

Pakistan Development Forum, 2006

FISCAL DECENTRALIZATION

PRESENTATION BY

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SEQUENCE OF PRESENTATION

1. **CURRENT STATUS**
2. **INITIATIVES**
3. **BENEFITS**
4. **FUTURE CHALLENGES**

CURRENT STATUS

- 1. PFCs have been established in all four Provinces. Interim annual awards have been announced since 2002-03. The quality of awards have improved significantly over the years. They include multiple indicators focusing on equity, efficiency & performance. However availability of reliable data is a constraint.**
- 2. Releases are being made in accordance with the PFC award since 2002-03.**
- 3. Bank accounts have been opened for all local governments.**
- 4. Local Governments' Own Source Revenue (OSR) have shown an increase. There is a potential to raise it further.**
- 5. Under the LGO 2001, collection of Urban Immovable Property Tax (UIPT) has now been decentralized to the TMAs from District Governments. The whole Tehsil is a rating area.**
- 6. Budgets are being prepared by each local government. Capacity to prepare budget on prescribed format varies across Districts, TMAs and Unions. Capacity is really lacking.**

- 7. Expenditures are being incurred in line with the approved budgets. Rate of utilization of funds is increasing.**
- 8. Monthly Accounts statements are being prepared by all local governments. These are not being submitted to the councils.**
- 9. Audit of district government is being conducted by Auditor-General of Pakistan (AGP).**
- 10. Audit of TMAs and Unions Administrations for the time being is conducted by Local Fund Audit. It will be conducted by AGP. However there are backlogs.**
- 11. 2.5% GST has been explicitly mentioned in the recent NFC Order, 2006.**
- 12. In NWFP salary component will be transferred to Account-IV from 1st July, 2006.**
- 13. In Sindh the salary and development component will be transferred to Account-IV from 1st July, 2006.**

FISCAL TRANSFERS OUT OF PROVINCIAL ALLOCABLE TO LOCAL GOVERNMENTS (THROUGH PFC)

Rs. in billion

| YEAR => | 03-04 | 04-05 | 05-06 |
|--------------------------------|----------------|----------------|----------------|
| Punjab | 63.858 | 70.149 | 82.532 |
| Sindh | 35.788 | 43.018 | 48.160 |
| NWFP | 16.800 | 19.100 | 27.000 |
| Balochistan | 11.500 | 16.300 | 24.400 |
| TOTAL | 127.946 | 148.567 | 182.092 |
| PERCENTAGE INCREASE | | 16.1% | 22.6% |

INITIATIVES

- 1. PFC is being strengthened through various donor projects like Decentralization Support Program (DSP). The effectiveness of training remains questionable in some cases.**
- 2. Provincial Governments are developing data base for monitoring the financial position of local governments especially expenditure against the budget in various sectors.**
- 3. Auditor General has set up district government audit offices in the provinces to complete audit reports on time for which staff has been recruited.**
- 4. Under PIFRA project, District Accounts Offices are being computerized to improve financial management.**
- 5. More than 20,000 CCBs has been created to ensure utilization of the 25% development budget through DTCE and other donors and local governments. Formation of CCBs are slow.**
- 6. Training of local government functionaries is being undertaken under the DSP.**

FUTURE CHALLENGES

- 1. Vertical programs adversely impact on local autonomy and create inefficiencies besides having O&M implications after completion of schemes. It also weakens the planning and budgeting process at local level and give greater central control and impression of lack of adequate confidence to LGs. Integration of vertical program in the local governments.**
- 2. Multiple financing & execution channels make the monitoring and measurement of performance difficult.**
- 3. Increased use of conditional grants like performance, policy incentives etc., will lead to complication. The challenge is to harmonize the efforts in accordance with the LGO 2001.**
- 4. PFC awards would require greater focus on TMAs which provide bulk of municipal services. Capacity building of TMAs need to be significantly improved on priority basis.**

- 5. Capacity building of District Governments (110), TMAs (394) and Union Administrations (6131) throughout the country in Planning, Budgeting, Accounting & Financial Management is required. At present significant lack of capacity in fiscal management exists.**
- 6. Bottom up planning and community participation through CCBs although taken off but not at a desired pace. Efforts of community mobilisation and utilization of the funds reserved for CCBs' schemes needs to be improved.**
- 7. Greater focus is required to improve the reporting and monitoring system for budgeting and service delivery performance.**

- 8. How to reduce vertical imbalance between different tiers of Government that led to increase accountability is a challenge.**
- 9. City District Governments must be assigned additional fiscal power in`terms of new taxes and may be also be consider to allow borrowing powers.**
- 10. How to rationalize local government expenditure as bulk of expenditure are on salary. Very little left for financing non salary and development expenditures.**

THANK YOU