

Empowering Local Government – The Road to Inclusive and Sustainable Development

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Empowered local governments in Pakistan have yielded significantly positive results for social development. Fiscally autonomous local governments are correlated with the effective delivery of basic social services, a better understanding of public welfare needs, and increased transparency and accountability. Evidence shows that growth in the development sector coincides with period of political, fiscal and administrative devolution (2001 – 2006) on the local level. However, after this period growth has not been parallel with the increase in resources as per the DRGO 2006 and 7th NFC Award; growth in indicators has stagnated or increased only marginally during periods of high resources and low fiscal autonomy of local governments. The 18th Amendment and subsequent Local Government Acts (LGA) have been key milestones; although, relevant legislation has been instated, on ground implementation of clauses and transfer of power remains slow. Local governments are largely dependent on the discretions of provincial governments leading to increased vulnerability of the third tier, as well as, province-wide differences in division of functions and resources.

Why Empower Local Governments?

Substantial evidence highlights the advantages of fiscal decentralization and fiscal independence for local governments. The third-tier is a critical component since it is directly involved in the delivery of social services such as basic health, education, water supply and sanitation, etc. Elected local governments are able to more efficiently allocate resources and deliver services, in line with the needs of the people. In addition to reducing disparities among regional governments, increased autonomy brings forth increased accountability and transparency as well and bridges the gap between governments and people. However, theoretical prescriptions have not translated

uniformly in to the local governance system of Pakistan. Local governments in Pakistan have had a rather unstable history. Several attempts to empower them have been made; however, these have yielded unsustainable results.

Legislative Foundations

Until 2010, decentralized governance was unique to non-representative military regimes – reforms have been initiated multiple times, however, these have largely lacked sustainability and implementation. One of the most significant legislations for local governance in Pakistan, the Devolution Plan 2001, gave unmatched fiscal and administrative autonomy to local governments; Provincial Finance Commissions (PFCs) were instated for the first time as a transparent mechanism for both vertical (from province to districts) and horizontal (among districts) distribution of resources. This system was discontinued in 2008.

The monumental 18th Amendment of 2010, as per Article 140A, declares local government as the third tier of governance and makes devolution of power a constitutional obligation for all tiers of government; thereby, making the establishment of a local governmental system a legally binding requirement. The 18th Amendment devolves political, administrative, and financial responsibility and authority to elected representatives of local government. This legislation gives each province the discretion to design its own local government system. An overview of local government ordinances indicates variations in the local government system across provinces, in terms of structures, functions, and fiscal powers. Variation also exists in the status of implementation of the local government system in each province. For instance, these ordinances contain provisions for establishment of PFCs; however, so far only two provinces have announced PFCs.

Linking Local Governments and Social Development

Historical trends and insights from data show that elected and empowered local governments can be instrumental in promoting various aspects of social development. The Net Enrollment Rate (NER) at the primary level (classes 1 to 5), for children aged 5 – 9 shows significant progress during 2001 – 02 to 2006 – 07, coinciding with the period of devolution to the third-tier. The NER of Pakistan increased from 51 percent to 65 percent (see Table 1). It must be noted that from 2006 - 2007 until 2014 – 2015, although the quantum of resources increased due to the allocations from DRGO 2006, growth in NER stagnated or increased only marginally. Similar patterns are also visible across provinces during the tenure of empowered local governments. More so, a decline in the NER can be observed from 2006 – 07 onwards in both Sindh and Balochistan, in spite of the increase in allocated resources as per the subsequent DRGO 2006 and 7th NFC Award.

Table 1: Trend Net Enrolment Rate – Primary (%)

Province	2001-02	2006-07	2010-11	2014-15
Pakistan	51	65	66	67
Punjab	54	70	70	70
Sindh	47	58	62	61
Khyber Pakhtunkhwa	51	61	64	71
Balochistan	40	50	56	56

Source: PIHS 2001-02, PSLMS 2006-07, 2010-11 and 2014-15, Pakistan Bureau of Statistics, GoP

The presence of local government and PFCs also coincides with an improvement in gender equality in the education sector; the ratio of girls' enrolment to that of boys increased from 79 percent in 2001 – 02 to 84 percent in 2006 – 07 followed by a decline, similar patterns can also be observed on provincial levels (see Table 2).

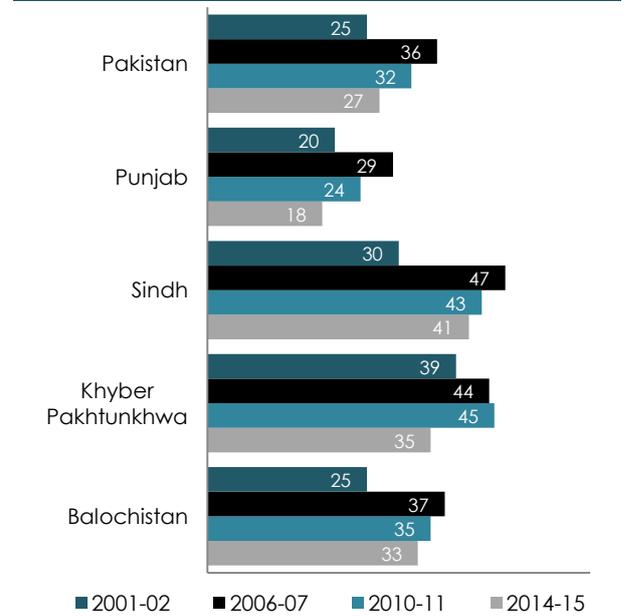
Table 2: Gender Parity in Primary Education (%)

Province	2001-02	2006-07	2010-11	2014-15
Pakistan	78.9	84.3	85.9	86.1
Punjab	86.2	91.8	93.2	91.8
Sindh	72.2	76.9	80.9	80.6
Khyber Pakhtunkhwa	62.9	71.8	78.9	79.5
Balochistan	59.2	63.3	58.8	62.7

Source: PIHS 2001-02, PSLMS 2006-07, 2010-11 and 2014-15, Pakistan Bureau of Statistics, GoP

Access to tap water is a proxy for measuring the availability of drinking water. Chart 1 indicates that during 2001 – 02 and 2006 – 07, tap connections as sources of drinking water increased from 25 percent to 36 percent. During the subsequent periods, where DRGO 2006 was functional, a decline of 4 percentage points can be noted and attributed to the decrease in public spending on water and sanitation. However, these statistics have maintained a decreasing trend even after an increase public spending per the 7th NFC Award. Thus, indicating that increased expenditure is not always directly proportional to increased growth in development indicators and that elected local government and transparent finances play a critical role in provision of services.

Chart 1: Access to tap water (%)



Source: PIHS 2001-02, PSLMS 2006-07, 2010-11 and 2014-15, Pakistan Bureau of Statistics, GoP

Issues

- The process of devolving power to the third-tier, as per obligations of the 18th Amendment, remains rather slow. Even after a significant period of time, devolution of political, administrative and financial responsibility and authority remains a far reality.
- Local governments are dependent on other tiers for their financial sustainability, due to lack of own revenues and taxation powers. The Octroi and Zila Tax (OZT) – the main source of revenue – was discontinued in

1999 and compensated with a 2.5 percent additional sales tax until 2006. The DRGO 2006 modified this to one-sixth of the sales tax to be transferred to provincial governments and then forwarded to local governments; thereby making provinces simply a post office for passing on earmarked transfers. The 7th NFC Award altered this process and merged the OZT grants in the provincial divisible pool, thereby, leaving the transfer of the portion of resources to the discretion of provinces, thereby, furthering the inter-tier dependency.

- There is a lack of uniformity in local governance systems across provinces in terms of structures, functions, fiscal powers and most importantly, implementation. Thereby, often contributing to inter-regional disparities.
- In spite of obligations under Local Government Acts, only two provinces – Punjab and Khyber Pakhtunkhwa – have constituted interim PFCs, the remaining two still lag behind.
- The divisible pool in Punjab consists of the net process of the Provincial Consolidated Fund (NPCF), of which 37.5 percent was allocation to local governments, in addition to 6.5 percent in special grants. The horizontal distribution under the Interim Punjab Finance Commission Award (IPFCA), 2017 shows that almost 70 percent of the share is allotted to the District Education Authority, 16 percent to the District Health Authority, and only 12.8 percent to elected local governments such as Metropolitan Corporations, Municipal Corporations, Municipal Committees, and District Councils. Punjab's provincial governments have

established District Health and Education Authorities, however, it must be noted that these experimental bodies are not substitutes for local government.

Recommendations

Trends and analyses are in support of empowered and fiscally autonomous local governments in order to fully benefit from the system of fiscal federalism and improve social development. It is recommended that:

- Steps are taken, in accordance with the 18th Amendment and Local Government Acts, to devolve responsibility and power to the third tier. As can be seen from the limited impact of the 7th NFC Award on social development, higher portions of resources do not translate in to positive impact. Thereby, higher spending needs to be complemented with reforms to empower local governments.
- Timely announcement of PFCs, supplemented by appropriate legislation for intergovernmental fiscal transfers from provinces to local governments needs to be ensured.
- One-sixth of the GST as OZT grants should be forwarded to district governments.
- Responsibilities pertaining primary health and education sectors ought to be assigned to local government, additionally, property tax collection should also be devolved to this tier.
- Local level data in Pakistan is sketchy; therefore, the collection of credible data based on local finances is essential for any meaningful analysis of financial and operational performance.

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Social Policy and Development Centre (SPDC) is a policy research think tank. Since its establishment in 1995 as a private non-profit company, SPDC has made significant intellectual contributions in placing issues of pro-poor growth and social development on Pakistan's policy-making agenda. With a focus on issues related to poverty and inequality, governance, social service delivery, gender, and pro-poor macro-economic policy, it contributes to the national goal of social development through research, policy advice, and advocacy. Being an independent and non-partisan research organization, the centre collaborates and cooperates with organizations working on issues relevant to its mandate both at home and abroad. It determines its own agenda and has successfully maintained its independence and balance between responsive and proactive social sector research.

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