

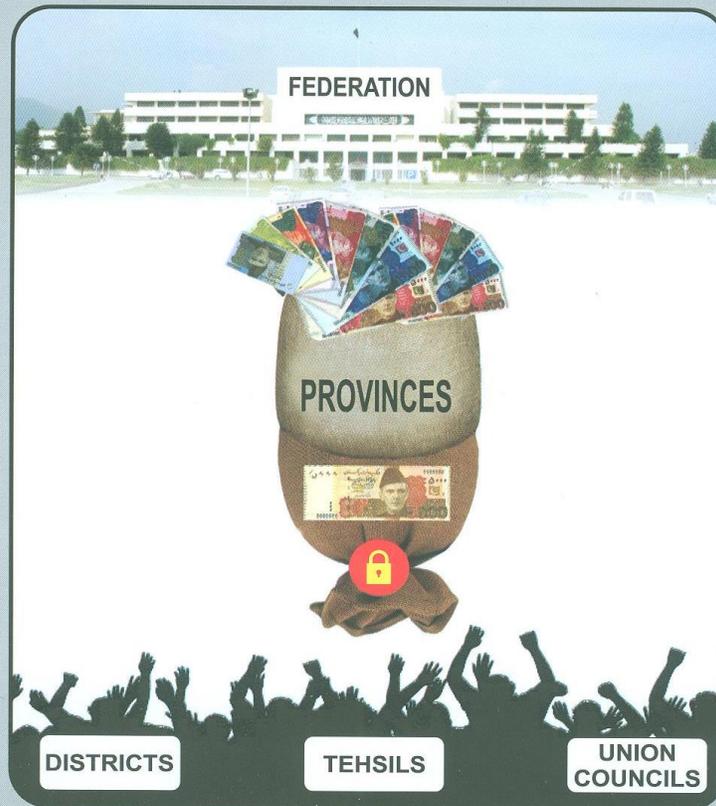


NIPP
National Institute
of Public Policy

NIPP Dialogue Series - 2

Decentralization: Implementation with Good Governance

27-28 March, 2018



REPORT

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**National Institute of Public Policy
Lahore - Pakistan**

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Foreword

Governance, Government and Public/Civil Service would be the focus areas of our work at NIPP for many years to come. We chose to examine Decentralization as inescapably it occupies centre stage role among the governance structures of a federal polity. Dialogue on decentralization gave participants an opportunity to revisit Pakistan's experience with decentralization and explore the promise it holds, notwithstanding the limitations romanticisms surrounding it masks.

Credits go to Jahanzeb Waheed & Dr. Saifullah Khaild for planning and executing the event and for preparing this report.

A word about the report itself. Since it is the report of a dialogue, we as a deliberate policy at NIPP, simply record and honestly reproduce what was stated by the speakers and what was discussed in the sessions, with minimum editing and definitely no padding; not tinkering even with the spoken dialogue style of discourses.

Shahid Rahim Sheikh

Dean, NIPP

10 May, 2018

Executive Summary

National Institute of Public Policy organized a dialogue on “Decentralization: Implementation with Good Governance” on 27-28 March, 2018. The dialogue was attended by a diverse group of participants from the public and private sectors, academia and civil society. The participants set out to i) comprehend the necessity of implementation of decentralization for local government reforms, ii) the importance of decentralization for national development and the role of top management in the process for improving local governance system, and iii) analyze decentralization functions in Pakistan and its improvisation for better functioning and outcome. The discussions in each session were engaging with significant contributions from the participants.

The first session focused on the challenges to decentralization in Pakistan: why it has become a mirage and role of leadership in decentralization implementation. In doing so, three principles were mentioned regarding rationality for decentralization. The first is the principle of subsidiarity which refers to the primary competence and capability to address problems at the local level. The second is electoral legitimacy, implying to pass the responsibility of resource base to the local level. The third is autonomy, being of two types of which the first is hiring and firing and the second is financial autonomy required at the local level. However, the dilemma in implementation of decentralization is that it comes to limelight with military dispensation and fades away during terms of political governments.

The second session highlighted the constitutional and legal framework and administrative reality from a historical perspective. Recorded history shows that the sub-continent was ruled as a bureaucratic empire and that throughout history it has remained a centrally controlled system. The British created a system based on rational-legal approach and the rule of law with the same centralization style. Pakistan followed the same trajectory. The constitutional and legal framework for decentralization was created within the ambit of the Constitution of Pakistan, 1973. However, no serious effort has been made since then to ensure a properly functioning local government system. A loyalist bureaucracy of the decade of 1988-1999, the anomaly of the combination of roles and responsibilities of administration and development into one in the devolution plan post-1999 and the lack of

further distribution of the resources from provincial to the local level post 18th Amendment were the underlying features of decentralization efforts in last three decades. The emasculation of the local government system emerged through the provincial bureaucratic control.

The third session focused on the financial distribution vertically and horizontally from the federal to provincial and from provincial to local government. The financial distribution is based on certain principles on which transfer system has to be designed. However, these principles are not being followed properly due to which the system of financial distribution is inequitable. In the NFC Awards, population has remained a major factor in deciding the vertical distribution of finances. Major issues highlighted included lack of a system or a formula based transfer from Provincial to Local Governments, insufficient transparency at the provincial level and most notably lack of expertise to design, administer, and monitor the fiscal transfers, especially their use.

The final session was regarding the local government empowerment and reforms: necessity and way forward. It was pointed out that it was essential to differentiate between the jargon and reality of the local government system in Pakistan. Some concepts which revolve around local government discussion relate to the overall approach of viewing accountability, transparency and development through local bodies. It is important to view such concepts in real terms rather than the way in which they are used. Some of the other points mentioned in the session were regarding extractive (financial) and controlling (police, etc.) functions which have not been in the hands of the district hierarchy. The dichotomy between political decentralization and administrative centralization highlights the dichotomy between organized state and disorganized society. Abstractive localism is an unimaginative way of conceptualizing local government. The solution has to be through integration rather than isolation.

Recommendations

1. The formulas developed for sharing of resources at national and especially sub-national and local levels need to be revisited.

2. The local government system of 2002 was mixing of administrative powers and development responsibilities. The elected representatives should not focus on administering the bureaucracy, rather focus on development work.
3. The awareness, interest and ownership of the community should be a pre-requisite for distribution of financial funds. Until local constituencies are willing to chip in the schemes, they should not be funded. In addition, the role of active civil society should be encouraged for improved governance system.
4. Building capacity of the provincial and local government departments to design, administer and monitor fiscal transfers to the local governments at the districts, tehsils and union council levels. In addition, local issues should be viewed within the context of larger provincial and national issues.
5. There is need for research to be conducted at provincial level for better policy advices.
6. It needs to be ensured that local elites/politicians are not subverted, as their consensus are required at all levels for the system to function effectively.
7. There is a need for political centralization and administrative decentralization. Administrative deconcentration will help bring on board political stakeholders.

Introduction

In several developing countries the implementation of decentralization has resulted in important changes in the institutional relationships and political systems. Decentralization has various dimensions. Politically, it is considered a means to strengthen democracy by enabling the public to express its views more easily, and reinforce accountability by bringing the government closer to its citizens. It is a political process for transforming the way as how responsibilities are divided and for making public service more efficient. On economic grounds, decentralization is a way to enhance the efficiency of social and economic development, which in the long run contributes to the reduction of poverty. This considerable change of political relationships requires a detailed analysis of the forms of decentralization, the strategic issues involved and its considerable challenges when it comes to implementation.

In Pakistan, the history of decentralization fluctuates through different kinds of political set-ups adopted by each ruling elite. The military regimes tried to use local government system to seek legitimacy of extra constitutional adventures. Within the democratic system of governance decentralization was not looked upon with any great commitment. Institutional set-ups with either kinds of governance system did not prove effective and decentralization has stayed elusive.

The erstwhile contestation debate surrounding the distribution of resources between the federal government and federating units was consensually resolved in the 7th National Finance Commission Award of 2010. This award reconfigured the distribution formula based on several indicators which previously depended upon population criterion alone. As a result, the share of provinces increased by the largest proportions in history from the federal divisible pool of taxes.

Decentralization to reach the grass roots level, requires to empower basic political constituencies in the districts and union councils. This was envisioned in the 18th Amendment. The Local Government Acts of 2013 stipulated to hold regular local government elections. However, the process seems to have stalled and has been unable to

move forward to refine the local government system. Resultantly, tangible outcomes have not been seen.

The fact remains that constituency vote bank is kept intact through centralization of financial resource disbursement. This may be against decentralization, which requires resources to be shared down to the basic constituent unit of governance structure. The functioning of local government system down to the district and union council level is thus important for citizen-government bond. The challenge is to devise a strategy and initiate a reform process by which the provincial governments can safeguard both their own interests and those of a decentralized system.

Session I: Challenges to Decentralization

The session highlighted the factors that have led decentralization to become a mirage in the context of Pakistan, and whether it really is a panacea for everything. In addition, what role the leadership can play in implementing decentralization system in true letter and spirit.

Mr. Tariq Mahmud: In 1960s the world was categorized and sort of delineated between left and right, and there was no grey area. Over the last 30-40 years, one can see globalization and intrusion of information, through which whole scenario and paradigm has changed. Today there is no debate over left versus right, because we all are in the grey area, whether it is our economy, politics, or political-economy. In this grey area, one cutting edge is the governance. What is governance? How would you perceive this phenomenon? How would you perceive those who are interested with the delivery of the system of public goods? Governance is what we do, and what we ought to do. With maturity, ethical layers are cropping up. The issue is not whether you have this project or that project, the issue is the trade-off part. If you have metro, mass transit system, in large cities like Karachi and Lahore, but at the same time we got to take care of beds in hospitals. These are the issues that are cropping up and bothering the minds all-over.

When we talk about decentralization, to a layman it is something from the core, passing to the periphery. For instance, passing on the responsibility, decision making and defusing the authority. This concept is millennium old, and not a new one. Wherever there is human settlement, it is followed by human activity, and wherever there is human activity, it is followed by some organized discipline. This organized discipline we tend to call a decentralized disposition.

Decentralization has linkages with centralization. What is centralization? It primarily is the embodiment of powers, responsibilities, and decision making. It is always on the top. However, one cannot decentralize everything below rather got to have semblance of centralized governance or an entity for many obvious reasons. Why do we have this centralized governance? Primarily, because of the nature of public services, goods, and the kind of scale, which is not manageable by private individuals or sectors. The motives are different. The governments are socially driven, the corporate sector is profit driven. Although they (corporate sectors) have cosmetic social responsibility, however, primarily there disposition is different.

There are externalities that cannot really be absorbed by institutions other than public sector. Public sector eminences by each passing day, and is far too indispensable. The miracles in Dubai and Singapore are just because of public sector. It creates the echo system, and then everybody chips-in. When there are operations on such a massive scale, a question arises that what is oiling the machine? Basically, it is the finance and the money that matters. For that matter, a centralized governance or government needs to have a legitimate control and jurisdictional power over levying of taxes. There are three layers of the government, i.e., national, sub-national (i.e. provinces) and local governments. But looking at their financial base, the most flexible and wide base setup is available only with the central government, and for good reasons, such as, ease in collection, and no distortions in terms of discrepancy of tax rates. The rationale is that you collect at the center and then dispense with that money through finance commissions. It is happening all over the world.

With respect to local government, two parameters are very important to understand about the rationality for decentralization. The first is the principle of subsidiarity that center only does a thing when there is a problem, and let an institution which is most competent and capable to address should be made responsible to attend at the local level. While looking at the local laws, these are primarily for municipal functions, but provincial governments are arrogating these onto themselves. However, we got to realize that we have come to a stage, because of the complexity of operations, where no single government can really be competent, capable, or resourceful enough to discharge all the functions. Therefore, we got to move to a collaborative mode as well, i.e. local functions, municipal functions, municipal corporations are moving in along with provincial and central governments.

The second important parameter is the electoral legitimacy. It would imply, to pass on the responsibility of resource base to the local level. It should be passed onto these institutions which must have a legitimate, electoral presence, and to representatives who ought to participate, deliberate, sift to formulate and to develop consensus. This is like a political training. It is not merely an execution body. But the dilemma is that local government has been existent in military as well as civilian governments, but the electoral legitimacy is missing most of the time. For instance in 2002, we had elected people who spent 5 years till 2007, from 2007 to 2013 the civilian governments were least pushed about, and were shy of holding elections, until the Supreme Court intervened, and through carrot and stick, there is some kind of setup, in all the four provinces. With respect to Pakistan, a question

generally arises, that when a military dispensation comes why this (decentralization) comes to limelight? And why during a civil dispensation it fades to the background?

Third important element related to decentralization is autonomy. Autonomy is of two types, one is of hiring and firing and the second is financial autonomy. Financial autonomy refers to own source revenue. When looking at budget of each local council, there will be deficit. It is because the central government has not increased the sources of income for local council, and there are issues in inter-governmental transfers. Earlier in 1990s there was export tax on around 141 items, which was in the competence of the district councils. All district councils in the province were viable financially and were on surplus. What happened later on was that IMF in its program suggested to abolish that tax, and replace it with GST and 2.5% of GST were to go to the local councils. This way you made them dependent and also denied them their own competence and capacity to raise their own funds. It was kind of utter neglect, and the key responsibility of national government was to bridge such inter-governmental transfers. However, there are always mismatch between the streams of revenues and expenditure assignments.

It is pertinent to note that local governance is not really the panacea, and the reason is that a visible divide can be seen in terms of priorities at local level. Of course, the government has deconcentrated the power and devolved it to the local level but there is an element of elite capture, in which well-to-do people stay in power. There are influences of land, Peeri-Muridi (patronage), and education. Even in a decentralized system, people have influences on constituencies which they do not belong to, so, if this (decentralized) system is not delivering then where to go? The point is that if this devolved system has inequity and inadequacy, then what to do? One has to go down below to the household level to reduce the skewness and a brunt of it. For that there are community based organizations. The benefit it entails is that they thrive-in social capital.

During Ayub Khan's regime, an integrated system of four councils: divisional, district, tehsil and union councils were brought in. This integrated system was very intelligently dovetailed with administrative structures. In this model bureaucrats were given ascendancy and those who were heading these bodies, with of course elected elements supporting them, and they were reporting to each other. However, the downside of the system was that Ayub Khan turned it into Electoral College, which was open to manipulation. The irony of the system was, it fizzled-out with the disappearance of its architect. During Zia regime, it was

ensured that local election would be held on non-party basis, which was like testing the water, and it turned out to be his constituency.

Now to the love-hate relations of political governments for decentralized structures. For instance, in Punjab all local functions are being performed by provincial government and are municipalizing their character, and where both civil servants and politicians are in mayor-al mood.

Discussion

Few observations were raised about right kind of leadership in the country which is missing. It was stated that we have leadership at villages, town, cities levels where decisions are to be taken, however, they are not trained leaders nor their capacities have been built. It was responded that leadership is cutting edge at every level in addressing public issues in Pakistan. One does not need to create leadership, but as we start formalizing activities, leadership would emerge automatically. However, the problem with our leadership is lack of time management.

Another participant added that pro-poor services should be introduced at the end of decentralized setup. Another response was that it is all about governance which is very poor at national and provincial level in the country, which results in poor service delivery. Besides governance it is an issue of implementation of laws, rules and regulations. The guest speaker responded that now we have a system (in the wake of 18th amendment) but it has not been implemented. The Council of Common Interests (CCI) should be like a standing committee. The question is how to push the government towards the action. However, there are many things that are getting improved in the country. The more technology is utilized, things would improve. We have attitudinal problems that need to be addressed. But we are a resilient nation.

A point was raised that we need to give proper time for completion of projects but there is need to understand the compulsion of political leaderships, who have very limited time, and are not very sure that they would complete the constitutionally mandated time period. So how to reconcile these two competing pulls? It was responded that things are transcending in very positive manners. Nobody could think of initiatives of previous government to be continued in next political regime. But now look at Benazir Income Support Program (BISP), started by Pakistan Peoples' Party (PPP), has been continued by Pakistan Muslim League-N (PML-N).

Session II: Constitutional and Legislative Framework and Administrative Reality

The discussion revolved around the historical perspectives of centralization and decentralization of powers in Pakistan. The lead discussant elucidated the constitutional and legal frameworks under which decentralization evolved, and what is the current standing of this evolved system in the country.

Mr. Sohail Ahmad: Recorded history shows that the sub-continent was ruled as a bureaucratic empire. From the earliest Mauryan dynasty to the Mughals, it was essentially a system based on central bureaucratic control with minor changes from one period of time to another. Even though the communication channels were primitive the system was strong enough to have central command and control through a loyal bureaucracy. For instance, in the Mughal era the mansabdars would collect taxes on behalf of the king.

With the advent of the British Empire – which was a watershed – a very economic, efficient and decentralized system, through a formal merit based system of recruitment introduced after 1857 when the British government assumed direct control of India. Institution building was based on the principles, some of which are still being used today. In continuation of the same tradition the British also created a professional army. Instead of preferential selection on the behest of the king, in the British system officers were appointed through a formal system of recruitment introduced in 1857.

After the creation of Pakistan, the post-1947 scenario again pushed centralization. Civil service and army felt that they were the only two institutions equipped to run the country, as they had come out of the efficient and effective British rule. As Pakistan did not have any developed institutions, it had to build them from scratch. There were many issues which the new state of Pakistan had to face. There was extreme insecurity within the nation which gave rise to rivalry between institutions. A theory which has been used to explain post-colonial situations in countries, is that of over developed institutions and under developed politics. Hence the military take overs has been the story of many developing countries including Pakistan which excluded politicians from the power sharing equation.

This system continued to promote centralization tendencies between 1956 and 1973. This created a lot of wealth and economic progress but uneven distribution. The separation of East Pakistan was a result of this system. The constitutional and legal framework for decentralization was created within the ambit of the constitution of Pakistan, 1973.

However, there was a reluctance in the center to part with the control of powers. The Constitution of 1973 contained a long federal and a concurrent list and, if any, residual power went to the provincial governments. The local bodies were not mandatory in the Constitution.

During the early 1980s, an effort was made to create non-party based elected local governments, whether sham or real is a matter of debate. The “lost decade of 1988-1999” was a switching between political parties without completing their tenures. There was no serious effort on the issue of governance. This was the period when a loyalist bureaucracy was created within the system. It was no more the rational legal bureaucracy. The decade produced an upward sliding corruption and downwards sliding governance in which the bureaucracy was compromised.

The devolution plan post-1999 was considered to be a well thought out plan which was made with the help of consultants and development partners. This was the first serious effort towards decentralization and devolution of provincial governments down to the districts and tehsils. However, the response from politicians and bureaucracy was lukewarm. It was a highly top down approach and chipped away the powers from provincial governments. Mini Chief Ministers equal to the number of districts were created who had control of their own financial resources. The system combined the roles and responsibilities of administration and development into one. This was a dangerous experiment as society is riddled with conflicts at local level where individuals would use their administrative powers to achieve their political ends. The DCOs reported to district nazims who wrote their ACRs. The DCO was in a conflicting situation since he/she was a provincial employee instead of the district. This was amended later by making the Chief Secretary as the counter signing authority for the ACRs of the DCOs. This issue could have been resolved given the existence of a district cadre within district governments. The responsibility of the appointments, promotions, transfers, etc. would then lie with the district.

The post 18th Amendment scenario sheds light on the negative effect of previous military dominated governance on politicians. Politicians were very flexible in formulating the 18th Amendment in 2010. There was elimination of the concurrent list and reduced federal list of powers and functions. Elected local bodies were made mandatory. The 7th NFC Award enabled extra financial resources to the provinces. Hence provinces became wealthier along with having more responsibilities. However, the resources did not further get redistributed to the local governments.

Whether the changes that occurred through the 18th Amendment were of benefit to the country is debatable. The administrative reality showed a complete roll-back of the 2002 Local Government system. The partnership of the central bureaucracy with provincial governments and political parties exploited the extra finance received through the 7th NFC Award. There was emergence of a weak center and powerful provincial governments. Further, emasculation of LG system emerged through provincial/bureaucratic control. A culture of “rent seeking” and corruption arose through development funds depicting complete absence of desire to decentralize among parliamentarians.

Recommendations

1. A dangerous aspect of devolved local government system of 2002 was mixing of administrative powers and development responsibilities. In order to avoid such a predicament the elected representatives should not be allowed to administer the bureaucracy and focus instead on development work.
2. Development (schemes) should be the area of focus for local governments. The awareness, interest and ownership of the community should be there for distribution of financial funds. Until farmers and local communities are not willing to chip in the schemes, they should not be funded. They should be formally organized, have a bank account and meet regularly as the condition for fund releases.
3. The reason for the lack of implementation of decentralization is not allowing finances to move down to the local level. Finances which are distributed to the provinces should further be redistributed at the local governments.
4. The steps required for effective decentralization involves creating an active civil society led by young middle class and then creating pressure from the urban population. Gradually, pressure should be built by young middle class living in urban areas on the governance system.
5. A rational discussion is essential in order to focus the attention on decentralization and its implementation. There are sectors in which a subject has been devolved but there is no ministry for it to represent Pakistan globally, especially in matters/subjects where Pakistan is signatory to important international charters and conventions and therefore answerable to the international community for example, on the rights of children, women, labour, human rights, environment, population, SDGs, etc. There is a need to have federal ministries, who would at least coordinate internationally on matters related to the provinces.
6. In order to build and sustain governance system at the operational level, administration should focus on finding champions, give them clear path and support them.

Session III: NFC Award and Beyond: Financial Distribution from Provincial to Local Level

The session delineated the principles on which financial distribution should be based while keeping in view international best practices. The session highlighted the actual criteria on which such distribution are based in the country. Issues and challenges confronting financial distribution structures and how to move forward in settling these issues were discussed.

Mr. Faisal Rashid: There are certain principles on which transfer systems has to be designed. The revenue authority at national, sub-national or local level needs to ensure that total revenue that a sub-national or local government receives as result of a system is adequate to discharge its functions. This is called the *adequacy* principle. The second principle is that the transfer system should not curb the *budgetary autonomy of the local governments*. The real benefit of local government system is that there is greater independence at local level to make allocations in accordance with local preferences and local choices. *Equity and fairness* is the next principle that has to be there in any transfer formula. This basically pertains to horizontal distribution and allocation should be made in such a way that we try to equalize among jurisdictions/local governments for capacity to provide services. *Predictability* is another element which means that transfers to local governments are made in a predictable manner. This makes sure that the local governments are able to plan their budgets and service delivery in a proper manner. If this element is missing, the important feature of short term to long term planning cannot be undertaken. The fifth one is principle of *simplicity and transparency* which prescribes to make sure that everybody understands the formula. If a formula is complicated and few people understand it, then there would be a possibility that people who are in advantageous position would be able to make use of the information advantage they have. The principle of *incentive compatibility* basically prescribes that the transfer system should reward good fiscal behaviour. If, for example, national finance commission award does not provide incentive for provincial revenue collection; there is possibility that provinces may not work hard to realize the full potential of their own revenue and the resultant outcome would be quite sub-optimal. The last principle is *focus on service delivery*. This means that transfer formula should be based on rational needs and not on the infrastructure which refers to the fact that we should try to strengthen the outputs instead of inputs.

There are also certain practices that need to be avoided in fiscal transfer formula. What we generally see is that formulas are designed on the basis of past expenditures and entitlements. The transfer system should be designed on the bases of evidence of fiscal needs rather than expenditures. Next issue is equal shares, as one can see for example in case of Baluchistan's current fiscal transfer system for local governments that 50% goes to local government through equal distribution. This principle is not considered a good practice because it assumes that the needs are homogeneous across the jurisdictions which is never true.

With respect to vertical distribution of fiscal transfers from national to provincial level, the NFC award works under Article 160 of the Constitution. Under the 1973 Constitution, so far we have had five systems or formulas for transfer of funds from national to provincial level. In 1975, the provincial share was around 80% which came down to 37.5% in 1997 and now again started moving up to 57.5% under the 7th NFC Award. From 1975 till 1991, the divisible pool did not comprise all major federally collected taxes. Some taxes like customs duties and excise duties were not part of that. Since the divisible pool was small, they could afford to give 80% to provincial governments. However, in 1997 NFC Award, all major taxes were made part of the federal divisible pool. That is why they had to decrease the vertical share from 80% to 37.5%. Under Presidential Order of 2006, the vertical share of the provinces was increased to 41.5%. It was to gradually increase to 46.3% in the last year of the system, which would mean a total vertical share of 50% for provinces including grants. In 2010, under 7th NFC the vertical share was determined at 56% for first fiscal year and 57.5% after that. The tenure of 7th NFC award has completed but it is still enforced because there has not been a consensus on the next NFC Award.

The horizontal distribution of fiscal transfer has evolved over period of time. The population has remained one of the major factors in all NFC Awards until the 7th NFC Award. Resultantly, Punjab was getting higher share of around 60% in 1st NFC award, as compared to Sindh with 22.5%, KP 13.39% and Baluchistan 3.8%. Over the course of the awards, the share of Punjab has gone down as its share in population has decreased, for instance, from 60% to current share of 51.74%. On the other hand, the share of smaller provinces has increased over time. For instance, the share of Baluchistan share was 3.8% in 1st NFC Award and has increased to 9.09% in the current NFC Award. Similarly, share of KP has increased from 13.39% to 14.62%. Under the 7th NFC Award the provincial

governments agreed to move away from the single criterion of population, in which the population weight was decreased from 100% to 82% and three new factors were incorporated in the horizontal distribution criteria for transfers, i.e., poverty, revenue collection, and inverse population density.

While looking at the characteristics of 7th NFC Award, it can be seen that provincial share was increased from 46.25% in the last year of the Presidential Order of 2006 to 57.5%. The size of divisible pool was increased as the federal government agreed to reduce the collection charges from an average of 5.2% on all taxes to 1%. In addition, provinces were allowed to collect GST on services, if they desired so. The share of Baluchistan increased by 2 percentage points which means that under the Presidential Order, its overall share was about 7.09% and hence the share was increased to 9.09%.

Under the 7th NFC Award, two important decisions on revenue assignment to provinces were taken. This meant further decentralization of fiscal powers to provincial governments. One was that provincial governments can collect their own sales tax on services. Although it has created a number of coordination issues, however, on the other hand, the revenue has increased substantially. Second important decision was devolution of Capital Value Tax on properties to provinces.

Current debate and issues under the 9th NFC Award

There has been no meeting on the current 9th NFC Award for the last one year, for different reasons like political uncertainties and lack of political consensus on the NFC Award. We were under an IMF program for the last five years. The IMF and World Bank both consider the fiscal devolution under the 7th NFC Award as excessive and that it has contributed to increase in fiscal deficit at federal level. But provinces do not agree to that. On the contrary, federal government subscribes to this opinion. Some of the studies that have been conducted, highlighted that the contribution of 7th NFC Award could be measured in term of increase of fiscal transfers from federal to provinces is additional transfer of just 1% of GDP. This implies that if this 7th NFC Award contributed to deficit at federal level, only 1% can be attributable to fiscal deficit the award, but rest of deficit has no linkage with 7th NFC Award. Second issue is that federal government subscribes to IMF/WB opinion. Facing a high deficit, the Federal Government has requested provinces to set aside approximately 7% from divisible pool to finance some of the federal subjects like defence, FATA/GB/AJK etc. However, provinces do not subscribe to it and have reservations to

these demands. The next issue is that provincial governments claim that federal government has poached at provincial resources to meet fiscal deficit. In addition, provinces are asking for additional transfers to meet the cost of additional functions devolved under 18th Amendment. Since different political parties are in power in different provinces in Pakistan, consensus on new finance commission award has become elusive.

Devolution from Provincial to Local Governments

In the province of Punjab, in 2006 the provincial government retained 58.1% at provincial consolidated fund level and transferred 41.9% to local governments. However, during the interim PFC Award 2017, the provincial government retained amount is 62.5% and allocated 37.5% to local governments. The share decreased as advocated reason being that the functions of local governments have also been reduced in the province.

Currently, the province of Sindh does not have PFC Award, and has not developed the formula as yet. But in 2006 Award, the share to local governments was based on factors like population 40%, service infrastructure 35%, development needs 10%, area 5% and performance 10%.

In the province of KPK, they had a formula earlier and the total share allocable to local governments was fixed at 40%. Additionally, they have decided that 30% of the development budget of the provincial government will be spent through local governments. This is new thing that has been done in KPK to empower local governments. However, there is no formula for transfer of non-development budget. Non-salary budget is distributed without a formula.

In Baluchistan, the local government system and Act provides for provision for municipal services by local government only. So they have retained only one tier out of the three envisaged under Local Government Ordinance, 2001. They have not decided the vertical share but the provincial government distribute the transfers on the basis of population (50%) and rest 50% is distributed equally among the local governments.

The taxation authorities of local governments have remained limited almost in all provinces.

Issues/Challenges/ Way forward

Not all provinces have a system or formula based transfer from Provincial to Local Governments in Pakistan.

There is insufficient transparency of transfer systems at provincial levels.

There is lack of capacity to design, administer and monitor the fiscal transfer system which require technical expertise.

There is a need for research to be emphasised at provincial level, for instance

- No study on adequacy of transfers
- Non-availability of studies on expenditure norms/unit cost of service delivery by local jurisdictions
- Revenue potential is not known
- Transfers are not equitable

There is lack of political will to devolve resources/authority to Local Governments.

Discussion

One participant raised an observation by mentioning the recent ruling by Chairman Senate in which the Chairman stated that “if NFC award expires, the government cannot continue with the previous award”. If that is the case, will the previous award be legal still? Secondly do we need to calculate shares of transfer every year?

It was responded that shares are defined and fixed once for all for five years, and an Award does not change every year. With respect to legality of extending NFC Awards, one thing is clear that if there is no consensus and the award cannot be extended, then what will happen? It will be like a shutdown scenario, which is not possible under the constitution, so it was rightly opined that it can be extended.

Another participant added an observation that risk of shocks/natural calamities are never kept in mind while deciding about the fiscal transfers to provinces, as hazards can occur anytime. Secondly, at provincial level, there is no fund tracking mechanism to see where the expenditure are going, and even if they going, whether they are in line with the horizontal agreements that we have made on that? Thirdly, why are we being driven by IMF and World Bank?

With respect to risk for provinces arising out of disasters/calamities, the guest speaker responded that he was privy to the discussion, and maintained that these issues were discussed under the NFC Award. Since there is a separate mechanism to deal with disasters, therefore, it was not made part of the NFC Award. There is a disaster risk management law, and it has been agreed that all governments will adequately fund that and if required they can also borrow money for that purpose. The good practice at the international level is to maintain disaster funds for disaster risks. In case there is shortfall in disaster risk funds, it is mandatory that all provincials and federal governments have to respond to disasters. They have to reprioritize their expenditures. The disaster usually bring a fiscal shock at federal or provincial level. If we establish funds in good times, these (disasters) shocks can be managed better. Regarding tracking mechanisms, it was agreed, that it has been a weak point. It is one of the mandate of Provincial Finance Commission (PFC) Secretariat to, develop the capacity, collect data, evaluate the use of resources, and to monitor it.

Recommendations

1. Building capacity of the local government to design, administer and monitor fiscal transfers.
2. There is need for research to be conducted at provincial level for better policy advices.
3. Transparency in fiscal transfer to be ensured.
4. Above all there needs to be political will to decentralize. If the will is there, the dream of greater fiscal decentralization would materialize.

Session IV: Local Government Empowerment & Reforms: Necessity and Way Forward

The lead discussant peeled the layers off the romantic and utopian mental model of decentralization, shared his analysis of our experiments with decentralization and need for real power sharing and not a proxy for actual democratization.

Professor Dr. Mohammad Waseem: It is essential to differentiate between the jargon and the reality of local government system in Pakistan. The discourse on local government is amazingly romantic and ideological. The political leadership and other stakeholders have labelled the local government being a grassroots issue and necessary for democracy to prevail. However, the existing reality of their practice points to a false flag.

Some of the concepts which concern local government relate firstly to the overall approach of accountability, transparency, development through local representatives and the central supply line domains to facilitate delivery of services.

Accountability has a misplaced significance attached to it and is used in a very allegorical way. It is very difficult to hold any party, person or institution accountable unless it is dealt holistically, and monitoring is supported by the system as a whole. Similarly, transparency is something which cannot be controlled even with the state's mighty resources operating at the top. If we try to operate it at the district level, then the system might get destabilized and that is something which is not desired.

The phenomenon that development at the local level is linked to local bodies is again an idiom which needs to be explored in detail. The pattern that relates to military governments' interest in local government and the political governments' relative disinterest in local government does not prove that military governments are pro-democracy. The development agenda is related to the donor community getting activated with military governments. This also relates to the legitimacy debate which the military governments seek through locally elected leadership. Under the military regime, political parties and leaderships are disenfranchised because they are branded corrupt and newly elected representatives come to replace them. However, according to the studies done, the power structure does not change with the newly elected faces from amongst the younger leadership. The tribal and/or biradari system paves the way for continuation of the patronage politics.

Secondly, the military governments try to establish a link with the grassroots level through elections bypassing the provincial level, which is the citadel of ethnic leaderships. The moment politicians come to power they destroy the link between the Centre and the district. This will unfortunately continue because there is a stalemate on the issue of civil-military relations. Nobody is willing to tackle this issue because there is a difference of opinion. There are two power centres and they are yet to devise a way of sharing power for running this country.

It was mentioned that the policy and decision making is done at the central level wherefrom communication is enabled to the lower levels to provide transfer of resources. The feedback on service delivery is then gathered. This highlights the fact that service delivery is not a local affair and it calls for an integrated approach. There are always people particular to a locality all over the country who can deliver services at a local level but delivery is linked to supply lines which are controlled centrally. All the resources have extra-local inputs which make the locality rich and powerful. The extractive functions (financial) and controlling function (police, etc.) both have not been in the hands of the district hierarchy. The reason for this is the direct connection of policy makers at the provincial/federal level with the citizens. Military has had a view to implement the local government system but the main stakeholder -- politicians performing the brokerage function, were left out of the picture. The policies implemented in this way are bound to fail.

Provincial governments' will to implement decentralization has been effectively barred due to the centralist features of the system of government. Therefore nothing of substance has taken place after the 18th Amendment. The citizen-government bond has hardly been established as the focus of the provinces is to attain more power from the Centre. Political governments are insecure and shy of devolving political power downwards because they are themselves struggling for more power and revenue raising authority, and more provincialized administration. The Center remains in power in terms of financial (revenue raising) and administrative (federal control of bureaucracy) centralization. What is required is stability at the local level. There is a dichotomy between political decentralization and administrative centralization which highlights the concept of the dichotomy between the organized state and the disorganized society.

The trend of politics has been at the expense of local elites. If that is the purpose of the whole exercise, then local government system is bound to fail. Pakistan has a society where elite consensus at all levels (political, judicial, military and bureaucratic) is essential for

the system to function. However, several stakeholders are alienated and there is no input from the locality. The system is bound to collapse this way.

The term used to depict severing the local dynamics away from resources, ideologies, policies and issues and restrict the local government to local issues is Abstractive Localism. This is a very unimaginative way of conceptualizing local government. It cannot operate in isolation. Pakistan inherited the modern-colonial state which was tampered with different political ideologies at different times. It has followed a top-down approach where institutions were introduced at the local level from above. In the European states, decentralization evolved uninterrupted by giving small towns the authority through a bottom-up approach to develop their local institutions.

There is a dichotomy between the political forces and the establishment. The kind of canvas that produces lesser fragmentation among political ideologies is not allowed to emerge in Pakistan. That is why so many parties are being floated in various provinces in Pakistan often by way of extra-political input. The political community does not have strength to stop the unbridled process of multiplication of political entities that muddy the waters.

Recommendations

1. The two power centres in the country need to develop a consensus on the way to run the country.
2. It needs to be made sure that local elites/politicians are not subverted. We live in a society where elite consensus is required at all levels for the system to function. Alienation of communities, and ethno-linguistic and identity discrimination must be avoided. There is no harm in opting for creation of more provinces.
3. In order to develop a successful local government system, local issues should be viewed within the context of larger provincial and national issues.
4. There is a need to rush for political centralization. Administrative deconcentration will help bring on board political stakeholders.
5. The way forward for democracy is to link the local and state power through some kind of mediating force, which also incorporates provincial political realities. We need to pierce through the jargon and look at the reality.

Agenda

Decentralization: Implementation with Good Governance

PROGRAM

Day/Date	TIME (HOURS)	TOPIC	Lead Discussants
1. Day-1 March 27, 2018	0900-0945	Registration	
	0945-0950	Recitation from the Holy Qur'an	
	0950-1000	Introduction, Objectives & Program of Work by Dean NIPP	
	1000-1030	Tea Break	
Session-I	1030-1215	Challenges to Decentralisation: i) Why it has become a Mirage? ii) Role of Leadership in Decentralisation Implementation	Mr. Tariq Mahmud
Group Photograph/Stretch Break	1215-1230		
Session-II	1230-1420	Constitutional and Legislative Framework and Administrative Reality	Mr. Sohail Ahmad
	1430	Lunch	
2. Day-2 March 28, 2018			
Session-III	1015-1200	NFC Award and Beyond: Financial Distribution From Provincial to Local Level	Mr. Faisal Rashid
	1200-1230	Tea Break	
Session-IV	1230-1415	Local Government Empowerment & Reforms: Necessity and Way Forward	Dr. Mohammad Waseem
	1420-1430	Concluding Remarks	Mr. Azmat Ali Ranjha Rector, NSPP
	1430	Lunch	

List of Participants

Sr. #	Name	Designation
1.	Dr. Shahzad Khan Bangash	Additional Chief Secretary Planning & Development Department Government of Khyber Pakhtunkhwa, Peshawar
2.	Mr. Wiqar Avais	Managing Partner RSM Avais Hyder Liaqat Nauman Avais Chambers
3.	Mr. Farooque Ahmed Siddiqui	Director Local Government Karachi Division
4.	Capt. (R) Javed Khan	Director Planning Baluchistan Development Authority, Quetta
5.	Dr. Safdar Ali Sohail	Director General National Institute of Management, Islamabad
6.	Barrister Saeed Nasir	Executive Coordinator Treaty Implementation Cell (TIC) Human Rights & Minorities Affairs Department Government of Punjab, Lahore
7.	Mr. Nauman Qaiser	Director Legal Technical Educational & Vocational Training Authority, Government of Punjab, Lahore
8.	Mrs. Rubina Nadeem	Educational Specialist United Nations Children's Fund Pakistan, Lahore
9.	Mr. Omer Kauser Malik	Technical Advisor Agriculture Delivery Unit, Lahore
10.	Major (R) Attique Arshad	Directing Staff (T&C) Senior Management Wing National Management College, Lahore
11.	Mr. Akbar Ali Khan	ADS/Faculty Member National Institute of Management, Peshawar
12.	Mr. Kashif Mumtaz	Additional Directing Staff (ADS) National Institute of Management, Lahore
13.	Mr. Qudrat Ullah	Deputy Director (Newsroom) Director General Public Relations Department, Lahore
14.	Mr. Sohaib Jamali	Research Fellow PRIME think tank/Research Editor Business Recorder
15.	Mr. Bilal Shahid Cheema	Lecturer Department of Public Administration Government College University, Faisalabad
16.	Mrs. Maryam Ahmad	Lecturer Virtual University of Pakistan, Lahore
17.	Mr. Fiaz Hussain Qadri	Mphil Student

List of Lead Discussants

Sr. #	Name	Designation
1	Mr. Tariq Mahmud	Visiting Faculty, LUMS
2	Dr. Mohammad Waseem	Visiting Faculty, LUMS
3	Mr. Sohail Ahmad	Professor of Practice, School of Governance and Society, University of Management and Technology
4	Mr. Faisal Rashid	Senior Consultant, Oxford Policy Management Group

Group Photo





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