To Identify the Challenges of Fiscal Policy for Construction Industry in Pakistan

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Abstract: The entire influence of a country's budget outcome on economic activity is referred to as fiscal policy. Fiscal policy has its own share of benefits & challenges in particular groups. Therefore, the aim of this study is to identify the benefits & challenges of Fiscal Policy for Construction industry. A detailed literature review has been conducted to identify the possible benefits and key challenges to better fiscal policy. In later stage, a set of questionnaire was prepared using the identified factors. The data was collected from construction industry professionals with experience on fiscal policy management. The data was analysed by aggregated average mean using SPSS. The factor ranks were made on the higher values of aggregated mean value. The study concludes that the main hurdles to better fiscal policy are import/export restrictions, delays in land/plot permits/licenses, and currency fluctuations, as well as government subsidies on construction materials. Similarly, the top benefits for better fiscal policy in the construction industry include meaningful salaries/wages and employment for daily wage earners. The study recommended that, Policymakers must be urged to adopt suitable fiscal policies that address these challenges in order to evolve and improve the construction sector.

Keywords: Fiscal Policy, Construction Industry, Challenges, Benefits.

1. Introduction: Public expenditure & Revenue generation to impact the economy of any country are simply defined as fiscal policy [1], [2]. Fiscal policy promotes economic progress while also removing challenges to economic solidity [3]. According to the study by Sullivan et al, economic activity's total impact on the budget outcome is due to Fiscal Policy [4]. In its budget, the government determines the level of income generation (taxation) and public expenditure (government spending). As a fact, fiscal policy has variations each year, either by amending prior policies or by launching a completely new fiscal policy [1]. For the construction industry, fiscal policy has both pluses and minuses. i.e., For example, in the year 2009 Alesia and Aradhana, discovered that increasing taxation by 1% reduces GDP output by up to 3% in the next three years. As a result, the government raises revenue through direct and indirect taxes [5]. Net exports are reduced as a result of fiscal policy, which has a balancing effect on domestic production and revenue. When the government borrows money, interest rates rise, attracting foreign capital [1].
Since, the government is such a huge client of the construction industry, Hillebrand (1985) anticipated that any changes in its policy toward building and engineering projects would have a significant impact on the industry's performance [6]. As a result, it is essential for government economic policies to be preferable to the construction industry, i.e., any element/component of fiscal policy introduced by any government with an impact on the overall economy of a nation should be properly examined so that the cost of construction falls within the reach of the average citizen [1]. Thus, this study aims to determine the challenges of fiscal policy for the construction industry.

2. **Literature Review:** Several researchers have mentioned the possible challenges of fiscal policy that affect the construction sector. Mapping of possible challenges is shown in table below.
| Challenges of fiscal policy of construction industry | L.M. Khodeir | M.S.B.A. Abd El-Maaji & Crafford | S. Asghar et al. | L.Y. Shen et al. | P-X.W. Zou et al. | M. Shen et al. | M. Shen et al. | Bickerton | B. Ismail Zabiullah | Raj Kapur Shah | A.Q. Adeleke | A. Q. Adeleke | Stephen Githa Njuru | B. M. Musarat | R. M. Musarat | Alfred Atsango | Arshi Shakeel | Pavlina R. | Shrehti |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Change in taxation/new tax rates | * | * | * | * | * | * | * | * | * | * | * | * | * | * | * | * | * | * | * |
| Currency fluctuation | * | * | * | * | * | * | * | * | * | * | * | * | * | * | * | * | * | * | * |
| Import/export restrictions | * | * | * | * | * | * | * | * | * | * | * | * | * | * | * | * | * | * | * |
| Increase in construction material prices | * | * | * | * | * | * | * | * | * | * | * | * | * | * | * | * | * | * | * |
| Delay in permits and licenses of land/plots | * | * | * | * | * | * | * | * | * | * | * | * | * | * | * | * | * | * | * |
| Hyperinflation | * | * | * | * | * | * | * | * | * | * | * | * | * | * | * | * | * | * | * |
| Decrease in revenue accruing to govt | * | * | * | * | * | * | * | * | * | * | * | * | * | * | * | * | * | * | * |
| Cost increase due to change of policies | * | * | * | * | * | * | * | * | * | * | * | * | * | * | * | * | * | * | * |
| Loss due to political changes | * | * | * | * | * | * | * | * | * | * | * | * | * | * | * | * | * | * | * |
| Instability of Government | * | * | * | * | * | * | * | * | * | * | * | * | * | * | * | * | * | * | * |
| Lack of govt investment | * | * | * | * | * | * | * | * | * | * | * | * | * | * | * | * | * | * | * |
Table 2: Literature Review of Fiscal Policy Challenges in Construction Industry

| Challenges                      | Literature Review                                                                                                                                 |
|---------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------|
| Change in Taxation              | A 1% reduction in taxation reduces GDP, which has an impact on the building industry. [5].                                                            |
| Currency Fluctuation            | Currency Fluctuation cause project cost overrun due to which level of investment in construction industry decreases [7].                             |
| Import/Export Restrictions      | S. O. Ogunlana in his study mentioned that, when materials are not imported timely, it causes delays in projects [8].                                 |
| Increase in Construction Material Prices | It is this type of problem that drives up project costs and causes delays. [9].                                                                     |
| Delay in Permits/Licenses for Plots/Lands | L. M. Khodeir pointed out that delay in permits for plots/lands causes uncertainty in projects creation [10].                                      |
| Hyperinflation                  | A. Moyo explained in his study that, hyperinflation when increases, performance of construction sector decreases [11].                                |
| Decrease in Revenue accruing to Government | If the government has a limited budget, it will almost definitely spend less on the building sector, leaving the construction business with very limited financial resources to expand. In her investigation, Elijah discovers that the cause of project abandonment is a lack of government funding/finance. [12]. |
| Cost Increase due to Change in Policies | Cost increases as a result of policy changes are one of several obstacles that cause project delays or, in extreme cases, project termination. [12]. |
| Loss due to Political Changes   | Changes in government/administration, according to Ayode's research, have frequently resulted in policy changes, resulting in project abandonment. [12]. |
| Government Instability          | Government instability, according to Zabiullah, is a major stumbling block to the construction sector's progress. [13].                                |
| Lack of Government investment   | Lack of government investment does not let construction sector to evolve [11].                                                                        |
3. **Research Methodology:** Fiscal Policy is prepared each year so that each industry can be benefited from it. Out of many industries, construction industry is also catalyzed through it. However, there are some challenges of Fiscal Policy for the construction industry. For this study, such challenges were identified after going through the literature of papers related to fiscal policy. A questionnaire was prepared after spotting 11 factors in which impact of these challenges inquired with a Likert scale ranging from no impact to high impact from construction industry professionals and from individuals related to construction sector. After data collection they were analyzed by calculating their collective means through SPSS. Finally, challenges were ranked in order of most challenging to least challenging. The complete research flow is presented in the Figure 1.

![Research Methodology Flowchart](image)

**Figure 1:** Research Methodology Flowchart

4. **Results & Discussion:**

The following figure 2 shows the number of consultants, contractors and client who filled the questionnaire.
Figure 2: Questionnaire filled by Respondent

This figure presents the number of consultants, contractors and client who filled the Questionnaire. 23 responses were obtained from consultants. Majority of the responses were obtained from client, which were more than half of the total responses with the number of 56. Least responses were recorded from contractor with a count of 21. The complete abbreviation of the challenges are presented in the Table 3.

Table 3: Abbreviation of Fiscal Policy Challenges

| Challenges                                         | Abbreviation |
|----------------------------------------------------|--------------|
| Change in taxation/new tax rates                   | C1           |
| Currency fluctuation                               | C2           |
| Import/export restrictions                         | C3           |
| Increase in construction material prices           | C4           |
| Delay in permits and licenses of land/plots        | C5           |
| Hyperinflation                                     | C6           |
| Decrease in revenue accruing to government         | C7           |
| Cost increase due to change of policies            | C8           |
| Loss due to political changes                      | C9           |
| Government instability                             | C10          |
| Lack of government investment                      | C11          |

This Table shows the abbreviations of the fiscal challenges considered in this study. The data was analyzed in SPSS and the final results were generated using aggregated mean value presents in the Figure 3.
This figure displays 11 potential issues for the construction sector as a result of current fiscal policy, with each challenge's average defined from the perspective of construction industry professionals. According to this research, problem 3 (import/export limitations) has the highest mean of 7.42 since it produces a lack of materials from the international market; if timely import is not done, projects are delayed, which is also highlighted in the report [8]. Challenge 5 (delay in obtaining plot/land licenses) is ranked second, with a mean of 6.46; it creates uncertainty in project development, as stated in [10]. Challenge 2 (currency fluctuation) is another test that construction industry operators must confront; it is one of the top three obstacles and causes project cost overruns [7].

Government instability, according to Zabiullah, is a very challenging issue in the development of the construction sector [13, 14], and it is ranked 4th with a mean of 6.34. Challenge 8 (cost increases due to policy changes) is another challenge that most companies in the construction sector face, as it is one of the elements that causes project delays or even project abandonment [12]. Challenge 7 (Decrease in government revenue) is a dare because it has a mean of 6.16 and is rated 6th; if the government has limited revenue, it would undoubtedly spend less on the construction sector, leaving the construction business with very limited financial means to boost the sector. In her investigation, Elijah discovers that the cause of project abandonment is a lack of government funding/finance [12].

With a mean of 6.05., change in taxation (C1) is ranked 7th. According to Alesina, a 1% reduction in taxation reduces GDP, which has an impact on the construction industry [5]. Challenge 9 (loss due to political change), which has a ranking of 8, is one such challenge whose value is quite similar to that of clients, consultants, and contractors. Changes in government/administration, according to Ayode's research, have frequently resulted in policy changes, resulting in project abandonment [12, 15].
Lack of government investment (C11) is a problem that affects consultants and contractors more than clients, depending on their financial situation. As noted in [11], this problem prevents the construction industry from evolving. Other concerns include hyperinflation (C6), which has a negative impact on the construction sector's performance [11] and is rated 10th. It poses the least amount of difficulty for clients and the greatest amount of difficulty for consultants. C4 is ranked 11th (increase in construction material prices). As noted in [9], it is this type of problem that leads to an increase in project costs and delays.

The final ranks of the challenges to fiscal policy presents in the Table 4.

| Challenges                                      | Collective Mean | Rank |
|------------------------------------------------|-----------------|------|
| Import/Export Restrictions                      | 7.42            | 1st  |
| Delays in Permits/ Licenses of Land/ Plots      | 6.46            | 2nd  |
| Currency Fluctuation                            | 6.42            | 3rd  |
| Government instability                          | 6.34            | 4th  |
| Cost increase due to change of Policies         | 6.21            | 5th  |
| Decrease in revenue accruing to government      | 6.16            | 6th  |
| Change in taxation policy/ new tax rates        | 6.05            | 7th  |
| Loss due to Political changes                   | 6.0             | 8th  |
| Lack Of Government Investment                   | 5.87            | 9th  |
| Hyperinflation                                  | 5.79            | 10th |
| Increase in Construction Material Prices        | 5.18            | 11th |

5. Conclusion:

The study concludes that Import/Export Restrictions, Delays in Permits/ Licenses of Land/ Plots and Currency Fluctuation as top challenges for the construction sector. The study recommended that, Policymakers must be urged to adopt suitable fiscal policies that address these challenges in order to evolve and improve the construction sector. These are the key challenges to fiscal policy of Pakistan and appropriate action should be taken to improve these challenges and design a better fiscal policy which can benefits the construction industry because it contributes significantly in GDP and job creation at all levels.
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