The difference between the revenues in line with occupied land area highlight how a strategically planned commercial use of land can generate much higher revenue. Centaurus mall is generating half as much revenue as Blue Area but occupying a much smaller area in comparison to Blue Area.

Rezoning could increase value and the tax base of MCI. Some examples are:

- Blue Area which is a planned linear hub of commercial activity in the city could be rezoned as a broader commercial area through multi-purpose modern high-rise building structures that increase economic activity while also expanding the revenue base for MCI.
- Allowing older single-family home structures to convert into multi-family apartment structures could increase availability of much needed housing space as well as the revenue base for the city.
- Renew the sectoral markets which use large tracts of land for a suburban village and do not provide the space for city department stores and warehouses.
- Allow more mixed used walkable space in high-rise neighbourhoods.
- Make flats the unit of living in most areas of the city.
- Allow more neighbourhood commercial activity (offices, shops, entertainment etc) to develop to alleviate congestion and allow value to develop more evenly.
- The area around Metro stops should be facilitated and rezoned to allow them to transform into high value areas for mixed-use development. This will have many benefits including higher revenues and investment for Islamabad.

3.6. Public-private Partnership (PPP) for Creating Asset and Managing Assets

(a) MCI has the legal option to enter into a PPP and could be used for enhancing revenue. A PPP framework should allow the cost and user fee to be split between public and private partner.

(b) MCI has eight to ten dispensaries under its ownership which can be turned into diagnostic centres through private sector partnership.

(c) MCI also has an allocated land for educational institute which can be turned into a vocational training institute in partnership with the private sector.

(d) The private sector has the potential and capacity to create and manage assets that will yield revenue going forward. Possibilities are numerous; (1) Chairlift to Monal and beyond, (2) Islamabad eye—a Ferris wheel, (3) Developing more ridge entertainment like Monal

3.7. Promoting Tourism

(a) Charge entry fees from tourist attractions such as museums, historical buildings.

(b) Promote tourism by attracting international tourists to existing locations such as Lok Virsa, Monument, Margalla Hills, Shakarparian and Saidpur Village.

(c) Start a city bus service to provide a tour of all the sites in the city.

(d) Establish Cable Car service from Zero Point to Monal Restaurant.

(e) A higher number of luxury hotels can also generate a lot of revenue for the local government through property tax, water and conservancy charges and bed tax.

(f) Established an Expo Centre for foreign investors to visit and explore Pakistani products.

(g) The revenue model provided here is based on a win-win strategy, where investment, employment, commerce and other economic activities will improve sharply. If Pakistan adopts city based local governments, this approach to managing cities should be studied for all cities.[5]

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