

# Pakistan commissions research to evaluate linkages between urban services and tax collection

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## Highlights

### Evidence impact

- The research team is undertaking another impact evaluation supported by 3ie to test how increasing the alignment of demand and supply of urban services linked to tax payments can strengthen the social compact between the state and its citizens.

### Factors that contributed to impact

- The principal investigators of the study team had a strong and established working relationship with the Punjab government, which enabled smooth advocacy and effective uptake of the study results.
- The evidence gap on the effectiveness of a scheme to increase revenue generation led to the Punjab government engaging in conversation with the study team in 2008. This resulted in early engagement and contribution by the government in designing and implementing the evaluation.
- Timely insights and release of policy-relevant study recommendations allowed the government to work toward strengthening the enabling environment through monitoring systems within the department.

## Impact evaluation details

Title: [Property tax experiment in Pakistan: incentivising tax collection and improving...](#)



## Context

Property taxes were introduced in Punjab, Pakistan, in 1958. However, over the years the process of tax collection has been slow to the point of stagnation. The tax has immense potential to improve and expand the tax base for financing the municipal government in Punjab. Collection of this tax could also promote broader efficiency objectives, as well as linkages between municipal services and their financing. It could also strengthen the contract between taxpayers and the state. In 2009, to incentivise tax collection, the Excise and Taxation Department of Punjab designed and implemented a series of human resource reforms, with a plan to improve overall departmental performance.

In 2010, 3ie collaborated with researchers from Innovations for Poverty Action and the Centre for Economic Research Pakistan to evaluate the performance of the intervention, which was intended to increase revenue without losing customer satisfaction.

Randomised controlled trials were conducted in 482 tax circles, which were The team conducted the evaluation in 482 tax circles, randomly divided into three treatment groups and one control group. They introduced three performance-based pay schemes for tax collection employees in the

treatment groups: (1) a revenue-based honorarium scheme; (2) a revenue plus honorarium scheme; and (3) a conditional fixed wage (flexible bonus) scheme. They also measured the trade-offs that the government would experience in terms of increased revenue versus the political costs in terms of dissatisfaction among the public.

## Evidence

The findings showed that monetary incentives had significant positive impact on tax collection. The incentives improved revenues by 13 per cent more than usual and doubled the usual year-to-year rate of increase for the department. The return on investment was also positive. The evaluation suggested that simpler and objective-based performance pay schemes performed better than the other two schemes. However, the findings also indicated that the scheme needs to be efficiently monitored to ensure customer satisfaction. The evaluation demonstrated that it was cost-effective for the government to develop performance pay periods every few years.

## Evidence impacts

### **Study team to carry out another impact evaluation in Punjab, Pakistan**

Driven by the positive results and demand for rigorous evidence from government decision makers, including the chief minister of Punjab, the research team is undertaking two other impact evaluations, one of which is supported through 3ie's Development Priorities evidence programme. Encouraged by the results, the department has asked the researchers for a follow-up study to assess the impact of non-monetary incentives, such as merit-based transfer and posting, in improving performance. Further, the other evaluations will test whether increasing the alignment between the demand for and provision of urban services in a neighbourhood and how that links to taxes paid, may strengthen the social compact between the state and citizens.

## Suggested citation

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