Over the last few years, Pakistan’s intragovernment relations have undergone major changes. While they have created many opportunities for improving service delivery, they have also created serious risks. The biggest is state authority concentrated in the middle tier of government, which remains too isolated from the population to make any serious shift toward “bottom-up” accountability. This note argues that the disconnect between political goals and service delivery is the biggest reason decentralization has failed to improve social outcomes. It presents contours of the key actions for a more pragmatic decentralization model, which can bridge the gap between the normative and doable aspects of decentralization. The model sees a role for local governments in municipal and other local services, while devolving other key provincial services like health and education to autonomous provincial authorities to be headed by elected local representatives. The financial sustainability of devolved functions needs to be ensured through improved revenue efforts by the federal and provincial governments. And debt management concerns can be allayed if the province maintains fiscal discipline by legislating and adhering to fiscal responsibility laws.

Decentralization in Pakistan—
A Historical Perspective

Over the last few decades, more than 75 countries have attempted to transfer state responsibilities to lower tiers of government. Significantly, most of these governments were elected, making such decentralization not just administrative or fiscal but also political. The political motivation for these measures varied. In Eastern Europe and the former Soviet Union, it was part of the political and economic transition. In Latin America, it was to reinforce the move to deepen democracy. In Indonesia, South Africa, and Sri Lanka, it was in response to ethnic or regional conflict. And in Chile, Côte d’Ivoire, and Uganda, it was to improve the delivery of basic services (Shah, Thompson, and Zou 2004).

Irrespective of the actual motivation, an explicit (or implicit) reason for decentralization was general dissatisfaction among the populace with centralized delivery of public services. Many people believed that decentralization could improve governance of services by improving allocative efficiency (better matching public services to local demands) and accountability (taking government closer to the people while enhancing productive efficiency of public services and infrastructure). Yet experience has been mixed—see, for example, Burki, Perry, and Dillinger (1999); World Bank (2001, 2003); and Ahmad and others (2005).

Some common problems associated with decentralization’s impact on service delivery have begun to emerge. It is thus critical to understand that even if a decentralization plan has political, administrative, financial, and service delivery objectives, it could only be achieved, and sustained, if it can address all the above aspects—and they must fit well together. Pakistan has tried to decentralize government, but most of its
initiatives, if not all, have failed to deliver the desired results—mainly because the primary goal of each was political, and little attempt was made to balance the other objectives, especially service delivery.

**Since its independence in 1947, Pakistan has been a federation.** This is partly an outcome of the constitutional legacy of British India as reflected in the Pakistan Resolution, which contained many elements of federation (and indeed confederation); partly because of its geographic reality of consisting of two noncontiguous territorial units (West and East Pakistan); and partly because the provinces developed distinct ethnic and linguistic identities of their own as former sovereign states. However, the federal provisions of the resolution remained inactive at the national level even as it continued to serve as a Magna Carta for ethnonationalists.

That the two units were considered vulnerable to Indian designs pushed the ruling elite toward centralizing political power in Karachi’s—and later Islamabad’s—hands. The center amassed enormous powers under the 1947 Independence of India Act (Salamat 1992). Pakistan was thus born into a paradoxical political situation that made federalism at once the only viable form of government and as toothless as possible (Waseem 2010). It is no surprise, then, that Pakistan’s successive constitutions (see below) remained federal in form but unitary in spirit.

**Pakistan had an unbalanced federal structure because of the demographic weight of the province of East Pakistan (55 percent of the country’s population).** The ruling elite based in the West Wing shunned the grim prospects of rendering a permanent majority position to the East Wing and pushed the agenda for interwing parity of equal representation in Parliament (Waseem 2010). This quest for parity was the driving force behind merging all four provinces in the West Wing into a megaprovince—West Pakistan. But this had two unintended consequences. First, it led to fierce backlash in the form of ethnonationalist movements in Sindh, Balochistan, and North West Frontier Province. Second, Lahore was made the capital of West Pakistan, and in 1960 the nation’s capital was shifted from Karachi to Rawalpindi and then Islamabad, both in Punjab. These federalist arrangements were widely seen as a sign of the “Punjabization” of Pakistan. Punjab’s domination of the armed forces, which ruled the country for most of the 1960s, further strengthened this view.

In the 1956 Constitution, the distribution of legislative powers between the federation and the federating units was enumerated in three “lists.” The Federal Legislative List had 30 items, the Provincial List 94, and the Concurrent List (which enumerated functions that could be performed by the federal, provincial government, or both) only 19. Although wide powers were given to provincial legislatures, the shadow of federal control remained as the federal government was entrusted with ensuring that each province was governed according to the constitution. A provincial government was obliged to exercise its executive authority so as to comply with Acts of Parliament and laws applying to that province. The central legislature, however, could legislate on any matter connected with a provincial subject on the grounds of national stability, planning, coordination, or achievement of uniformity on any matters in different parts of Pakistan. In a conflict between central and provincial laws, the former prevailed.

**The 1956 Constitution did little to tilt the distribution of financial resources toward the provinces and away from the center.** The main sources of the provinces’ income were taxes on mineral rights, electricity, vehicles, advertisements, animals, boats, professions, trades, and luxuries, as well as an excise on alcohol and drugs.

The 1962 Constitution, framed by a military government, adopted a presidential form of government and enhanced the legislative role of the central government. This constitution had only a Federal Legislative List, allowing provinces legislative jurisdiction over residual functions only. On fiscal resources, it gave the president powers to establish a National Finance Commission (NFC), comprising the central finance minister, provincial finance ministers, and other persons the president might appoint after consulting with provincial governors. These
centralizing moves created serious dissention in the East Wing.

In 1966, the influential Awami League’s Six Points Program sought to radically redefine federalism by demanding six key areas for the center. The six areas are defense and foreign policy (with communications); two convertible separate currencies (or one currency to be handled by two separate reserve banks for the two wings); taxation for the provinces; the right of the provinces to handle foreign exchange and foreign trade; and paramilitary forces for East Pakistan. However, the political leaderships in the two wings could not agree on the amount of provincial autonomy. This, and the refusal by the West Wing’s political leadership to allow the Awami League to form a national government after the 1971 elections, led to the federation’s collapse in 1971, when East Pakistan became the independent state of Bangladesh.

The secession of East Pakistan in 1971 prompted new thinking on federalism. As Punjab—with 58 percent of the population in the remaining areas—held a dominant position, the smaller provinces moved to constrain the majority of one province in Parliament. Politicians from Sindh, North West Frontier Province, and Balochistan successfully lobbied for some kind of majority-constraining federalism.

The 1973 Constitution therefore adopted a two-tiered legislative structure. It consisted of a National Assembly, whose membership was decided on majority basis and dominated by members from Punjab, and a Senate, where all four provinces enjoyed equal representation. The Senate was thus supposed to balance the majority dominance of the lower house. But it was given no control over the crucial Money Bill, such that the national budget could be sent for presidential approval after bypassing the Senate.1 The 1973 Constitution also brought back the Concurrent List.2

Pakistan has remained a federation of provinces, but none of the constitutions saw any role for subprovincial governments. Nonetheless, the 1973 Constitution recognized management of local governments as important, including it in the Concurrent List, but the function was performed by provincial governments. In that sense, the constitution acknowledged the need to have local governments but only as extended arms of provincial government. This constitutional ambiguity has remained Pakistan’s biggest impediment to developing local governments.3

The first major move to institute local governments in Pakistan was in the 1960s under the military regime of General Ayub Khan, which established the system of Basic Democracies. Local governments ceased to exist in the early 1970s because the elected government of Zulfiqar Ali Bhutto did not hold local government elections, despite its stated intent. During General Zia ul Haq’s rule, local governments came back as a third tier of government under the 1979 Local Government Ordinance (LGO), but again with only limited authority, as provincial governments were given broad oversight and advisory authority over local governments.

The first real attempt to fully empower local governments was made under General Musharraf. The 2001 LGO devolved some key functions to local governments, including substantial concomitant financial powers. The 17th Amendment to the constitution devolved key functions like education and health to the local governments and provided them time-bound protection. Still, the main objectives of this devolution were not different from those of the previous military governments. Since 1947, local governments have been used mainly to depoliticize governance, create a new political elite to challenge and undermine the political opposition, and demonstrate the democratic credentials of a regime to domestic and external audiences.

Political objectives aside, the 2001 Devolution Plan aimed to change the governance structure, with strong implications for delivery of basic public services.4 For example:

- It expanded the scope and authority of elected local government. Local governments before this devolution had little role, as they were practically inactive and most state functions were carried out by the provincial bureaucracy. The plan devolved some key functions, including education, health, and
agriculture, to local governments, transferring the vast majority of public services previously performed by provincial governments’ district administrations to elected local governments. Local governments’ responsibilities for services and how they allocated district expenditures rose substantially (Cheema, Khwaja, and Qadir 2005).

- It engendered electoral accountability. The district administration head—the district coordination officer—now reported directly to the elected head of the government—the nazim. This was a significant departure from the previous systems, where the de facto head of the district administration, the deputy commissioner, reported to the provincial government.

- It reduced bureaucratic power. Unlike the deputy commissioner, the district coordination officer was deprived of executive magistracy and revenue-collection powers.

- It established a rule-based system of fiscal transfers. Distribution of fiscal resources between provincial and local governments was determined by a new formula to which the provincial finance commission agreed. This body comprised representatives of the provincial and local governments.

From the outset, however, provincial political and administrative cadres were uneasy with the new local government system. This was partly because the devolution plan did not provide any viable framework for integrating provincial and local governments. These frictions led the provincial government to systematically obstruct local government by not implementing the plan as envisaged. The administrative authority of local governments was curtailed, as employees stayed in the provincial domain. Even the appointment, posting, and transfer authority given to the local government was frequently subverted on various pretexts. Similarly for fiscal transfers, the district share in the development budget was much smaller than in the recurrent budget (Table 1), and even for the recurrent budget to the districts, the bulk of development expenditure was retained at the provincial level. Moreover, a sizable share of the recurrent budget became allocated for wages and pensions (Table 2), leaving a very small amount for operating expenditure.

With the return to power of elected governments (in 2008), the 2001 devolution was largely reversed. The new governments showed no inclination to continue with the constitutional protection provided to local governments by the 17th Amendment, which lapsed in December 2009. No attempt was made to hold fresh local elections. As such, the local governments today are controlled by provincial government officers rather than elected local representatives. In addition, all four provincial governments moved to curtail the administrative and financial powers of local governments.

There are two overlapping reasons for this lack of support for local governments by elected regimes. First, nondemocratic regimes in Pakistan tend to centralize power at higher levels of government but must rely on local governments to lend political legitimacy to their rule and to seek a political constituency to discharge government functions. Second, as the constitution recognizes only federal and provincial governments, most political parties are structured along these lines. Moreover, leaders of political parties are much more comfortable working with a limited number of party workers if they have to be engaged with national and provincial politicians. Including a large share of districts in overall provincial expenditure, Punjab

<table>
<thead>
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<th>Fiscal year</th>
<th>Current</th>
<th>Development</th>
<th>Total</th>
</tr>
</thead>
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<tr>
<td>2008/09</td>
<td>26.5</td>
<td>20.3</td>
<td>27.4</td>
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</tr>
<tr>
<td>2010/11</td>
<td>31.0</td>
<td>19.7</td>
<td>28.5</td>
</tr>
</tbody>
</table>

cadre of local politicians may create difficult managerial problems for the party leadership (Cheema, Khwaja, and Qadir 2005).

**Recent Issues in Fiscal Federalism**

One lesson that emerges from the fiscal federalism of recent years is that the 18th Amendment does not have service delivery as its prime objective, and moves to bottom-up accountability are incomplete. The amendment was driven mainly by political considerations, and decentralization remains unfinished. Specific issues are now discussed.

**Increased provincial dependence on federal transfers.** The federal and provincial governments agreed on a new (Seventh) NFC Award (2010) that significantly raised the share of provinces in the divisible pool of federally collected taxes—from 46.3 percent to 57.5 percent. The federal government also cut that pool by reducing its retained collection charges from an average of 5.2 percent to just 1.0 percent. For horizontal distribution of revenues among provinces, the award moved from using population share as the sole criterion and included other factors as well, such as poverty and backwardness, tax collection, and geographic size. The award thus made a direct attempt to cater to the needs of the two smaller provinces. Over the last few years, natural gas–related revenue transfers, especially to Balochistan, have declined sharply, leaving a huge resource gap in the provincial budget. To cover this gap, the new award greatly increased Balochistan’s share in the divisible pool. The shares of all other provinces were reduced. Nonetheless, to help Khyber Pakhtunkhwa cover the cost of the “war on terror,” 1 percent of gross revenue from the divisible pool is provided to the province as a direct transfer. Conversely, all federal grants and subventions have been discontinued and rolled into the divisible pool.

**More complex fiscal management.** The rapid increase in revenue transfers to the provinces has strong implications—not only for federal and provincial government finances but also for overall fiscal management. Indeed, given the budget’s tightness and rigidity, the implication of the Seventh NFC Award is that the federal government has to either mobilize large levels of additional resources to meet all its expenditure needs or discontinue a large portion of its budgetary activities. It faces this choice because the award is not predicated on new monies and in a sense plays a zero-sum game. The award can make one provincial government fiscally better off only by making one or more other governments (clearly the federal government) worse off. The award has without a doubt made fiscal consolidation harder, as seen in the following:

- **Increased fiscal stress at the federal level.** Under the Seventh NFC Award, the federal government transfers additional revenue of more than 1.2 percent of GDP to provinces each year. Under the 18th Amendment, annual expenditure devolved to the provinces is less than 0.4 percent of GDP. This is mainly because only a small portion of employees associated with devolved functions was accepted by provincial governments, and many remain on the federal payroll, implying that federal government fiscal deficit rose 0.8 percent of GDP a year solely because of new fiscal federalism arrangements.

- **Expenditure rigidities.** With a sharp decline in its revenue share, the federal government is expected to scale back its expenditures, preferably current spending. However, a
very large portion of current spending of the federal government is extremely rigid—almost three-fourths is spent on interest payments, defense, and employees’ wages, allowances, and pensions.\textsuperscript{10} The federal government might thus not be positioned to substantially scale back its current expenditure. However, every PRs 100 increase in federal transfers leads to an increase of more than PRs 40 in provincial current expenditure. As such, current expenditure is expected to continue to increase. In addition, the development expenditure of the provincial governments also appears linked to the size of their revenue surplus (expected to be greater with larger transfers from the federal government). The provinces may be unwilling—or unable\textsuperscript{11}—to reduce their expenditure, such that fiscal consolidation can be achieved only be scaling back the federal government’s development program, with strong implications for investment and growth. And even this may not be enough to achieve desired levels of fiscal consolidation.

- **Disincentives for revenue mobilization.** Pakistan’s tax to GDP ratio is among South Asia’s lowest, mainly because some major sectors and areas of the economy are untaxed or taxed very lightly.\textsuperscript{12} Although a major effort from the federal and provincial governments is required to raise more revenue, the NFC Award has built-in disincentives against any such attempt. The majority of revenue collected at the federal level is now transferred to the provinces, and the federal government is left with insufficient revenue to adequately finance its functions. Thus, from the federal government’s perspective, the balance between the need for collecting more taxes and the associated political cost has tilted toward the latter. But the large inflow of free federal transfers helps reduce the already weak political will in the provinces to make any real revenue effort of their own.\textsuperscript{13} In addition, the assignment of the general sales tax on services to the provinces has forestalled all efforts to institute an integrated general sales tax and value added tax system in the country.

**Increased social spending captured by wage and price increases.** Despite its adverse implications for fiscal management, the main motivation behind the NFC Award—and perhaps for the optimism that followed—was that provinces would have almost total jurisdiction over social sectors. Weak provincial finances and the consequent underfinancing of social sectors were considered major factors in the country’s poor social indicators. Data from post-NFC provincial accounts show that provinces made a sizable increase in fiscal resources to social sectors. Over 2009/10–2011/12, provinces’ overall expenditure increased 24 percent a year, with education and health expenditures each growing 25 percent a year. However, corresponding progress is not yet visible, mainly because much of the increase has been eroded by steep wage increases. Indeed, the salary expenditure of district governments rose 34 percent in 2010/11.

**Political motivation of decentralized governance.** By eliminating the Concurrent List, the 18th Amendment abolished the federal government’s role in discharging these functions.\textsuperscript{14} As these functions were transferred to the provinces, 17 federal ministries were abolished, making more than 38,000 federal employees redundant. Nonetheless, decentralization did not intend to reduce payroll. It instead targeted the broader objective of stabilizing democracy by reestablishing the supremacy of Parliament, balancing the power of the president, prime minister, and National Assembly, and reducing opportunities for military intervention in government.\textsuperscript{15}

**Laws on, and delivery of, services assigned to the federation.** The 18th Amendment strengthened the Council of Common Interest (CCI) and made the National Economic Council more responsive to provincial interests. It also eliminated federal–provincial shared functions, reassigned some functions to the federation (not the federal government) to be guided by the CCI, and devolved others to the provinces. This change has raised some pertinent questions about framing rules and formulating procedures for services. The CCI is solely a grievance-redress and decision-making body,
so it has no mechanism to legislate the laws or frame the rules and procedures for delivering the functions that the 18th Amendment assigns to it. Any CCI decision requiring a change in any law thus requires legislation by the national and/or provincial assemblies. Similarly, the procedures have to be formulated by the federal and/or provincial governments. Moreover, federal and/or provincial governments will be responsible for implementing all CCI decisions, which may cause significant delay or uneven implementation.

Bringing the government closer to, or distancing it from, the people? By not providing any constitutional basis for the local government, the 18th Amendment has paved the way for concentrating state authority at the middle tier of government. This move runs counter to worldwide trends, which reflect technological developments that have made the middle tier of government largely redundant and the concentration of state power in the two tails—federal and local governments.

Debt management concerns. By opening the door for provinces to borrow directly from the domestic markets and international donors, the 18th Amendment has added potential risks and brings urgency to debt management. Provinces should adequately finance their development needs, and unless they do this prudently, their actions can create enormous fiscal risks.

Issues with decentralized service delivery. This dominance of politics over service delivery has manifested itself in at least three factors that have prevented any significant improvements in service delivery. They are:

- **Capacity bottlenecks.** The lack of subnational government capacity to exercise responsibility for public services is deep-rooted. Similarly, some the functions devolved to the provinces under the 18th Amendment require skills that may not exist at that level. Until provinces acquire or develop these capacities, the quality of associated services is likely to suffer.

- **Asymmetric responsibilities.** All the employees associated with the devolved functions in 2001, including health and education, continued to function as provincial employees, with the district nazim having little authority over their hiring, firing, evaluation, or placement. Similarly, while oversight of the salary budget was transferred to districts, inadequate transfers were made for nonsalary recurrent and development budgets, depriving district governments of any opportunity to improve service delivery.

- **Misaligned priorities.** When the 2001 LGO assigned much greater responsibility to elected district governments by devolving education and health to district cadres, these broader functions appeared a little out of sync with the nature and character of these governments. Their focus remained on small civil works and local functions, as very little of their development budget was spent on health and education (Hasnain 2010). Priorities are still skewed heavily toward infrastructure.

Confusing accountability roles. One argument in favor of the 18th Amendment is that it has brought greater clarity to government accountability. Accountability for public services now starts and ends with provincial governments—a strong incentive for them to improve service outreach and quality. However, only a fraction of the functions of three main federal ministries—agriculture, health, and education, abolished under the 18th Amendment—were devolved (or abolished), and many were retained by the federal government, assigned to existing and new federal ministries.

**Way Forward**

For the decentralization introduced by the 18th Amendment to improve service delivery, the following actions are critical:

**Strengthen fiscal management and discipline**

- The CCI should establish a national fiscal framework before the beginning of each fiscal year, which would establish the key fiscal goals at the national level and assign each government (federal and provincial) targets (revenue, expenditure, fiscal deficit, and financing) to help achieve national fiscal goals. This framework would guide the federal and all four provincial budgets for
the forthcoming fiscal year. The CCI would periodically review the implementation of the fiscal framework during the year and make required changes (if any).

- The federal and provincial governments should undertake tax policy and tax administration reforms to mobilize additional revenue and make the tax system more efficient and equitable. Bringing untaxed and lightly taxed sectors in line with other sectors should help achieve these objectives.
- Provinces should legislate (and adhere to) their own fiscal responsibility laws to ensure overall fiscal discipline.
- The public financial management system (budgeting protocols, accounting codes and classification, and auditing and procurement rules and procedures) should be extended to all local governments. This would require considerable strengthening of provincial government capacity, especially of the district accounts officers, provincial accountant generals, provincial procurement regulatory agencies, and Auditor General of Pakistan.

**Rationalize the assignment of functions**

- The CCI (or a similar body) should review the devolution of “national” functions (Shah 2012) and develop modalities and a timeline for assigning them to the federal government or federation (that is, jointly

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### Table 3

<table>
<thead>
<tr>
<th>Sector</th>
<th>2009/10</th>
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<tr>
<td>Economic affairs</td>
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<td>Mining and manufacturing</td>
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</tr>
<tr>
<td>Recreation, culture, and religion</td>
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</tr>
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<td>Education affairs and services</td>
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### Table 4

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<th>Before 18th Amendment Departments</th>
<th>After 18th Amendment Functions</th>
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<th>Retained Functions</th>
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<td>22</td>
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<td>Education*</td>
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<td>19</td>
<td>4</td>
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</tr>
</tbody>
</table>

a. Functions for standards in higher education and research, scientific, and technical institutions were taken to the Federal Legislative List, Part II.

Source: Paul and others 2012.
to a body having representation of the federal government and all four provincial governments).

- Roles and functions of each level of government should be further clarified. Overlapping functions across government tiers cloud this clarity and diffuse accountability.

**Improve service delivery**

- Each level of government should have complete control over the functions assigned to it. This implies revising the rules and procedures at each level to weed out provisions that can enable intrusion from higher levels.
- Institutions supporting the federation, such as the CCI, NFC, and National Economic Council, need to be strengthened with secretariats to do upfront work on consensus building and on monitoring implementation of these institutions’ decisions.
- Adequate human and technical resources for performing the assigned functions should be available to the level of government responsible for those functions. The higher level of government keeping even an oblique control over staff not only makes it difficult for the responsible level to perform the functions per its policies and priorities but also gives it an excuse and a shield against bottom-up accountability.
- Similarly, the responsible level should have adequate financial resources to discharge these functions. Irrespective of the strong economies-of-scale argument for centrally collecting taxes, each level of government should have enough tax powers to raise its budgetary flexibility, but more important, to strengthen bottom-up accountability. Fiscal transfers from higher level government should be mainly for fiscal equalization and achieving national and provincial objectives.²¹
- To ensure top-down (and bottom-up) accountability, local governments should have complete financial autonomy. Each district government (metropolitan corporation, municipal corporation, municipal committee, district education and health authorities, and the like) should be given complete control of their budgets according to their priorities and ground conditions, irrespective of whether the funds are transferred by the provincial government or raised by the local government. Each provincial finance department, planning and development department, accountant general office, and office of the Auditor General of Pakistan has a twin responsibility to build local fiscal and financial management capacity and to ensure that broad fiscal discipline is maintained—the latter through establishing a system of fiscal reporting that can raise red flags and timely alerts to avoid fiscal or financial disaster.
- Financial autonomy of local governments can also be strengthened if some broad-based and buoyant revenue bases were devolved to them, especially to the larger ones. The main candidates are the Urban Immovable Property Tax, Profession and Callings Tax, and Entertainment Tax. Over time, local governments may be given the right to piggyback the provincial agricultural income tax, motor vehicle tax, and even general sales tax on services, where the local government would set the rate (of additional tax) and the provincial government would collect the tax on its behalf.
- A “citizen’s report card” (or similar measure) should be launched to assess the performance of each local government and to promote healthy competition among them.

Completing decentralization therefore remains critical to establishing an accountable and efficient system—whether decentralizing from the federal to provincial level or from provincial to local. The logical completion of decentralization defined by the 18th Amendment is a viable and effective system of local government in each province. While the extent and form of devolution to the third tier needs to be driven by the reality on the ground in each province, to be effective local governments should be granted wide service delivery functions, commensurate finances, and a fair degree of autonomy.

It is important that a bottom-up accountability system be established and given a chance to function. Ideally, this calls for local government to be accepted as a genuine third tier of government and to be given a role in and protection under the constitution. One lesson from Pakistan’s
moves to decentralize is that the main reason for the lack of effective local government is the mutual discomfort between provincial and local governments. Further, irrespective of political affiliations of the local government, the provincial government has always remained wary of the authority (and ability) of local governments, making every effort to obstruct their functioning. This invariably stymies full decentralization, generating worse than desired outcomes.

Toward a pragmatic model of decentralized service delivery

To establish a reasonably well-functioning decentralized system of governance and service delivery, it is critical to adopt a more pragmatic approach to bottom-up accountability. As mentioned, this would require a system capable of integrating political, administrative, and financial aspects of decentralization. The first step is to better align political priorities of provincial and local tiers of government, by:

- Unbundling functions assigned to district governments by the 2001 LGO depending on their nature. District governments should be assigned local functions. In other words, provincial governments should adopt LGOs similar to the 1979 LGO.22
- Improving management and quality of key social services like education and health by devolving them to autonomous provincial authorities. For this:
  - Provincial governments would create these authorities, preferably through actions of provincial assemblies.
  - These authorities would be created at the markaz (sub-tehsil) level.
  - The geographic boundaries of the markaz would be defined to coincide with the provincial assembly constituencies.
  - These authorities would be governed by autonomous boards comprising local members of district councils, local professionals in these fields, and senior officers of education and health.
  - The boards would have complete autonomy over hiring, firing, transfers, and postings and over funds received as grants from the provincial government or raised by the board (perhaps by levying a fee, cess, or surcharge on delivery of the service).23
- The Member of Provincial Assembly (MPA) elected from each constituency or markaz should be the chairperson of (all) these authorities.
- The function delivery budgets, as well as the staff associated with these functions, should be transferred to these authorities, giving authorities full control over their management.
- Among provincial governments, setting up mechanisms for effective but nonintrusive monitoring of these authorities, based on pre-agreed benchmarks and targets. The results of such monitoring are to be made public so that people can see each authority’s performance.

Advantages and risks of the new model

The biggest advantage of the new model is that it aligns the incentives among key stakeholders for a more transparent and accountable service delivery system. Reflecting the prevailing trend, all municipal and local services are to be delivered by elected local governments, but some key provincial services will be delivered by autonomous authorities, which would be headed by the elected representative of the provincial government. This approach would not only devolve the provincial service to a level where it could be much better managed but also, by making the MPA responsible for delivering these services, enhance the transparency and accountability of delivery. Under the current system, the MPA makes many important decisions on the delivery of education, health, and other services within his or her constituency but without getting any credit or being held accountable. Under the new model, the MPAs would be responsible for delivering these key services in their constituencies (the markaz), boosting their reelection chances if services are provided satisfactorily.

The model aims to bring about better coordination between provincial government policies and the devolved service delivery system. The MPAs, who
would now head the autonomous authorities in their constituencies, are likely to advocate for social (and other) services within the provincial assemblies much more forcefully than before. Similarly, they would be in a much better position than the district nazims, for example, to bring about changes in provincial policies supporting services in their constituency.

As with any new system, the proposed model has several risks:

- It gives MPAs almost full control over delivering key public services, making them vulnerable to capture by political and local elites.
- The MPAs are members of provincial assemblies, with a key responsibility for framing provincial legislation. Such a time split (between legislative and service delivery responsibilities) may be detrimental to both.
- *Provincial departments and service delivery cadres are likely to show fierce resistance, which would require careful management.* Specifically, the model limits appointments, transfers, and postings only to the markaz, thereby “depriving” staff from being transferred to more preferred jurisdictions, such as district headquarters or the provincial capital.
- The model intends to decentralize services to a level that has never managed such services, creating obvious capacity concerns, especially in health.
- As the service authorities are to get financial autonomy, the provincial financial management mechanisms (procurement, accounting) are likely to be bypassed. This can potentially take large sums of public expenditure outside the public financial management system. The accounting and auditing parameters might have to be redefined to ensure effective accountability of these authorities (see above).
- An additional cadre in service delivery may raise administrative costs.

Most of the risks should be mitigated by the bottom-up accountability realized through the electoral system, and the nonintrusive oversight by the provincial government would enhance the systemic accountability of these authorities, helping them achieve the objectives of this decentralized model.

**Notes**

1. In 2003, through the 17th Amendment based on General Musharraf’s 2002 Legal Framework Order, it became mandatory to present money bills to the Senate, but only for review.
2. According to Burki (2010), the Concurrent List included functions on which the federal government made a promise during the process of drafting the 1973 Constitution that provinces would get control after a “period of political maturation,” defined as 10 years.
3. In 2006, the government inserted Clause 140A into the constitution, which made it incumbent on every provincial government to establish a local government system and devolve political, administrative, and financial authority to the elected representatives of the local governments. This ensures the existence of a local government system, but only through an action of a provincial government. Moreover, the degree of authority and responsibility to be devolved to the local governments is left to provincial governments.
4. The government announced the Devolution Plan first, which was later implemented through the 2001 LGO.
5. Tables 1 and 2 refer only to Punjab. Given that fiscal decentralization was much more advanced there than in the other provinces, the aggregate situation is likely to be even starker than the tables show.
6. The Sindh 2012 LGO has created a much starker divide between rural and urban areas than before. The six most urbanized districts have been given metropolitan status and will be governed similarly to those under the 2001 LGO, while the remaining areas of the province will have a system closer to that set up by the 1979 LGO. The provincial cabinet of Punjab has approved a draft LGO, similar to the 1979 LGO.
7. The Basic Democracies of Ayub Khan in the 1960s, the 1979 LGO of General Zia-ul-Haq, and the 2001 Devolution Plan of General Musharraf were all designed to centralize power while giving local governments a greater role in government.
8. For its part, the 18th Amendment greatly altered the assignment of functions between federal and provincial governments. For a more detailed assessment of the motivation for and successes and failures of the amendment, especially in service delivery, see Hussain and Kokab (2012) and Paul and others (2012).

9. In this case, provincial governments in general and the governments of Balochistan and Khyber Pakhtunkhwa in particular.

10. Including 10–12 percent on grants to provincial governments and state-owned enterprises and another 8–12 percent on subsidies.

11. Part of the reason for provincial governments’ inability to limit their recurrent expenditure stems from large and frequent increases in wages and pensions of government employees. With provinces having much larger payrolls than the federal government, the budget impacts of such wage increases are much stronger.

12. The manufacturing sector is taxed much more heavily than the agriculture and services sectors. However, within the manufacturing sector some industries (such as textiles) are taxed much more lightly than the others.

13. Our preliminary estimates show that for every PRs 100 that provincial governments receive as transfers from the federal government, expenditure increases by PRs 87, PRs 9 go to reduce the provincial fiscal deficit, and provincial revenue declines by PRs 4.

14. Some of the functions of the Concurrent List were shifted to Part I or Part II of the Federal Legislative List.

15. The 18th Amendment was a vehicle to operationalize the Charter of Democracy, which was agreed on by the two mainstream parties—the Pakistan People’s Party and the Pakistan Muslim League (N)—and some other smaller parties in London in May 2006. The Charter demanded, among other things: ending the presidential powers of dissolution of the National Assembly and appointment of governors, armed services chiefs, and the Chief Justice; abolishing the Concurrent List; issuing a new NFC award; expanding the Senate to give representation to minorities; integrating the Federally Administered Tribal Areas with North West Frontier Province; empowering Gilgit–Baltistan; lifting the ban on assumption of the office of prime minister for the third time; establishing a Truth and Reconciliation Commission and a National Democracy Commission; making the Inter-Services Intelligence, Military Intelligence, and other security agencies accountable to the elected government; removing indemnities introduced by military governments; appointing the higher judiciary through a commission chaired by a chief justice who had never taken oath under the Provisional Constitutional Order; and establishing a Federal Constitutional Court with equal representation for all the federating units in order to resolve the constitutional issues.

16. Possible delays may stem from CCI decision making, as it has to come to a consensus on the decision and its modalities.

17. The amendment has tried to establish some check on provincial borrowing by mandating that the National Economic Council (NEC) set ceilings on the borrowing of each province. But given the strong presence of provinces in the revised composition of the NEC, the amendment may not be able to impose effective checks on provincial borrowing.


19. Some critical prerequisites for this decentralization are highlighted in Shah (2012).

20. Under the 18th Amendment, determining the ceiling on provincial government borrowing is the responsibility of the NEC. This recommendation implies that NEC decisions of provincial borrowing have to align with the national fiscal framework defined by the CCI.

21. There will be a role for the federation (CCI) or comparable provincial
institutions to harmonize taxes subnationally, thereby prohibiting tax wars between subnational governments.

22. The provinces share a strong consensus to adopt the 1979 (or similar) LGO, suggesting that they are quite amenable to devolving municipal and local services to the local government. However, some key services devolved to district governments by the 2001 LGO, such as education, health, and agriculture, would revert to the provinces.

23. These revenue mobilization measures, however, have to be approved by the provincial government to ensure their consistency with provincial revenue measures.

References


