

Devolution in Pakistan

Annex 1 – Recent History

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Preface

The Devolved Service Delivery Study (DSD) was conceived and planned by a Steering Committee made up of representatives of the Government of Pakistan Finance and Planning Departments, the National Reconstruction Bureau (NRB) and three bilateral and international lending agencies: the World Bank, the Asian Development Bank (ADB), and the U.K. Department for International Development (DfID). Additional financial support was provided by the Canadian International Development Agency (CIDA).

This is the second in a three-volume report.

Devolution in Pakistan: An Assessment and Recommendations for Action reviews the current state of devolution, noting both dangers and opportunities, and sets out a possible strategy and some practical actions to meet the key goals of devolution.

Devolution in Pakistan: Annex 1—Recent History has two parts. It sets out the detailed history of the initiative, and the political, fiscal, and administrative changes that have been made to date. It then provides a detailed assessment of the impact of these institutional changes on the key actors, particularly the *nazimeen* and senior staff of the districts and the TMAs.

Devolution in Pakistan: Annex 2—Technical Considerations provides a more in-depth review of a series of contentious topics that contribute to the intensity of the debates on devolution. It examines the following:

- Options for reducing the throw-forward of ongoing ADP schemes in devolution
- Developments and limitations in monitoring data
- Provincial-local fiscal transfers including a review of the weightings used in PFC formulae
- An examination of the vertical fiscal imbalances, and the implications from a possible change in the NFC award
- Reforming access to justice under devolution
- Key considerations in administrative decentralization

The study is the product of an agreement between the World Bank, ADB and DfID, in response to a request from the Government of Pakistan that the agencies review progress toward improving service delivery through decentralization. The government has emphasized that it is looking for feasible, practical recommendations that add value to a devolution process that is well advanced. It requested a range of robust technical analyses that provide a summary of the

emerging lessons and implications for both policy and operational practices. The government made the point strongly that this should not be an assessment of larger legal or political arrangements, rather that the focus of the review must be on pragmatic actions for service delivery improvements at district and *tehsil* level, based on reasonable assumptions about the likely preconditions for service delivery.

The authors have drawn comprehensively on the following data in the preparation of this report:

Extensive published outputs from the NRB and a range of informal outputs including presentations and conference notes.

Table 1: Districts and TMAs Studied

Province	District	TMA
Balochistan	Killa Saifullah	Killa Saifullah
		Muslimbagh
Sindh	Karachi	Lyari
		Gulshan-e-Iqbal
	Khairpur	Khairpur
		Kot Diji
N.W.F.P	Bannu	Town I
		Town II
Punjab	Bahawalpur	Bahawalpur City
		Yazman
	Faisalabad	Faisalabad City
		Jaranwalla

District Studies—new, largely qualitative, data gathered from six districts (and a selection of *tehsils* within them) on their experiences to date gathered through the use of a series of sector-specific templates systematically reviewing experience to date with sectoral concerns including public expenditure, civil service, politics, water and sanitation, health, education, and access to justice issues (see Table 1). The districts identified by government for this study were Faisalabad and Bhawalpur (Punjab); Karachi and Khairpur (Sindh); Bannu (NWFP); and Killa Saifullah (Balochistan).

Fieldwork was conducted between June and August 2003 by a seven-member team in these six districts. Detailed socioeconomic data for the districts are available in a separate working paper (Qadir: 2003). The team included Shehryar Sarwar, Sajjid Siddique, Ali Murtaza, Syed ata ur Rehman, Masroor Ahmad, Nasir Jamy, Rehana Hashmi, Fareeha Zafar, Mohammed Saboor and Sarwar Bari.

The qualitative data from this fieldwork are cited in this report as “ADB/DfID/WB DSD Dataset 1.”

Intergovernmental Flows of Funds—a model of fiscal flows underpinned by a comprehensive database of revenue and expenditure for district governments and *tehsils*. The model allows:

- Some analysis of the overall fiscal architecture and in particular the combined effect of the Provincial and National Finance Commission Awards under alternative scenarios illustrating the impact of revenue reassignments or of any changes in funding assumptions;
- An assessment of the impact of any “lumpiness” in revenue, assessing the cash flow problems that the provinces are flagging as the major reason for their slow movement toward the devolution of civil service pay; and
- A comparison to be drawn between the intended and the actual behavior of provinces in transferring funds, assessing how predictably districts received their anticipated funds.

Fieldwork and analysis was conducted between June 2003 and January 2004 by Abdul Wajid Usmani, Mirza Irfan Beg and Adeel Sattar.

The fiscal data from this fieldwork are cited in this report as “ADB/DfID/WB DSD Dataset 2.” Background to the dataset and the methodology used to construct it are provided in the appendixes to the first volume (*An Assessment and Recommendations for Action*).

Acronyms and Abbreviations

ACR	Annual Confidential Reports	EPI	Expanded Program for Immunization
ADB	Asian Development Bank	ESR	Education Sector Reform
ADP	Annual Development Plan	FBS	Federal Bureau of Statistics
AG	Accountant General	FCF	Federal Consolidated Fund
AGP	Auditor General of Pakistan	FIR	First Information Report
AGPR	Accountant General Pakistan Revenues	FJA	Federal Judicial Academy
AIT	Agriculture Income Tax	GDP	Gross Domestic Product
APT	Appointment, Promotion and Transfer	GFS	IMF Government Finance Statistics
BHU	Basic Health Unit	GRAP	Gender Reform Action Plan
BKN	Badan Kepegawaian Negara (Civil Service agency in Indonesia)	GST	General Sales Tax
BPS	Basic Pay Scale	HIPC	Highly-Indebted Poor Countries
CBR	Central Board of Revenue	HMIS	Health Monitoring Information System
CCB	Citizen Community Board	IMF	International Monetary Fund
CDMD	City Development and Municipal Department	IT	Information Technology
CED	Central Excise Duty	JM	Judicial Magistrate
CEDAW	Convention on Elimination of All Forms of Discrimination Against Women	KPP	Khushal Pakistan Program
CFAA	Country Financial Accountability Assessment	KWSB	Karachi Water and Sewerage Board
CGA	Controller General of Accounts	LGC	Local Government Commission
CPLC	Citizen Police Liaison Committee	LG&RDD	Local Government and Rural Development Dept.
DA	Development Authority	LFO	Legal Framework Order
DAO	District Account Officer	LGO	Local Government Ordinances
DC	Deputy Commissioner	LHC	Lahore High Court
DCJCC	District Criminal Justice Coordination Committee	MICS	Multi-Indicator Cluster Survey
DCO	District Coordination Officer	MCP	Malaria Control Program
DDC	District Development Committee	MIT	Member Inspection Teams (of the High Court)
DDO	Drawing and Disbursing Officer	M&R	Maintenance and Repair
DERA	Drought Emergency Relief Assistance	MMA	<i>Muttahida Majlis-i-Amal</i> (political party)
DfiD	U.K. Department for International Development	MNA	Member of National Assembly
DM	District Magistrate	MoWD	Ministry of Women's Development, Social Welfare and Special Education
DMG	District Management Group	MPA	Member of Provincial Assembly
DoF	Department of Finance	MQM	Muttahida Qaumi Movement
DO	District Officer	MVT	Motor Vehicle Tax
DPO	District Police Officer	NAM	New Accounting Model
DPR	Development Policy Review	NBP	National Bank of Pakistan
DPSC	District Public Safety Commission	NFC	National Finance Commission
DRTA	District Regional Transport Authority	NGO	Nongovernmental organization
DS	Deputy Secretary	NIH	National Institute of Health
DSD	Devolved Service Delivery Study	NPA	National Plan of Action
DSSP	Devolved Social Services Program	NPSC	National Program Steering Committee
DTCE	Devolution Trust for Community Empowerment	NRB	National Reconstruction Bureau
EDO	Executive District Officer	NWFP	North West Frontier Province
		OPD	Out-Patients Department
		OSR	Own Source Revenue
		OZT	Octroi and Zila Tax

P&D	Planning and Development	RHC	Rural Health Centre
PCA	Police Complaints Authority	RTA	Regional Transport Authorities
PCF	Provincial Consolidated Fund	RWSSP	Rural Water Supply and Sanitation Program
PCP	Pakistan Centre for Philanthropy		
PERI	Punjab Economic Research Institute	SAP	Social Action Program
		SBP	State Bank of Pakistan
PFC	Provincial Finance Commission	SDM	Sub-Divisional Magistrate
PHED	Public Health Engineering Department	SE	Superintendent Engineer
		SHO	Station House Officer
PIFRA	Pakistan Improvement to Financial Reporting and Auditing Project	SJM	Special Judicial Magistrate
		SLGO	Sindh Local Government Ordinance
PIHS	Pakistan Integrated Household Survey	SMC	School Management Committee
PLA	Personal Ledger Account	TAO	Tehsil Accounts Officer
PML	Pakistan Muslim League (political party)	TMA	Tehsil Municipal Administration
		TMO	Tehsil Municipal Officer
PO	Police Order	TO	Tehsil Officer
PPP	Pakistan People's Party	UC	Union Council
PPSC	Provincial Public Service Commission	UIPT	Urban Immovable Property Tax Works and Services
		W&S	
PRGF	IMF Poverty Reduction and Growth Facility	WAPDA	Water and Power Development Authority
PRSP	Poverty Reduction Strategy Paper	WASA	Water and Sanitation Authority
PSC	Public Service Commission	WB	World Bank
PSDP	Public Sector Development Program	WDD	Women's Development Department
PTA	Provincial Transport Authority	WDR	World Development Report
PTAs	Parent Teacher Associations	XEN	Executive Engineer

1. The Background to Devolution

WHY DEVOLUTION?

On taking power in 1999, the Musharraf government announced a far-reaching reform agenda for “reconstructing the institutions of the state” through the establishment of a democratically elected system of local government. The government emphasized that the new system was designed to ensure citizen involvement in planning services and to provide mechanisms for citizen oversight of implementation.

Pakistan’s devolution built on a Supreme Court decision that sought to enforce the constitutional principle, disregarded by previous governments, of the separation of the executive from the judiciary, and on Article 37(i) that required government to decentralize its operations to bring them closer to the public.¹ In practice, however, the start of the latest devolution process is most often linked to the March 2000 release of a National Reconstruction Bureau (NRB) discussion paper that called for a series of bold structural changes to be implemented by 14 August 2001, a deadline that was met. The changes included the abolition of the existing three levels of deconcentrated provincial administration (divisions, districts and *tehsils*) and the creation of a new tier of local governments comprising districts (called city districts in the four provincial capitals), *tehsils* (city towns in the four city districts) and union administrations, and the replacement of the existing municipal bodies by these new local governments. These arrangements apply to all provinces, but not to the Cantonment (military) areas of towns and cities, or the Federally Administered Tribal Areas, or Jammu and Kashmir. To date the arrangements have not been implemented in the Islamabad Capital Territory. The proposals were given shape in the August 2000 Local Government Plan (National Reconstruction Bureau: 2000).

Though not set out in any single document, the objectives of Pakistan’s devolution program can be discerned from various NRB publications (Box 1), the PRSP (Box 2), the Local Government Ordinances and many of the 297 other ordinances promulgated over the three years of the military government.² Devolution’s overarching political objective was to reform the political structures and in this respect, current policy had much in common with previous “devolutions”—notably of Ayub Khan and Zia ul Haq. It had three aims: to introduce new blood into a political system considered to be the domain of historically entrenched interests; to provide positive measures for marginalized citizens—women, workers, peasants—to have access to politics; and to introduce a measure of stability into a turbulent political scene by creating a stronger line of accountability between new politicians and a local electorate.

Underpinning the overall political strategy were other, technical objectives. The most prominent being the promise to improve service delivery, social services in particular. It was argued that local governments, appropriately empowered, staffed and resourced, would deliver better on primary health, education and municipal services like water and sanitation. A second service-delivery objective was to improve the way in which laws about property and labor rights, and economic activities, were determined and enforced. Accordingly, local governments were given

¹ The Constitution of Pakistan enforced on 14th August 1973 mandates by Art. 175(3) that “the judiciary shall be separated progressively from the executive within three years from the commencing day.” Govt. of Sindh v. Sharaf Faridi. PLD1994 SC.105. Article 37(i), notes that: “The state shall decentralise government administration so as to facilitate expeditious disposal of its business to meet the convenience and requirements of the public.”

² In addition to the Police Order 2002, ordinances concerning freedom of information, and laws regarding family and small causes courts, habeas corpus, security, anticorruption, independent prosecution services are all, arguably, part of the “devolution commitment” of the Musharraf government.

responsibilities to regulate and administer laws on land, labor, natural resources, NGOs and commercial enterprises. The third and perhaps distinctive feature of Pakistan's devolution was the ambition to facilitate access to justice. The belief was that the performance of local administrations, courts and police would all improve, that basic human rights would be better recognized and protected under devolution.

Box 1: A View from the National Reconstruction Bureau

“The objectives of changing the system of governance...

- Restructure the bureaucratic set up and decentralize the administrative authority to the district level and below.
- Refocus administrative systems to allow public participation in decision-making.
- Facilitate monitoring of government functionaries by the monitoring committees of the local councils.
- Rationalize administrative structures for improving efficiency.
- Introduce performance incentive systems to reward efficient officials.
- Ensure functioning of the related offices in an integrated manner to achieve synergistic effect and improve service delivery.
- Eliminate delays in decision-making and disposal of business through enhanced administrative and financial authority of district and *tehsil* level officers.
- Improve administrative and financial management practices in the district and management controls over operational units.
- Redress grievances of people against maladministration through the office of *zila mohtasib* (district ombudsman). The government functionaries will also be eligible to lodge complaints against the unlawful and motivated orders of the elected officials.
- Enable the proactive elements of society to participate in community work and development related activities.”

Source: (National Reconstruction Bureau: 2001a).

The idea that good governance is linked with poverty reduction runs through the technical and political objectives of devolution. The many recent poverty assessments have highlighted the vulnerability of the poor to predatory and dysfunctional government service-delivery agencies responsible for education, health, land registration and taxation, policing and the courts (“Participatory Poverty Assessment”: 2003; Asian Development Bank: 2002; CIET: 2003; World Bank: 2002). The vulnerability stems from government agencies’ failure to provide adequate access to justice, redress for administrative grievances, access to basic information about entitlements and accountability, or inclusion in public policy and decision-making.

Box 2: PRSP and Devolution

The PRSP process rests on the principle that improved governance is essential for economic growth and poverty alleviation and holds that “addressing this governance component of the poverty reduction strategy requires a major transformation of governance structures and systems, as well as of political and organizational culture, especially at the local level.” The government’s strategy for institutional renewal is a bottom-up approach to restructuring, which consisted of devolution of power, decentralization of administrative authority, deconcentration of management functions, diffusion of the power-authority nexus and distribution of resources to the district level.

“Improved access to justice is an absolutely necessary complement to devolution that is directly linked to poverty reduction. An important factor for grass roots support for devolution is precisely the restoration of the confidence of citizens in the police and courts. The government recognizes that judicial, legal and Police reforms are essential to establish rule of law and enforcement of contracts that will stimulate economic growth and encourage private investment—both local and foreign. The basic problems of judicial

administration in Pakistan relate to case management and delay reduction, automation of courts, human resources and its development, infrastructure inadequacy, and redressal of small causes.”

The PRSP also emphasizes the need for community empowerment through the further development of Citizen Community Boards, Village and Neighborhood Councils, and the promotion of the devolution movement. It calls for “full implementation” of devolution by undertaking direct elections of *zila* and *tehsil nazimeen*, given the greater legitimacy and accountability conferred by direct elections; by federal-to-provincial devolution to strengthen provincial autonomy; and by federal-to-provincial restructuring. It also states that success is contingent on further fiscal and administrative decentralization and that implementation of these reforms in an integrated and holistic manner, is the crucial ingredient for more effective governance.

Source: (Government of Pakistan: 2003).

When the agenda was first announced, skeptics pointed out that devolution had been tried before, was discredited and then abandoned. Historically, local government systems in Pakistan have been promoted—by incoming military regimes as a way of reaching over the heads of existing political elites to consolidate their power by appealing directly to a populace typically disaffected by ineffective civilian government.

The “Basic Democracies” system, introduced following General Ayub Khan’s coup in 1958, created 80,000 “basic democrats,” or union councilors. These local leaders constituted the Electoral College for presidential elections and for elections to the national and provincial legislatures created under the constitution promulgated by Ayub in 1962. Although the military government of General Yahya abandoned this system, it was revived again under General Zia-ul-Haq (1977–88), who increased the powers of the elected members of local councils as compared to the Basic Democracy system. Thereafter, during the governments of Benazir Bhutto and Nawaz Sharif, sporadic attempts to re-empower local governments occurred, the most noteworthy being the “district governors” to be elected under the “New Social Contract” of the second Benazir government (1993–96).³ By and large, however, efforts to institute forms of local democracy were lost in the backwash of political centralization prompted by a range of factors: the series of military conflicts, (with India, with the former East Pakistan, peripherally in the Soviet-Afghan conflict and the Gulf wars); the increasing de facto power of the executive over the legislature; the persistence of conflicts unresolved since Partition between the center and the provinces; and the legacy of the 1970s philosophy of state-led development. Not surprisingly, in a political system glued together by patronage, national and provincial leaders have tended to view local governments as potentially destabilizing interlopers.

While the latest reforms are the most comprehensive so far, they have yet to produce any shift of responsibility from the federal to the provincial governments. The initial attempt was to bring about changes that would not require any constitutional amendment, which devolving any function to the local governments from the Federal Legislative List (or even the Concurrent List) would have required. Moreover, devolution from the province to the district has also been accompanied by amendments to the 1973 Constitution that are politically centralizing, in that they give the head of state the power to dissolve the National Assembly and provincial governors the authority to dismiss provincial legislatures.

This “stop-go” nature of political decentralization has also been accompanied by a steady trend of increased fiscal centralization. This drift is most evident in the distance between the 1956

³ Accounts of previous “devolutions” are found in (Tinker: 1954), for the preindependence period, and (Feldman: 1965, 2001).

Constitution, which envisaged a decentralized federation with significant provincial public spending responsibilities and revenue raising powers, and the prevailing highly centralized revenue responsibilities of the federal government. The 1956 Constitution gave the federal government the duty to exercise its tax and spending powers to ensure a base of comparable services across the nation through a system of fiscal transfers to provincial governments, and most crucially, gave the lower levels of government sufficient revenue to discharge their significant functional responsibilities (Shah and others: 1996). The 1973 Constitution took a significant step in centralizing revenue responsibilities by bringing the sales tax under federal control.⁴ At present, there is a significant mismatch between expenditure responsibility and revenue generation capacity of the lower tiers of government, with the provinces in aggregate depending on federal transfers for over 78 percent of their revenues.⁵

WHAT DOES DEVOLUTION DO TO THE LOCAL STATE?

Two features of Pakistan's constitutional arrangements have proven most challenging and contentious since Partition—the assignment of functions and powers between the federation and provinces, and the separation of powers (in particular, the judicial from legislative and executive powers). The current devolution experience is yet another attempt to deal with these vexed issues.

The reassignment of functions, powers and resources at province and local levels has already been significant. Prior to August 14, 2001, when the Local Government Ordinances (LGOs) were promulgated, the four provinces were divided into three administrative levels, resulting in a national array of 26 divisions, 105 districts and 354 *tehsils*. Other local government bodies existed mainly in urbanized areas and, in decreasing order of size, there were two metropolitan municipal corporations (Lahore and Karachi), 12 municipal corporations, 144 municipal committees and 303 towns committees. There were and still are 41 unelected cantonment boards. In rural areas, district (*zila*) councils were responsible for local services. The districts and divisions were distinct legal entities (created by the Provinces as envisaged by the 1973 Constitution), but unlike the Provinces they lacked constitutional status.

After devolution, Pakistan remains, constitutionally, a two-tier federal state. However, there are now 6,458 new local governments for the population of 146 million: 97 districts and 4 city districts; 306 *tehsil* municipal administrations and 29 city towns; and 6,022 union administrations.⁶ Political reforms have included the election of 126,462 new union councilors, and intricate arrangements for both the internal and external recall of the *nazimeen* in local government.

The LGO (14 August 2001) and the Police Order, (14 August 2002), provide for an unprecedented range of bodies to encourage and accord a mandatory status to citizen engagement in local governance. Most noteworthy are Citizen Community Boards (CCBs), but these are complemented by local arrangements for alternate dispute resolution, monitoring of court conduct, promoting justice, accountability of the police and administrative grievance redressal. Administrative reforms include the creation of district governments divided into 11 departments,

⁴ Since partition, Pakistan has had four federal constitutions: the interim constitution of 1947 based on the Government of India Act of 1935, the Constitution of 1956 devised by the Constituent Assembly, the Constitution of 1962 imposed by the military, and the 1973 Constitution drafted after the secession of East Pakistan (Bangladesh).

⁵ Calculated from ADB/DfID/WB DSD Dataset 1. See the third volume (*Annex 2—Technical Considerations*) for a more detailed analysis of current fiscal vertical imbalances.

⁶ For simplicity, unless more precision is needed, this report uses the general term district to refer to districts and city districts, and *tehsil* to refer to *Tehsil/Talukha* Municipal Administrations and city towns.

and the District Coordination Officer (DCO) established as the highest-ranking civil servant in the district. The office of deputy commissioner has been abolished and its powers divided among the district and sessions judge, district *nazim*, the District Police Officer (DPO) and the DCO. Local governments have been given the powers to raise some additional revenues and Provincial Finance Commissions (PFCs) have been established to make awards for distribution of resources between the province and local governments as well as distribution among local governments.⁷

District governments have been given functional responsibility for delivering elementary and secondary education, primary and secondary health, agriculture, and intra-district roads. Towns and *tehsils* have been assigned municipal service responsibilities—including local roads and streets, water supply systems and sewers and sanitation. Although union administrations have not been assigned any major service-delivery responsibilities, they are responsible for small-scale development projects that initially have been funded from the District Government allocations under KPP.

In the context of the separation of powers, under the pre-devolution system, the office of the deputy commissioner was the local face of the government, having all administrative powers to implement official policy. The creation of the office of the District Coordination Officer has also entailed the abolition of the office of the district magistrate and the cadre of executive magistrates under him. With devolution, all judicial powers of the executive magistracy are now vested in the judiciary; each civil judge now also acts as a judicial magistrate, while the District and Session Judge exercises the powers of the erstwhile district magistrate. As a result, civil judges now exercise criminal and regulatory jurisdiction under the Criminal Procedure Code and local laws and as a result, the regulatory implementation of laws through administrative fines has assumed the status, form and sequence of criminal trials. This shift has weakened the power of district administrators who must bring every allegation of illegality before the ordinary courts (that is, judicial magistrates) and prove their case against the accused in a court that is no longer presided over by one of their own. More profoundly, vesting the district magistrate's former powers in the District and Session Judge has fundamentally changed the relationship between the district executive and the police (see the third volume, *Annex 2—Technical Considerations*, for a more detailed discussion of the Access to Justice reforms). In the past, while the police were not formally controlled by the executive magistrate, the police were required to respond to the executive magistrates in respect of pretrial custody and investigation, whereas the new arrangements vest these responsibilities with the judiciary and provide only weak formal responsibilities—for inspections of police stations, for instance—to the *nazim*.

This complex set of institutional changes has created a new framework of accountabilities at the local government level as summarized in Figure 1. Devolution has changed the nature of both the horizontal checks (relationships between the executive and those players of more or less equal power) and the vertical checks (where power is predominantly on one side). The key aspects of the changed accountability relationships are:

- There are many more actors and accountability relationships
 - The new system has created new formal horizontal mechanisms, such as monitoring committees, to establish checks on the executive.
 - Increased vertical checks in the form of citizen oversight, both through direct elections as well as through oversight bodies such as District Public Safety Commissions.

⁷ The statutory basis for the PFCs was created through amendments in the Local Government Ordinances nearly a year after local governments were created as administrative entities. The legal provisions of the Ordinances aim at the creation of medium-term, formula-based transfer systems.

- Balanced autonomy and accountability for the police
 - The Police Order 2002 has reoriented the management of policing in order to insulate it from political interference,⁸ placing its professional management under the District Police Officer who becomes responsible for all police professional matters including postings and transfers of officers.
 - New structures of District Public Safety Commission and Police Complaints Authorities provide new routes of accountability, in principle nonpolitical ones.⁹

Local governments have been given constitutional protection under the 17th Constitutional amendment, by placing the LGOs, which are provincial laws, under the Sixth Schedule for six years (or two subsequent rounds of elections) so that during this period they cannot be altered, repealed or amended except with the sanction of the President.¹⁰

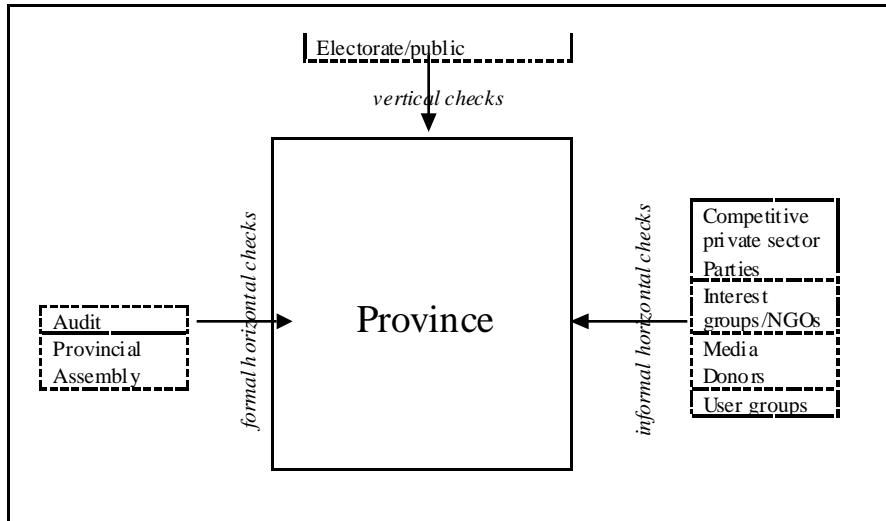
⁸ Press reports of a high level meeting held on 14 April 2004 involving the Prime Minister, Provincial Chief Ministers, the NRB and other federal and province officials indicate that significant changes will be introduced to the Police Order 2002 and that a new target date of December 2004 has been set for complete implementation of these new arrangements. Until these are officially confirmed and clarified, this report will make only passing reference to what has been reported, but will not speculate on their likely impact. However, it is reported that the powers of the Chief Minister (province) have been increased with respect to police recruitment, postings and transfers, and that the involvement of province politicians in district policing has increased with the decision to include them as members of the District Public Safety Commission.

⁹ It is reported that the province PSCs and PCAs have been merged in one body. See footnote 8.

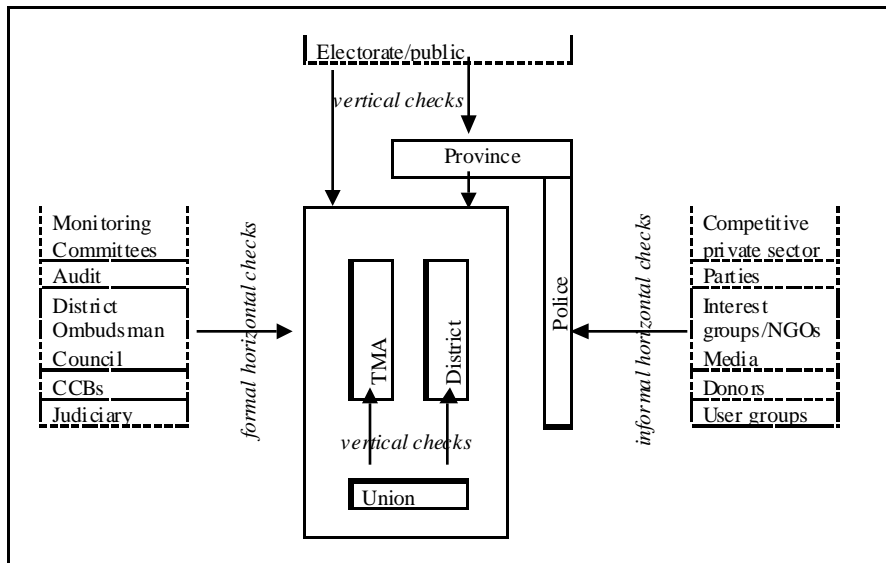
¹⁰ Constitution (Seventeenth) Amendment Act, 2003
(<http://www.pakistani.org/pakistan/constitution/amendments/17amendment.html>).

Figure 1: The Changing Framework of Accountability

Before



After



Note: This mapping of accountability relationships owes significantly to (Schedler, Diamond, and Plattner: 1999).

2. How was Devolution Implemented?

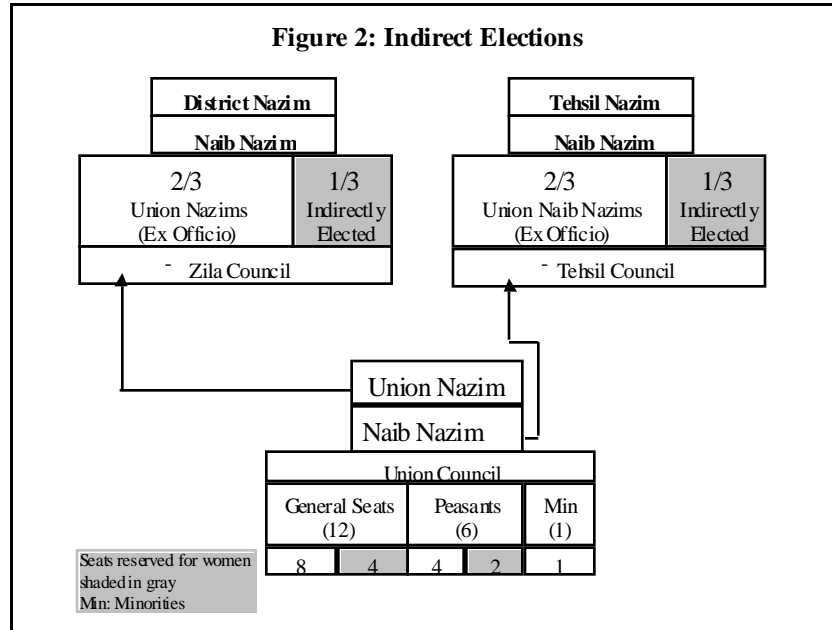
POLITICAL REFORMS

Electoral arrangements

The foundation of the electoral structure for the three tiers of local government is the union council. The union is a multimember ward for the election of members of the union council (that is, each constituency is on average 25,000), and each union council is composed of 21 directly elected members.¹¹ The *nazim* and *naib nazim* (mayor and deputy mayor) are elected on a joint ticket. The remaining 19 seats on the union council are allocated as follows:

- 12 Muslim seats, 4 of which are reserved for women
- 6 seats for peasants and workers of which 2 are reserved for women
- 1 seat for minority communities.¹²

The *nazim* of the union council then becomes an ex officio a member of the district council, and the *naib nazim* of the union council becomes an ex officio a member of the *tehsil* council (Figure 2).



The union councilors constitute the Electoral College for the district or *tehsil* councilors-at-large and for the district and *tehsil nazim* and *naib nazim*, none of whom can be union councilors. Elected union councilors are not permitted to stand for election as *nazim* or *naib nazim* of any *tehsil* or district—the *nazim* and *naib nazim* stand as a joint ticket once all the union councilors in their district have been elected. If no joint tickets secure at least 50 percent of the votes for any

¹¹ Councilors must be at least age 25, be a Pakistani citizen residing in the relevant ward, of good Muslim character (except for non-Muslims), and must not have been convicted of various crimes, nor be an employee of federal, provincial or local governments. *Nazimeen* and *naib nazimeen* must have at least a matriculation or secondary school certificate.

¹² In a district where the population of the minorities is in excess of 10 percent of the total population, some seats are reserved for minority communities. There are direct elections for these seats for which only the minorities will be eligible to vote, and the whole of the district will be the constituency.

district or *tehsil*, a runoff election is held within a week between the two pairs that secured the highest number of votes. The joint candidates securing the highest number of votes are declared winners.

One-third of the seats are reserved for women—directly elected at union council level and elected by the electoral college of union councilors at *tehsil* and district levels. This emphasis on women’s participation in politics is a dramatic break from the past. In addition, 5 percent of district and *tehsil* seats have been reserved for peasants (in rural constituencies) or workers (in urban areas), and 5 percent for minorities. Thus, overall, district councils and *tehsil* councils are made up of about two-thirds directly elected members and one-third indirectly elected, including the *nazim* and *naib nazim*.¹³ The size of district and *tehsil* councils varies according to the number of unions within the district. Some district councils are of a significant size and larger than provincial assemblies.

Box 3: The Arithmetic of Local Government Elections		
Assume a district with 60 union councils (UCs), grouped in three <i>tehsils</i> of the same size (20 UCs per <i>tehsil</i>)		
Direct elections	<i>Union Councils</i>	
	<ul style="list-style-type: none"> • There are direct elections for all 21 UC councilors. 19 are elected individually, but the UC <i>nazim</i> and <i>naib nazim</i> are elected on a joint ticket. In this example, there are therefore 1,260 UC councilors overall. 	
Indirect elections	<i>Tehsil Councils</i>	<i>District Council</i>
	<ul style="list-style-type: none"> • Each UC <i>naib nazim</i> is automatically a member of the <i>tehsil</i> council; • In addition to the 20 UC <i>naib nazim</i>, each of the three <i>tehsil</i> councils has a <i>tehsil nazim</i> and <i>naib nazim</i>, plus 9 additional members: 7 women councilors, 1 peasant or worker councilor and 1 minority councilor; • The <i>tehsil nazim</i>, the <i>tehsil naib nazim</i> and the additional 9 councilors are elected by the 420 UC councilors (20 UCs in the <i>tehsil</i> x 21 UC councilors per UC). 	<ul style="list-style-type: none"> • Each UC <i>nazim</i> is automatically a member of the district council; • In addition to the 60 UC <i>nazim</i>, the district council has a district <i>nazim</i> and <i>naib nazim</i>, and 26 additional members: 20 women councilors,¹ 3 peasant-workers and 3 minority councilors; • The district <i>nazim</i>, the district <i>naib nazim</i> and the additional 26 councilors are elected by the 1,260 UC councilors.
<p>¹ The 33 percent special seats for women on the district council applies regardless of how many are already on the district council by virtue of their having been elected as UC <i>nazimeen</i>. So in theory if a large proportion of women were elected as UC <i>nazimeen</i>, an additional number of at-large seats would still be provided, giving women a majority on the council.</p> <p><i>Source:</i> Adapted from (Charlton, Ebel, Mukhtar, Scott and Vaillancourt: 2002).</p>		

Each tier of local government has a term of office of four years,¹⁴ with a two-term limit for *nazimeen* and *naib nazimeen* at all levels of government.

¹³ The majority of *nazimeen* are experienced politicians from established political families. According to one media survey, 30 percent of district *nazimeen* in Punjab were former MNAs or MPAs, and approximately 90 percent belonged to established political families (The Herald, August 2001). Some of these *nazimeen* later resigned from local government in order to contest provincial or federal assembly seats.

¹⁴ The term of office was changed from three years through an amendment in 2002.

Box 4: Internal and External Recall of Nazimeen

For the external recall of a district *nazim*, the chief minister of the province may offer a motion in the Provincial Assembly against a *nazim*, and if a simple majority approves, the *nazim* would cease to hold office with immediate effect. Similarly, the district *nazim* can propose a motion in the district council for the recall of a *tehsil* or union *nazim*. If a majority in the council approves these motions, they are then subjected to a vote of all union councilors in the *tehsil* in the case of the motion against the *tehsil nazim*, and by union councilors in the union in the case of the motion against a union *nazim*. If a majority of the members supports the motion, the *nazim* in question stands dismissed.

The procedure for the internal recall of the *nazim* is more elaborate. A member of the district council, seconded by another member, may move to dismiss the district *nazim* in the Council; if the motion wins by a simple majority, the Election Commission will seek a vote from the members of the union councils in the district. If a simple majority of them approve, the district *nazim* loses office. However, if the motion fails, then the proposer and the seconder of the motions in the district council shall lose their seats both as union *nazimeen* and members of the district council. Moreover, no such motion can be tabled in the first six months of the district *nazim*'s term of office or for 12 months after the rejection of a previous motion. The procedures for the internal recall of the *tehsil* and union *nazimeen* are similar.

Citizen Access and Oversight Bodies

Whereas the provision for direct election of union councilors provides the most potent form of citizen representation in local government, the PO and LGO (along with other ordinances, such as the Freedom of Information Act) also provide numerous new bodies through which citizens are able to access and potentially influence government at the local level. These may be distinguished in three broad categories.

First, there is a group of *external oversight* bodies that provide some external check on performance and probity. In some of these bodies, such as the Monitoring Committees at the district, TMA, and union level, citizens are able to influence the performance of service providers through their elected representatives, who comprise the committees. Guidelines exist for the establishment of monitoring committees to identify problems at the service facility level and bring them to the attention of the respective council and the concerned EDOs (National Reconstruction Bureau: 2001b). Such committees are to consist of at least three council members elected for a period of three years, with a third of the members of each committee from among the reserved seats for women, peasants, workers, and minorities. The union committees are responsible for monitoring the functions of all offices of the local government (district, *tehsil*, and union) that are responsible for the delivery of services within the union, while the *tehsil* and district committees oversee offices in their respective governments.¹⁵

The Guidelines specify that members of the monitoring committees are to involve the community in assessing the quality of service delivery through regular field visits and that they must present quarterly reports of their activities to their respective councils. On the basis of these reports the councils are to pass the necessary resolutions (or refer the matter upward to *tehsil* or district councils if needed), and the *nazim* are to report back within 30 days to the council on the actions taken. Functioning like monitoring committees, but concerned with the judiciary, *insaaf* committees have been established as subcommittees of the union councils to assist in redressing

¹⁵ The NRB Guidelines specify that at the Union level monitoring committees will be established in at least the following areas: Municipal Services, Finance, Public Safety, Health, Education, Literacy, and Works and Services. *Tehsil* monitoring committees will be established for Municipal Regulation, Infrastructure and Services, Planning, and Finance; and District monitoring committees will be established for each "group of offices or for each individual office within the group of offices."

litigants' grievances relating to the functioning of the district courts by facilitating access to the Member Inspection Team (MIT) of the High Court.

This category of oversight bodies also includes new agencies, such as the District Public Safety Commissions (DPSCs) made up of both elected councilors and community representatives appointed through procedures that involve local and province government and the Chief Justice of the High Court. PSCs are a mechanism for local external accountability over the police, part of a hierarchy involving PSCs at province and federal levels. The DPSCs are to look into cases of police excess, ensure the registration of FIRs, approve the annual policing plan of the district covering proposed expenditures and performance targets and check against misuse of the police by the district political leadership.

Accounts Committees are being formed as subcommittees of district, TMA or union councils to monitor activities of the corresponding local government or any organization using public funds, to identify any corruption or leakage or waste of public money at any time and to conduct annual reviews of external and internal audit reports.

Although not yet formed, but with potentially the broadest base of representation, Village and Neighborhood Councils are to be elected under provisions of the LGO. These institutions are meant to be vehicles for community participation in local government planning. Designed to mobilize community resources and gather information, they can also be delegated to deliver services for their respective areas.

The architects of devolution also recognized the importance of mechanisms for *citizen dispute resolution* to establish direct accountability relationships between citizens and service providers. To assist in resolution of citizen disputes with government, Departmental Grievances Redressal and Complaint Cells are to be established in local governments. To back up the new offices, there is to be a *zila mohatasib* (district ombudsman) to provide a formal avenue for redress for citizens who have been the victims of maladministration. Citizen Police Liaison Committees have also been established as self-financing voluntary organizations, which citizens can set up to assist the Public Safety Commission and the Police complaint authority in the discharge of their functions. They are also expected to assist in settling disputes between citizens and the police. Of a similar nature, the LGO provides for *Musalihat Anjuman*, which are to function as committees to promote the amicable settlement of disputes of a civil or criminal nature

Finally, a group of bodies is responsible for *community development and management of facilities*. Citizen Community Boards (CCBs) are the most prominent of these. Although formed voluntarily by citizens, who comprise the entire membership, CCBs are formally registered in accordance with local government guidelines and have a legal claim on the local government planning and budgeting process. Consisting of at least 25 members, CCBs can, in principle, be established for a variety of purposes, including initiation and improvement of development projects, establishment of cooperatives, formation of monitoring bodies over police and other service providers and to reinforce the capacity of monitoring committees at the behest of the concerned council. At least 25 percent of the total development budget of each tier of local government (district, *tehsil*, and union) must be earmarked for projects identified by CCBs, and each CCB has to make a cash contribution of 20 percent in order to be able to tap into these funds

for a specific project.¹⁶ CCB development funds cannot be re-appropriated for other activities if unused by the end of the fiscal year and must be carried forward to subsequent financial years.

Although School Management Committees predate devolution, they are associated with it. Names vary with the provinces—SMCs in Sindh, School Councils in Punjab, Parent Teacher Associations (PTAs) in NWFP, and Parent Teacher School Management Committees (PTSMCs) in Balochistan. These are discussed in more detail later in the report.

THE ADMINISTRATIVE CHANGES

Executive structure within local governments

The executive branch of each district government is divided into 10 to 13 departments, depending upon the province, to carry out its functions (see Table 2).¹⁷

Table 2: Executive Structure of the Districts

Department name	Statutory basis	Responsibilities
Finance and Planning	Sindh LGOs	Finance and Budget, Planning and Development, Accounts, Enterprise and Investment Promotion
Information Technology		Information Technology Development, Information Technology Promotion, and Database
Law (Magistracy) ^a		Litigation, Legal advice, Legislation
Agriculture	Required under the Balochistan LGO	Agriculture (Extension), Livestock, Farm Water Management, Soil Conservation, Soil Fertility, Fisheries, Forests and Wildlife, Environment
Community Development		Community Organization, Labor, Social Welfare, Sports and Culture, Cooperatives, and Registration office
District Coordination		Coordination, Human Resource Management and Civil Defense
Education		Boys Schools, Girls Schools, Technical Education, Colleges, (other than professional) Sports (Education) and Special Education
Health		Public Health, Basic and Rural Health, Child and Woman Health, Population Welfare, District and <i>Tehsil</i> (Headquarters.) hospitals
Literacy		Literacy Campaigns, Continuing Education, and Vocational Education
Revenue		Land Revenue and Estate and Excise and Taxation
Works and Services		Housing, Urban and Rural Development, District Roads and Buildings, Energy and Transport
Public Health Engineering		Water supply and sanitation
Livestock		Livestock
Enterprise and Industrial Promotion	City District	
Public Transport		
a. The Magistracy appears in the First Schedule to the Local Government Ordinances but as a policy decision stands abolished. The provinces may relocate (deconcentrate) this office but it will not be a separate district department.		

The District Coordination Officer (DCO), the highest-ranking civil servant in the district, heads the District Coordination department. An Executive District Officer (EDO) heads each of the

¹⁶ The guidelines specify that “in kind” contributions by CCBs will be considered as an addition to the 20 percent cash requirement and not a replacement and will be taken into consideration in the ranking and evaluation of the project proposal.

¹⁷ The National Reconstruction Bureau (NRB) set out a detailed framework for administrative decentralization, which explains why the structure of district government is fairly standard within and between provinces.

remaining departments. In *tehsils*, the TMA Municipal Officer (TMO) performs coordination functions similar to those of the DCO at the district level. There are four *tehsil*, *taluka*, or town officers (TOs) reporting to the TMO: TO (Regulation), TO (Infrastructure and services), TO (Finance), and TO (Planning).

The staffing inheritance of the districts

Three groups of employees were assigned to the new district governments. These included staff from:

- Federal employment groups, primarily District Management Group (DMG) and the Audits and Accounts Group;
- Former rural district council employees; and
- Provincial employment groups, particularly Public Health Engineering, Rural Development, Local Government, Health and Education.

The overwhelming majority of district staff formerly belonged to the provincial employment groups, particularly education. Most are in grades 1–15 (90 percent of district staff in NWFP and 83 percent in Sindh). TMAs inherited staff from the former urban councils, and from rural district councils and also some provincial PHED staff where these have been devolved.

Merging cadres

Despite multiple reform efforts, occupational groups in Pakistan remain vertically separated, distinct career streams. Posts sometimes have been created to satisfy the needs of the various employee groups for promotion opportunities, rather than on the basis of policy priorities or operational needs. Now, these systemic civil service problems are replicated at the district level as the parallel, vertically oriented, occupational groups have generated significant problems in merging different groups of staff. In certain Sindh districts, for instance, devolution has resulted in Communications and Works Department staff working alongside the Education Works Department staff at the district level. In city districts, the Development Authorities once responsible for structural planning have been wound up and their staff transferred to various *tehsils*. Local Government and Local Council Service cadre employees have joined the staff from provincial departments posted to TMAs. Thus, *tehsils* have had to absorb staff from a variety of different sources in the first months of devolution. These mergers have led to complex and, in some cases, seemingly insoluble problems of seniority. No acceptable formulae for merging seniority lists can be found in such situations. The danger for local governments is that—as with the provincial and federal cases—the structures of district offices will be distorted by the need to find placements or promotions needed to appease staff cadres.

Box 5: Local Government Commissions

The Local Government Commission in each province is a reconciliation mechanism for inter local government dispute resolution. However, it has no executive authority to impose a settlement. Any issue that is not resolved by the Commission is referred to the provincial governor. The processes by which the LGCs work are cumbersome and time-consuming and result in delays to resolution. In NWFP, the LGC has been used by the provincial government to investigate allegations of mismanagement by district *nazimeen*.

FISCAL REFORMS

Expenditure assignments

Areas of expenditure responsibility of the federal and provincial governments are set out in the Constitution of Pakistan. While the *Federal Legislative List*¹⁸ of the Constitution specifies the functions of the federal government, the *Concurrent List*,¹⁹ indicates the areas of shared responsibility, that is, those which can be undertaken by the federal government or by the provincial governments or jointly by both. The Constitution is silent on the remaining functions and assumes by default that these residual functions are to be performed by the sub-national (that is, provincial or local) governments.

Thus, according to the Constitution, the federal government is responsible for foreign affairs, defense, banking and currency, postal service, transportation (ports, airports, railways), while the main provincial responsibilities are police services, justice, roads, education and health. The actual assignment of functions remained much more centralized than the Constitutional provisions required, as higher levels of government played a dominant role in areas of shared responsibility. Centralization of taxes, by agreement with the provinces, has emphasized this practice.

The Constitution accepts that the actual or implied assignments of expenditures and revenues will lead to vertical fiscal imbalances between the upper two levels of government, which are to be resolved through revenue sharing. Thus, the Constitution also sets up the National Finance Commission—an institution assigned the task of determining appropriate revenue sharing arrangements among the federal and provincial governments.

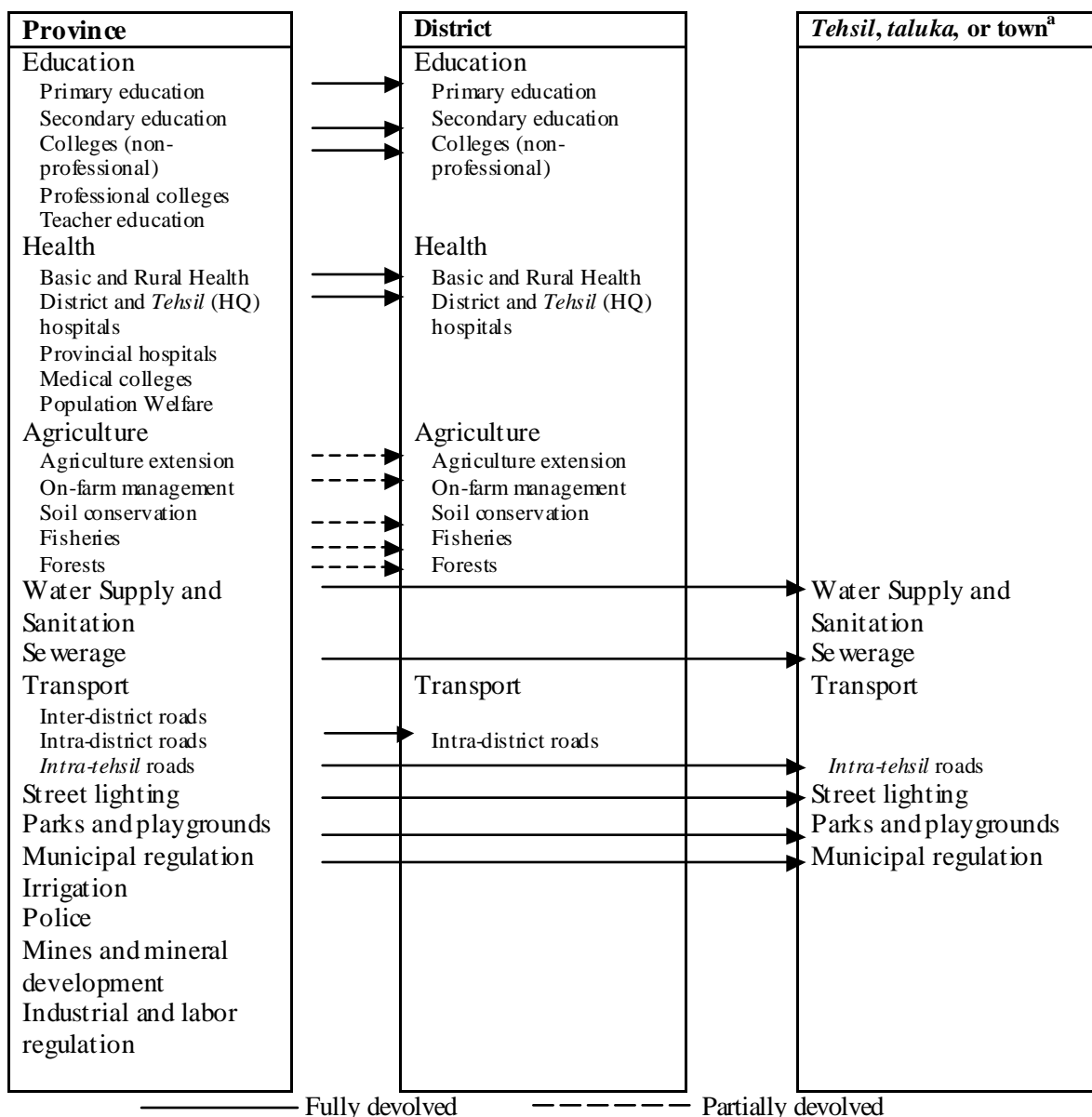
Under devolution, there were no shifts of responsibility from the federal to the provincial governments. The initial attempt was to bring about changes that would not require any constitutional amendment, which the devolution of any function to the local governments from the Federal Legislative List (or even the Concurrent List) would have required.

As Table 3 indicates, significant functional transfers did occur from provincial to local governments.

¹⁸ Contained in the fourth schedule, article 70(4) of the Constitution.

¹⁹ Also contained in the fourth schedule.

Table 3: Functional Reassignments from Provincial to Local Governments under Devolution



a. In urban areas, city districts, not the city towns, undertake these responsibilities.

Fiscal transfers

Federal-provincial

In Pakistan, revenue sharing is the dominant form of federal-provincial fiscal relations. The main source of provincial revenues is a transfer based on a share of federal tax collections. The decision on the list of taxes to be shared (the “divisible pool”), the ratio of the provincial-federal share of the pool and the formula for its distribution to the provinces is to be fixed at least once every five years by the National Finance Commission (NFC) established under Article 160 of the Constitution. The NFC last rendered a decision (called an Award) in 1997, allocating to the provinces 37.5 percent of the divisible pool, comprising all major federal taxes, with distribution to the provinces according to a single criterion—population (based on the 1981 Census of Population). Besides determining the taxes to be included in the Divisible Pool and the respective

shares of the federal and provincial governments, the NFC also determines other tax and non-tax revenues that would be provided to the provincial government as “Straight Transfers.” These generally include revenues from sources that technically fall in the provincial domain (for example, taxes and royalties on natural resources) but which, for collection convenience or otherwise, are collected by the federal government.

Previous quinquennial awards stay in force in the event a consensus is not reached on the new award. As the 2002 NFC failed to come to a consensus on a revised Award, the 1997 NFC Award is still current.

Box 6: The 1997 NFC Award

The 1997 NFC award (renewed in 2002 changing the basis of provincial shares from the 1981 population ratios to 1998 census) consisted of three components: (a) revenue sharing—distribution of a pool of federal revenues to provinces by formula; (b) straight transfers—returning to the province of origin resource royalties, charges and excises after deducting a federal collection fee; and (c) special lump-sum transfers to NWFP and Balochistan provinces to compensate for backwardness.

Revenue sharing component

Under the 1997 Award, the federal divisible pool comprises all major federally collected taxes (that is, all CBR collected taxes). These include personal and corporate income taxes, wealth tax, capital value tax, general sales tax (GST) on goods, central excise duties (CED) (excluding gas) and customs duties.

These revenues are notionally placed in the divisible pool from which 5 percent of the gross amount is deducted as collection charges to cover the presumed administrative overhead of the federal government. An additional 1 percent is deducted from income tax collected. This removes from the divisible pool an amount roughly equal to the income tax paid by federal civil servants.¹ Of the remaining funds, 37.5 percent is then distributed to the provinces on the basis of population.

In addition, to these revenues, provinces currently receive an additional 2.5 percent of general sales tax (GST) revenues as pass-through funds for local governments in lieu of octroi and *zila* taxes they eliminated.² For FY 2002/03 the total divisible pool came to Rs. 448.5 billion, and the provinces received Rs. 159 billion as revenue sharing transfers. The divisible pool in FY 2003/04 was projected to be 496.7 billion, of which provinces received 176.3 billion in addition to straight transfers of 32.5 billion. The revenue from 2.5 percent of GST was transferred to the provinces in two separate forms: the NFC formula-based normal transfers (which accounted for about Rs. 14 billion of the total Rs. 34 billion in FY 2003); and federal grants (the remaining Rs. 20 billion) determined on the basis of OZT collection in the province at the time it was abolished. While revenue received under the first mode automatically became part of the divisible pool, each PFC also included revenues received under the second mode as items in the divisible pool.

Revenues returned by origin

Other taxes (royalty on crude oil, surcharge on natural gas, central excise duties on natural gas, royalty on natural gas and GST on services) are distributed as “straight transfers.” These are taxes returned to the provinces on a derivation basis net of a 2 percent federal collection charge. In FY 2003/04, provinces received Rs. 34.3 billion from these revenues.

It is important to note the distinction between GST on goods and GST on services, as constitutionally the former falls in the federal domain and therefore forms part of the divisible pool, while collection of the latter (by default) is a provincial responsibility, which has been given to the federal government through provincial ordinances in exchange for an undertaking that all net revenue from the tax will be transferred to the provinces as straight transfers.

Similarly, the CED falls into two categories: natural gas-related revenues and other CEDs. The net revenue from the former is passed on to the provinces as straight transfer based on collection, while the latter are

distributed through the divisible pool.

Special Grants to Fiscally Disadvantaged Provinces

The NFC mandated payments of special lump sum grants to NWFP and Balochistan provinces in recognition of their special needs. In FY 2003/04, the budget estimates suggest that the subventions were 3.9 and 4.8 billion for NWFP and Balochistan, respectively.

1. This resolves the problem that would otherwise arise because the income tax would amount to a direct contribution from the Federal Consolidated Fund (FCF) (which pays civil servants salaries) to the provinces via the divisible pool, and it is illegal for the FCF to fund the provinces.
2. While Octroi was an “import tax” on selected goods being transported into the urban local bodies, the *zila* tax was an “export tax” levied by District Councils. The revenue from 2.5 percent of GST is transferred to the provinces, from where it is transferred to *tehsils* (on the basis of share of Octroi collection when abolished) and UCs on the basis of share on *zila* tax. The transfers are being made either directly by the province or via the District Government. In some provinces a proportion is retained by the District Governments also.

Federal-provincial fiscal transfer mechanisms have not been reformed. However, although no new NFC Award has been announced, the previous revenue-sharing arrangement has not been static since 1997. In 1999, 2.5 percent was added to the GST to raise revenue to finance Octroi and *Zila* Revenue Replacement Grants.²⁰ This buoyant tax was to be distributed directly to local bodies as a hold-harmless revenue replacement grant. The basis for the distribution was the claims made by the provinces concerning the amounts that had previously been raised from these local taxes. In practice the transfers of the 2.5 percent only began in FY 2002/03.

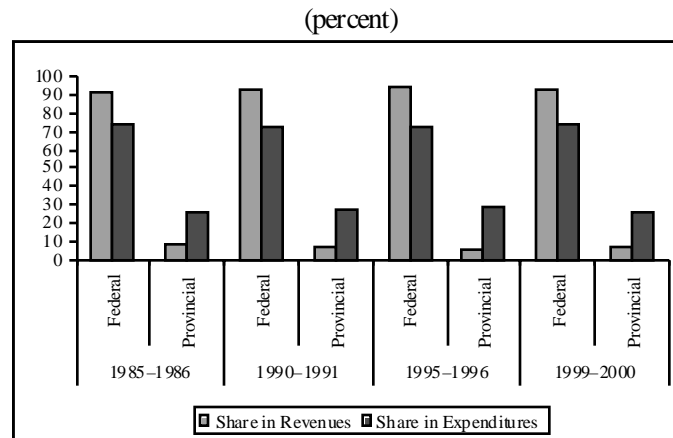
For FY 2000/01, arguing that the 2.5 percent of the GST was generating an amount in excess of the initial amount raised (Rs. 30 billion FY 2002/03 compared with Rs. 19 billion in FY 1999/2000), the federal government maintained that capping the grant in nominal terms at Rs. 19 billion achieved a reasonable replacement of the original amounts lost with the abolition of OZT. Thus the replacement grant to the provinces fell to 62.5 percent of Rs. 19 billion OZT (Rs. 11.9 billion).

In FY 2001/02, while the mechanism for revenue transfer remained the same, the cap on amounts to be transferred was removed and the entire Rs. 30 billion collected from the tax was transferred (37.5 percent through the NFC mechanism and the remaining as federal grants) to the provinces for onward transfer to the local governments. This reversal of the FY 2000/01 policy was undoubtedly a significant victory for the provinces and local governments. These changes have had very little impact on the vertical fiscal imbalance, measured as the transfers to sub-national government as a share of total sub-national expenditures.²¹

²⁰ Urban local bodies collected Octroi (import taxes levied by municipal entities at their borders on goods imported for resale) while rural ones collected *Zila* Export taxes on agricultural goods exported out of rural (then called *zila* councils). Together, the octroi (collected largely in urban areas) and *zila* (rural area) taxes accounted for 50 percent to 60 percent of autonomous local revenues. While productive of revenues, both taxes (which when combined are referred to as the OZT) were notorious for their inefficiency and as a source of corruption. They were abolished (FY 1999/2000).

²¹ Vertical imbalances = (total revenues – own source revenues)/(total revenues). For provinces for example, vertical imbalances can be calculated as (grants + straight transfers + shared revenues) / (grants + straight transfers + shared revenues + own source revenues). Definitions of own source revenues are difficult, ideally they refer to revenues where provinces/local governments have rate-setting authority, however for this paper UIPT is allocated as 15 percent OSR for the districts and 85 percent OSR for the TMAs. In the case of TMAs, the Octroi and *Zila* Replacement Grant must also be considered.

**Figure 3: Imbalances between Revenues and Expenditures,
Federal and Provincial Governments**



Source: Percentages based on data from annual budget documents (federal government and provincial governments) from (Ahmad and Wasti: 2003).

The anticipated dependence of local governments on transfers, through a baseline assessment on the eve of promulgation of new LGOs, was assessed at more than 95 percent for district governments and ranged from 50 percent to around 90 percent for TMAs in 2001, in various provinces (Cyan 2001). The calculations were based on extrapolation of subjects in the previous arrangement onto the new local government units. In this study the high dependence has been reconfirmed. The sample of districts and TMAs covered in this study had an average fiscal dependence on the province of 84 percent and 54 percent, respectively, including UIPT.²²

Table 4 highlights Pakistan's current federal-provincial vertical imbalances. In FY 2002/03, the provinces were projected to depend on federal transfers for 78.2 percent of their total current revenues. Together, the provinces were budgeted to collect only Rs. 60 billion in own source revenues.

Table 4: Provincial Consolidated Revenues

(FY 2002/03)	Balochistan	NWFP	Punjab	Sindh	Total
Current Revenues	(millions of Rs.)	(millions of Rs.)	(millions of Rs.)	(millions of Rs.)	(millions of Rs.)
Federal receipts*	22,960	27,357	107,275	57,299	214,891
Provincial taxes	594	1,775	12,568	7,851	22,788
Provincial nontax receipts	733	7,907	9,494	19,096	37,230
	24,287	37,039	129,336	84,247	274,909
Current Revenues	(% current)	(% current)	(% current)	(% current)	(% current)
Federal receipts*	94.5	73.9	82.9	68.0	78.2
Provincial taxes	2.4	4.8	9.7	9.3	8.3
Provincial nontax receipts	3.0	21.3	7.3	22.7	13.5
	100.0	100.0	100.0	100.0	100.0

Source: ADB/DfID/WB DSD Dataset 2 and staff calculations.

Vertical imbalances differ significantly across provinces. Almost all (95 percent) of Balochistan's revenues were anticipated to come from federal transfers. But even Sindh depended on federal transfers for over two thirds of its current revenues.

²² Source: ADB/DfID/WB DSD Dataset 1. See the third volume (*Annex 2—Technical Considerations*) for detailed discussion of the vertical fiscal imbalances.

The new NFC has been meeting, and there are indications that the federal government is prepared to consider a significantly increased province share. At the time of writing, the Minister of Finance is reported as saying that he expects the new award to be announced in time for the FY 2005 budget.

Provincial-local

Changes in fiscal transfers have been made to complement the devolution of expenditure responsibilities. Mirroring the federal-provincial arrangements, transfers to local government were to be accompanied by a system of unconditional fiscal transfers from the provinces determined by provincial finance commissions. However, and importantly, the claims of local governments over the provinces are not the same as the provincial sharing rights with the federal government, since local governments have no constitutional rights to revenue sharing.²³

All provinces have now established Provincial Finance Commissions, which have made awards for the distribution of provincial resources to local governments. According to the legislation establishing each PFC—containing only slight variations from the NRB’s suggested model—the PFC is to evolve a formula for distribution of resources, including distribution of the proceeds of the Provincial Consolidated Fund between the provincial government and the local governments.

The statutory basis for the PFCs was created through amendments to the Local Government Ordinances nearly a year after local governments were created as administrative entities. The legal provisions of the Ordinances aim at the creation of medium-term, formula-based transfer systems. Progress in creating the necessary secretariats and establishing the required analytic support for the PFCs was initially slow. The absence of a secretariat, offices for private members and budgetary allocations represented a serious constraint on the PFCs’ work, but their situation has now grown significantly better. The capacity of the Secretariats, the frequency of meetings and public reporting and their interest in developing multiple grant systems are all improving.

The PFC interim awards made in 2002 were initially intended to cover just the first two quarters of FY 2003. A full award was to be determined by the end of the first quarter FY 2003 to cover the last two quarters of FY 2003 and the subsequent three years (FY 2004–06). However, the final awards have not been made, and the interim awards were extended first to cover the rest of FY 2003 and later, FY 2004 as well.

What constitutes a divisible pool for allocation of local share varies somewhat across provinces with the general practice that the provinces make some exceptions from the Provincial Consolidated Fund. These are labeled obligatory expenditures and include the charged expenditure of the province and debt liabilities. These are not determined on the basis of a formula, and in theory the province can determine them as the year progresses. The local share of the divisible pool is currently: Punjab: 39.8 percent; Sindh: 40 percent; NWFP: 40 percent and Balochistan: 31 percent.

Population is the most important indicator used in all provincial awards. Details of the award formulae by province are provided in the third volume (*Annex 2—Technical Considerations*). A backwardness index is used by three of the four provinces, and the two largest provinces incorporate tax-effort provisions. The index has been prepared in Punjab and Sindh by ranking

23 In this context it should be noted that the constitutional protection on the rights of the provinces is very strong—undoubtedly in part because the provinces predate the country and the country only exists because of a willingness of these provinces to confederate.

districts against health, education, housing, employment and residential services indicators. In NWFP, the backwardness index is derived from the Multi-Indicator Cluster Survey (MICS) and incorporates child health, education and literacy, income, and access to water variables. Balochistan gives 50 percent weight to district area and NWFP assigns 25 percent weight to infrastructure deficiency. In all cases grant funds vary directly with fiscal need, but fiscal capacity (revenue potential) has no influence on grant entitlements.

Significantly, using the PFC mechanism as established by various amendments to the LGOs, these changes established entitlements for local governments in the provincial consolidated funds for the first time. Earlier the district departments were just deconcentrated arms of the provincial government with, by definition, no transfers. The lower tiers of local government received no transfers from the province except for discretionary specific-purpose grants and in some jurisdictions had some sharing of the UIPT. Now, predetermined shares of the Provincial Consolidated Funds are passed as transfers that are non-lapsing. To enable this, district funds and TMA local funds were created as accounting entities distinct from the provincial consolidated fund to prevent re-appropriation by the province.

The intention was that all local government expenditure would be financed from own-source revenues or formula-based unconditional transfers. In practice, in two provinces (Sindh and NWFP) salary expenditures were merely deconcentrated, and staff are still paid from a provincial account. Even in the other two provinces, the transfers are not formula-based; districts are reimbursed for their actual wage bills, and the funding is earmarked for salaries (Cyan: 2001).

Box 7: Fiscal Transfers to *Tehsil* and Union Administrations

Different provinces have taken different routes to fund *tehsil* and union administrations, but they have been largely financed out of GST revenues in addition to their own-source revenues. The only exceptions have been the salary grants for public health and engineering employees in Punjab and Sindh and discretionary specific purpose grants.

Punjab: The transfers to TMAs and UAs were mainly based on GST. In Punjab the full amount of GST received was transferred to TMAs to ensure they received at least the baseline amount of OZT collection in their jurisdictions. The UAs were given an equal allocation. Out of the expected share of Rs. 7.0 billion, baseline shares consumed Rs. 6.2 billion. The remaining Rs. 800 million was distributed between union and *tehsils* with Rs. 300 million going to unions and Rs. 300 million for TMAs. Another Rs. 200 million was left undefined with the province for grants to local governments.

NWFP: NWFP divided GST on the basis of historical shares, distributing shares of the *zila* tax, after deduction of 10 percent as district share, equally among all unions. The same formula operated for the distribution of Octroi to *tehsils*. A special grant of Rs. 18 million provided funds to new TMAs with no historical claims. The balance of GST funds was transferred to the districts on the basis of backwardness.

Sindh: In Sindh the GST transfers were complex, providing baseline collections first to all TMAs and to the UAs that earlier collected Octroi. Rs. 6.5 billion was distributed on the basis of baseline shares. Another Rs. 2.8 billion was merged with KPP and distributed on the basis of the development fund sharing formula of 70 percent population, 30 percent backwardness. Within the district 30 percent of the district share was given to TMAs. The remaining funds were to be distributed among smaller districts on the basis of backwardness.

Balochistan: The distribution in Balochistan followed the formula for distribution of development grants. Once district shares were so determined, they were further divided among districts, TMAs and Unions in the ratio of 40:25:35.

Other Transfers: TMAs in Punjab were given another grant to finance the recurrent expenditure of PHE including staff salaries. This was worked out on the basis of actual staff posted to a TMA. Discretionary transfers, mostly specific purpose grants, are given for development projects. In Punjab they are quite common.

Accounting and Audit

Accounting and audit arrangements have also been reformed. Although not undertaken as part of the devolution process, this reform has significant implications as it impacts the quality of accounts and therefore accountability over public expenditures. The key, current problem is that confusion and conflict over the administrative control of District Accounts Officers (DAOs) is creating problems in the effective delivery and the timely submission of district accounts. The existing financial management processes at the local government levels are therefore weak, and accounts, mostly based on manual accounting procedures, are often late and incomplete.

Two major reasons are behind this conflict. First, there is confusion about the respective responsibilities of the Auditor General of Pakistan (AGP) and the Controller General of Accounts (CGA) over accounting. The conflict began with the promulgation of the Auditor General's (Functions, Powers and Terms and Conditions of Service) Ordinance 2001 and Controller General of Accounts (Appointment, Functions and Powers) Ordinance 2001, which separated audit from accounting.²⁴ The latter ordinance created the new office of the Controller General of Accounts (CGA) as the head of the accounting machinery in the country, removing accounting from the administrative control of the AGP. However, constitutional and statutory ambiguities have prevented the de facto implementation of this change. Specifically, because article 170 of the constitution gives the AGP responsibility for prescribing accounting principles and methods, it has been interpreted to mean that the AGP also has control over accounting staff.²⁵ Therefore, the AGP continues to transfer staff across the accounting and audit lines, and the CGA does not have clear administrative authority over his own staff.

Second, there is conflict between the CGA and provincial finance departments over control of province level accounting staff. District accounts are prepared by DAOs, an office currently staffed by individuals belonging to both the Pakistan Audit and Accounts Service, a federal cadre, and the Treasury, a provincial finance cadre. The CGA argues that quality assurance in their respective tasks requires direct, hands-on federal control at all levels of government. This position would require that managerial control of all District Accounts Officers be passed to the CGA from the provincial Finance Departments and, ultimately, would also shift responsibility for the TMA accounts from the Local Council Accounts Service to the CGA. The provinces have a very different view of the issue. Accounting is seen as a provincial function according to the Constitution, and this logic is supported by current international practice of vesting responsibility for accounting within the level of government that has responsibility for expenditures.

Any transfer of control to the CGA would be very difficult to arrange because of intricate cadre issues. Provincial staff would want their seniority protected in a merged cadre, but the federal accounts staff are reluctant to concede this benefit because of perceived differences in the levels of skills. Were the CGA to assume charge of the TMA accounts, some posting of federal cadre personnel as *Tehsil* Accounts Officers (TAOs) would be required. A staffing plan in Punjab was

²⁴ In parallel to these institutional reforms, some technical changes have been driven by the Project for Improved Financial Reporting and Accounting (PIFRA), which entails the introduction of a new computerized accounting system and a shift of the basis of accounts from cash to commitment (referred to as the New Accounting Model or NAM).

²⁵ Article 70: "The accounts of the Federation and of the Provinces shall be kept in such form and in accordance with such principles and methods as the Auditor-General may, with the approval of the President, prescribe."

prepared on these lines last year but could not be implemented. The Federal Cabinet decided in 2002, as a matter of policy, that responsibility for accounts should devolve to the provinces from 2006, although recently there has been discussion between provinces and CGA that this takeover might be on the basis of “readiness criteria” rather than time-bound.

These administrative control problems aside, the preparation of local governments’ accounts requires adjusting accounting systems to correspond to the new administrative entities. A major task is the merger of local funds with operations under the Provincial Consolidated Fund in order to create District Funds and appropriation and finance accounts for Account IV. The Local Government Accounts Code, notified by the AGP to the President, underpins this move.

Although audits have limited coverage due to lack of data, resources and staffing capacity, responsibility for the audit function itself is an issue relatively free of contention. Generally the Auditor General is to carry out the audit function for all levels of government, but an amendment to the Local Government Ordinances, through insertion of a new Chapter XII in June 2002, assigned the audit responsibility for TMAs and union administrations to the Local Fund Audit of the provincial service. This action was based on the argument that staff from the AGP lacked the necessary numbers and experience to audit the systems of the old councils. Until the AGP has the needed capacity, therefore, the audit should continue to be carried out by local authorities, who have more familiarity with the accounts kept according to the old system (“Pakistan Country Financial Accountability Assessment”: 2004).

ACHIEVEMENTS AND CHALLENGES IN IMPLEMENTATION TO DATE

Uneven Implementation

It is not surprising that devolution has been implemented unevenly—as Table 6 illustrates for the administrative aspects of devolution. Devolution presents quite different challenges to a remote rural *tehsil* in Balochistan than to a high-density *tehsil* in central Karachi. While the core departments of local government have been set up according to the LGO, there are notable exceptions (Table 5).

Table 5: Variations in District Structure (shaded cells represent offices established in districts)								
Offices	Statutory basis	Killa Saifullah	Karachi	Bannu	Bahawalpur	Faisalabad	Khairpur	
Finance and Planning	Required under the Balochistan LGO	(1)					Vacant	
Law						Vacant	Vacant	
Information Technology		(3)				Vacant	Vacant	
District Coordination		Required under the other LGOs						
Revenue					(5)			
Works and Services					(6)			
Health								Vacant
Education				(4)				
Literacy			(2)		(7)			(8)
Community Development			Vacant					Vacant
Agriculture								
Public Health Engineering			(9)					
Livestock								
Enterprise and Industrial Promotion		City Govt.		(10)				
Public Transport				(10)				
Water and Sanitation			(11)					

- (1) In Balochistan the Finance and Planning office forms part of the DCO Group of Offices
- (2) In Killa Saifullah the offices of Education and Literacy have not been separated
- (3) Information Technology will be the 10th Group in Killa Saifullah after a district structure is put into place
- (4) In Karachi 3 EDOs (College, Elementary, and Literacy) have been posted due to the size of the department
- (5) In NWFP the DO (Revenue) heads the office. There is no post of EDO (R)
- (6) Public Health Engineering Department (PHED), Communication and Works (C&W) and Physical Planning and Housing (PP&H) departments were merged to form the Works and Services (W&S) office in NWFP. In May 2003 the provincial government divided the NWFP into six circles each headed by Superintendent Engineer (SE) of W&S department.
- (7) Education and Literacy have not been separated in NWFP
- (8) Recently Literacy has been merged with the Education department. The EDO post was vacant prior to merger.
- (9) Public Health Engineering has, in principle, been devolved to the TMA level. In practice this has not been enforced—but Balochistan is the only province that has formally created a district structure.
- (10) EIP (Enterprise and Investment Promotion) and Public Transport groups of offices were established only in Karachi district.
- (11) Karachi Water and Sewerage Board has been notified as the 15th Group of Offices in City Government Karachi, though functions and infrastructure are yet to be devolved.

The key structural variations between provinces concern Public Health Engineering and Education and Literacy. In education, Punjab has created separate departments for education and literacy at the district level, while NWFP and Balochistan have opted for one department for both services. In Sindh, Karachi has separate departments while Khairpur has a joint department. At the provincial level, the structure of the Departments of Education in the Punjab, Sindh and NWFP are more complex with three directorates; Balochistan initially merged these into one but subsequently created a separate directorate for colleges.

In Water and Sanitation, there has, in practice, been very little devolution to the TMA level. Balochistan has not formally devolved PHED and has simply restructured it. The PHED department remains at the provincial level, with the Secretary and Chief Engineer operating from Quetta. Sindh has abolished the provincial PHED office, and merged the staff into the LG&RDD. NWFP has devolved the functions to urban *tehsils* but not to rural ones.

Does the Diversity Matter?

The success of the 2000 Local Government Plan and of the LGOs in establishing a consistent set of political, administrative and fiscal structures across four provinces is remarkable. The diversity in implementation was inevitable for several reasons, including most importantly the reality that the patterns of province—local government political relations, conflicts and alliances vary considerably from one province to another. Similarly, some groups of staff themselves have a vested interest in blurring the jurisdictional responsibilities between provinces and local governments so as to cause delay and confused implementation arrangements. Also important were differing expectations among both elected and administrative officials about the outcome of the prolonged hiatus in the National Assembly’s approval of the Legal Framework Order. This inevitably created some uncertainty and, arguably, some hesitation in implementation of the LGOs on the part of provincial governments.

Box 8: Political Opposition to Devolution

In NWFP, the provincial MMA government, which counts only two district *nazimeen* as political supporters, has been accused by *nazimeen* of interference in district affairs. In 2003, NWFP *nazimeen* tendered their resignations to the President and asked for the federal government to deal with provincial interference. *Tehsil* and Union Council *nazimeen* backed their district colleagues and offered to resign in sympathy. In Bannu, the district of the provincial chief minister, provincial influence is particularly strong. Directives have been issued to allocate funds to both education and health projects that have not been prioritized within the district. In health, the provincial government made a special allocation to the DHQ hospital through Account 1 (the provincial account) to supplement its resources so that medicines could be purchased. This decision was not made known to the district health department.

In Sindh, the provincial government is a rural-urban coalition, with the urban group comprised of the MQM, which boycotted the local government elections, and the rural group consisting of a coalition of anti-PPP political parties. The provincial government’s hostility toward Karachi stems primarily from the MQM, which has long been a rival of the district *nazim*’s party (the JJ). In Khairpur the tension is due to the district *nazim*’s being from the PPP. The *nazimeen* of Khairpur and Karachi, who belong to opposition parties, have complained about transfers of district staff made by the provincial governments without their authorization.

Since local governments across the country face very diverse situations (Qadir: 2003), some variance in implementation was not only inevitable but also welcome. Turning a constructive blind eye to some of the more marginal differences has prevented needless federal-provincial conflict, and has started devolution along a path that will be of strategic value in the future—where basic principles are recognized and enforced, but where, in the detail, local institutions are tailored to local circumstances.

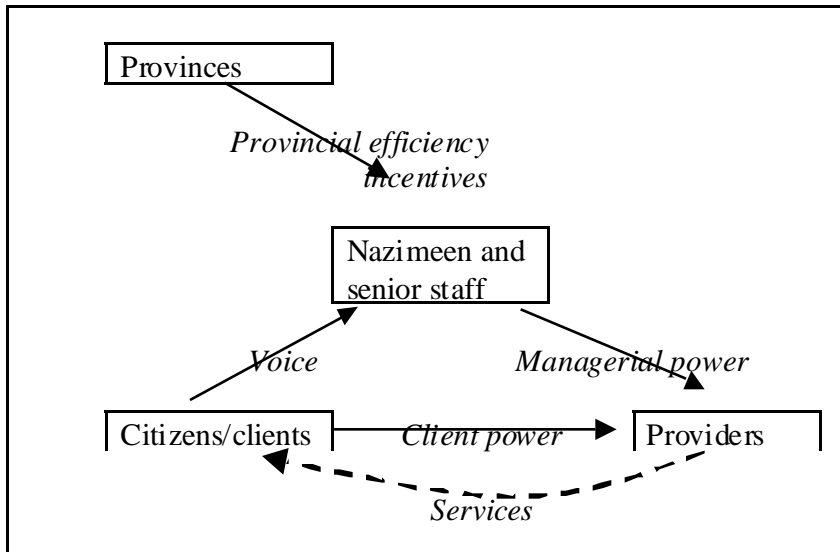
3. Service Delivery and Devolution

FRAMEWORK USED

Devolution changes the accountability relationships and the relative importance of various actors—most notably politicians and policy makers—associated with service delivery, as cast by the 2004 World Development Report (World Bank: 2003).²⁶ The study focuses on the capacity and incentives faced by *nazimeen* for making services work at the district and TMA level. Whether the incentives really will in turn lead to better services in health, education, infrastructure, and access to justice across local governments remains an empirical question. Cross-national studies find no clear evidence that decentralization has led to better governance and improved service delivery (Azfar: 2002; Blair: 2000; Smoke: 2001).²⁷

Figure 4 summarizes these assumptions in a simplified framework for thinking about the prospect for making services work under Pakistan’s devolution, centered on the *nazimeen* and their senior staff. The question is how to improve the services from the provider to citizens.

Figure 4: Key Incentives in Devolution



The incentives and capacity to make services work under devolution can be grouped under two broad headings.

First, there is the set of incentives that might make *nazimeen* want to see service delivery improvements for citizens at reasonable cost. As will be seen, in a context of indirect elections for *nazimeen* and complex intergovernmental

relationships and political career paths, it is far from self-evident that service delivery improvements for the poor will be a priority for them. *Nazimeen* must be influenced by citizen power, in the form of “voice,”²⁸ so that they have an incentive to direct those providers to achieve service delivery improvements (although as Figure 4 illustrates, this assumes that they are in a

²⁶ The 2004 World Development Report (World Bank: 2003) presents an accountability framework focused on service delivery. At its simplest, the WDR sets out an “accountability triangle,” where the nodes represent actors (citizens, politicians/policy makers, service providers/departments) and the sides represent accountability relationships (voice, compact/management, client/power). The approach in this paper takes these principal-agent relationships as given, and does not seek to rerun the arguments that are well set out in the World Development Report. The approach here essentially converts these relationships into qualitative checklists or sets of incentives.

²⁷ Some studies are more sanguine about the impact of local governments. For example, in Bolivia it appears that devolution has resulted in changes in investment patterns in the country, putting a greater focus on education and water and sanitation, as well as to a more geographically equitable distribution of public expenditure (Faguet: 2001).

²⁸ “Voice is the relationship of accountability between citizens and politicians, the range of measures through which citizens express their preferences and influence politicians” (World Bank 2003).

position to direct the behavior of the staff that provide the services—motivated *nazimeen* with no ability to direct their front line staff will not be able to improve services.). Voice must be accompanied by *provincial efficiency incentives*, so that service-delivery improvements are not simply obtained through increased spending.

Second, there are the incentives on those who provide the services—for example, the staff of schools and clinics—so that they also want to see improvements. This motivation can be provided through *managerial power*, ensuring that the *nazimeen* and senior staff have authority over the front line workers or, again, through citizen power (this time in the form of “*client power*”) providing potential service recipients with some direct means to have an impact on the conduct of service providers.

Table 6: Key Incentives in the Devolved Structures

Incentives for <i>nazimeen</i> and senior staff	Provincial efficiency incentives	Budgetary certainty	Hard budget constraints
			Predictable transfers
		Enhanced autonomy in preparing the budget	Autonomy in preparing the development budget
			Autonomy in preparing the non-salary recurrent budget
		Incentives for local revenue-raising	Autonomy in preparing the salary budget
			Buoyancy and potency of taxes assigned
	Clarity of revenue assignments		
	Citizen power or voice	Councilors motivated to listen to citizens	Additional incentives for revenue raising
			Public assignment of credit or blame
		The pull from councilors is stronger than that from the Provinces	Constraints on the substitution of private goods for public ones.
Political legitimacy of councilors			
Incentives for service providers	Managerial power	Staff working in the district are employed by the district	Incentives for provinces to intervene in the districts
			Autonomy in preparing the salary budget
			Local control over the establishment
			Locally determined recruitment
			Local determination of career paths
		Local management of performance	
		Autonomy in pay policy	
		<i>Nazimeen</i> authority over senior staff	<i>Nazim</i> input into the performance evaluation for the DCO
			Credible threat to transfer the DCO
			<i>Nazim</i> input into the performance evaluation for the DPO
	External oversight	District policing plans approved by the DPSC	
		Accounts Committees	
		Monitoring Committees	
		District Public Safety Commissions	
	Adequate deployment of staff	Village and Neighborhood Councils	
		<i>Insaaf</i> committees	
		Adequate numbers and skills	
		Adequate technical sanction powers	
Client power	Citizen dispute resolution	Departmental Grievances Redressal and Complaint Cells	
		Citizen Police Liaison Committees	
	Community management of facilities	Citizen Community Boards	
		School Management Committees	

Provincial Efficiency Incentives

The study assumes that devolution would be providing district and *tehsil nazimeen* with greater incentives for efficiency in fiscal management if it achieved positive movement in three key categories:

- Budgetary certainty—the degree to which they must live within hard constraints and the predictability of the budgetary transfers that they depend on;
- Autonomy in preparing the budget—specifically the development, the non-salary recurrent and the salary budgets;
- Incentives for local revenue-raising—the buoyancy and potency of taxes assigned, the clarity of revenue assignments and other incentives for revenue raising.

The efficiency implications of budgetary certainty and autonomy have been well studied. Most local governments are financed in large part through intergovernmental transfers, which can lead to problems of macroeconomic instability if local governments do not face a hard budget constraint. A system of transfers creates a disconnect between expenditure and taxation, encouraging “free-riding” behavior—specifically, there are incentives to overspend as citizens of other jurisdictions are paying part of the costs of local programs.²⁹ The inadequacy of hard budget constraints can also lead to unpredictability in the flow of resources to local governments, thus reducing their ability to plan and manage resources efficiently and undermining operational performance (World Bank: 1998). Given hard constraints, it is also important that local governments have autonomy to manage expenditures so as to increase incentives for efficient and effective use of funds.³⁰

While not as well studied, in addition to problems of overspending, intergovernmental transfers can also lead to inefficiencies in the quality of local government expenditures. The logic is similar to that discussed above—since costs are borne by distant taxpayers, local citizens have fewer incentives to monitor public expenditures and the services produced by the local government.³¹

Budgetary certainty

Hard constraints

Fiscal transfers represent a large proportion of revenues for sub-national governments in Pakistan, therefore potentially magnifying the perverse incentives created by soft constraints or unpredictability implicit in the transfers. Two arrangements can undermine hard constraints—negotiations over the size of the transfers and deficit financing. While in principle fiscal flows have become formula-based (PFC awards), in practice they are significantly discretionary and subject to the politics of province-district relations. Discretion is incorporated within the awards in various ways. In the NWFP PFC Award, the divisible pool is defined after deducting the province’s “obligatory” expenses (including debt servicing, pension, subsidies and charged expenditure such as that for the assembly and the governor) and these can be inflated at any time

²⁹ For example, the large literature on the “flypaper effect” analyzes the incentives for local spending from locally generated revenues as compared to those from intergovernmental transfers. Empirical evidence suggests that increases in (nonmatching) grants from higher levels of government translate into greater increases in local government expenditures than do equivalent increases in local incomes (Hines and Thaler: 1995). One study found that decentralization based on intergovernmental transfers tends to increase the size of the total government sector, while decentralization based on increased local taxes does not increase the public sector (Burki, Pery and Dillinger: 1999). See also (Rodden, Eskeland and Litvack: 2003; Shah and others: 1996).

³⁰ Ibid.

³¹ There is some evidence that user charges can elicit greater accountability from the state and improve services (World Bank: 2003).

since they are not based on a predetermined proportion of the Consolidated Fund. There are in addition many deductions from the provincial pool before development expenditures are allocated in accordance with the PFC indicators-based formula. The province then allocates the remaining funds between non-salary recurrent and development funds. Further mandatory deductions are then made within each district.

While, this degree of provincial control is unique to NWFP, in other provinces the transfer of salaries to districts on a reimbursement basis through Account I further reduces the proportion of the transfers that are formula-based and therefore predictable.

Box 9: Gamesmanship in Salary Transfers

The current arrangements for transferring salaries on the basis of actual staff in post, rather than through a formula-based transfer, invite gamesmanship in budget preparation. A key element of the 2001/02 budget process was to define an initial schedule of establishment for the new district governments. This budget contained the staff salaries for the actual number of employees working in the district. This staff strength (both actual and sanctioned) was intimated to the provincial government by the Accountant General Punjab on the basis of data provided by District Accounts Officers and the Finance and Planning office of the district government. The provincial government (Finance Department), however, placed greater weight on information gathered through the DAO. Because this information was incomplete in respect of Bahawalpur, the sanctioned strength of staff given in this budget, especially of devolved departments, was much less than the actual working strength. On the other hand in Faisalabad the DAO anticipating that the salary transfers would be based on the actual number of employees sent the actual staff figures equal to the sanctioned strength of the district. Since the DAO was also holding the post of DO FOP, he was able to come up with matching figures from both sources. This figure was accepted by the province due to shortage of time and lack of information to authenticate this data.

As Table 7 shows, most funding for local government is in effect negotiated. The proportions transferred on a formula basis are quite modest. The table shows that the proportions of the Provincial Consolidated Fund that ultimately are transferred in this way are trivial (less than 8 percent in all provinces). The formula-based proportion of de facto transfers (transfers made in practice) ranges from 71 percent (NWFP) to 17 percent Punjab. However, this is a somewhat misleading figure as NWFP and Sindh do not, formally, transfer funds for salaries as these remain in account I. If the proportion is taken from de jure transfers—the transfers mandated by the LGOs—then all provinces come in at around 20 percent or less.

All negotiated revenues provide opportunities for gamesmanship, basing current policy decisions on their likely impact on future resource transfers, rather than on their merits.

Table 7: Proportions of Total Funding Transferred to Local Governments on a Formula Basis
(Rs. million)

Province	Provincial Consolidated Fund (PCF)	Local government revenues (excluding own source)				Formula based transfers		
		Salary	Non-salary	Development	GST ^a	% of PCF	% of de facto transfers ^b	% of de jure transfers ^c
Balochistan	36,750	6,654		1,380		3.76	20.74	17.18
NWFP	55,458	12,183	1,093	867	799	3.53	71.04	13.12
Punjab	177,235	42,600 ^d		8,259 ^e	6,657	4.66	14.36	14.00
Sindh	104,785	20,644	2,476	5,717	5,500	7.82	59.83	23.86

Note: Formula-based transfers are shaded.

a. For Sindh and NWFP, GST was paid out to districts, TMAs and UAs first to meet baseline shares and then additional funds were distributed to new units. Punjab paid GST to TMAs and UAs alone, first to meet baseline shares

and then on population basis to new units. In Balochistan GST was distributed on formula basis and was used for financing local development as well. No transfers for capital budget were made otherwise

b. De facto transfers are defined as payments from provinces to local government that are made to the account of the district or the TMA—that is, they are genuine transfers as they are non-lapsing and within the re-appropriation authority of the district or TMA. In case of Sindh the de facto transfers include development funds, although they were made available through account I, because budgetary autonomy was given to LGs

c. De jure transfers are those that are mandated by the LGO. For NWFP and Sindh, de jure transfers are considerably larger than de facto as salaries should be transferred via Account IV as specified in the LGO, but in reality are not.

d. Punjab transferred Rs. 50.9 billion in revenues to districts as lump sums without specifying salary, non-salary, and development allocations. Non-salary and development allocations were formula-based district shares while the salary transfers were in accordance with historical baseline, although in some cases negotiated increases were given.

e. No disaggregation is possible from the budget data, however, the Devolved Service Delivery 2 shows that Rs. 42.6 billion were booked as salary and non-salary expenditure in FY 2003 in the 34 districts and hence the development expenditures can be calculated.

Source: DSD2, based on 2002/03 revised budget estimates.

The law requires that no local government can pass a deficit budget. Although Table 8 shows that most local governments are maintaining balanced or surplus budgets, there are a few notable exceptions. The Karachi district council passed a deficit budget for FY 2003/04. The reason given was that, due to the pressure from councilors during the budget session, the development allocations assigned to the discretion of the individual councilors were increased without properly calculating the impact on the fiscal balances. As a result a deficit amounting to approximately Rs. 30 million was passed.

TMA Lyari had also passed a budget in deficit for FY 2002/03. Officials claimed that they had no option, having inherited excess staff during the transition without the resources to pay their establishment costs (specifically, establishment cost were Rs. 136 million whereas the total estimated receipts were 120 million). While the TMA did not need such a large staff, it did not

Table 8: Meeting the Balanced Budget Requirement

District/TMA	2001/02	2002/03	2003/04
District Killa Saifullah	—	Balance	—
District Karachi	Surplus	Surplus	Deficit
District Bannu	Surplus	Surplus	Surplus
District Bahawalpur	Balance	Balance	Balance
District Khairpur	Surplus	Surplus	Surplus
District Faisalabad	Surplus	Surplus	Balance
TMA Killa Saifullah	—	Balance	—
TMA Muslimbagh	Surplus	Surplus	—
TMA Lyari	—	Deficit	Surplus
TMA Bannu I	—	Surplus	Surplus
TMA Bannu II	Surplus	Surplus	Surplus
TMA Bahawalpur City	Surplus	Surplus	Surplus
TMA Yazman	Surplus	Surplus	Surplus
TMA Kot Diji	Deficit	Deficit	Deficit
TMA Faisalabad City	Surplus	Surplus	Surplus
TMA Jaranwalla	—	Surplus	Surplus

— Not available.

Source: ADB/DfID/WB DSD Dataset 2.

the possibility of artificial targets for revenue to ensure balanced income and expenditure estimates could not be ruled out. It will be important for the future to evolve systems to integrate incentives on meeting local revenue targets.

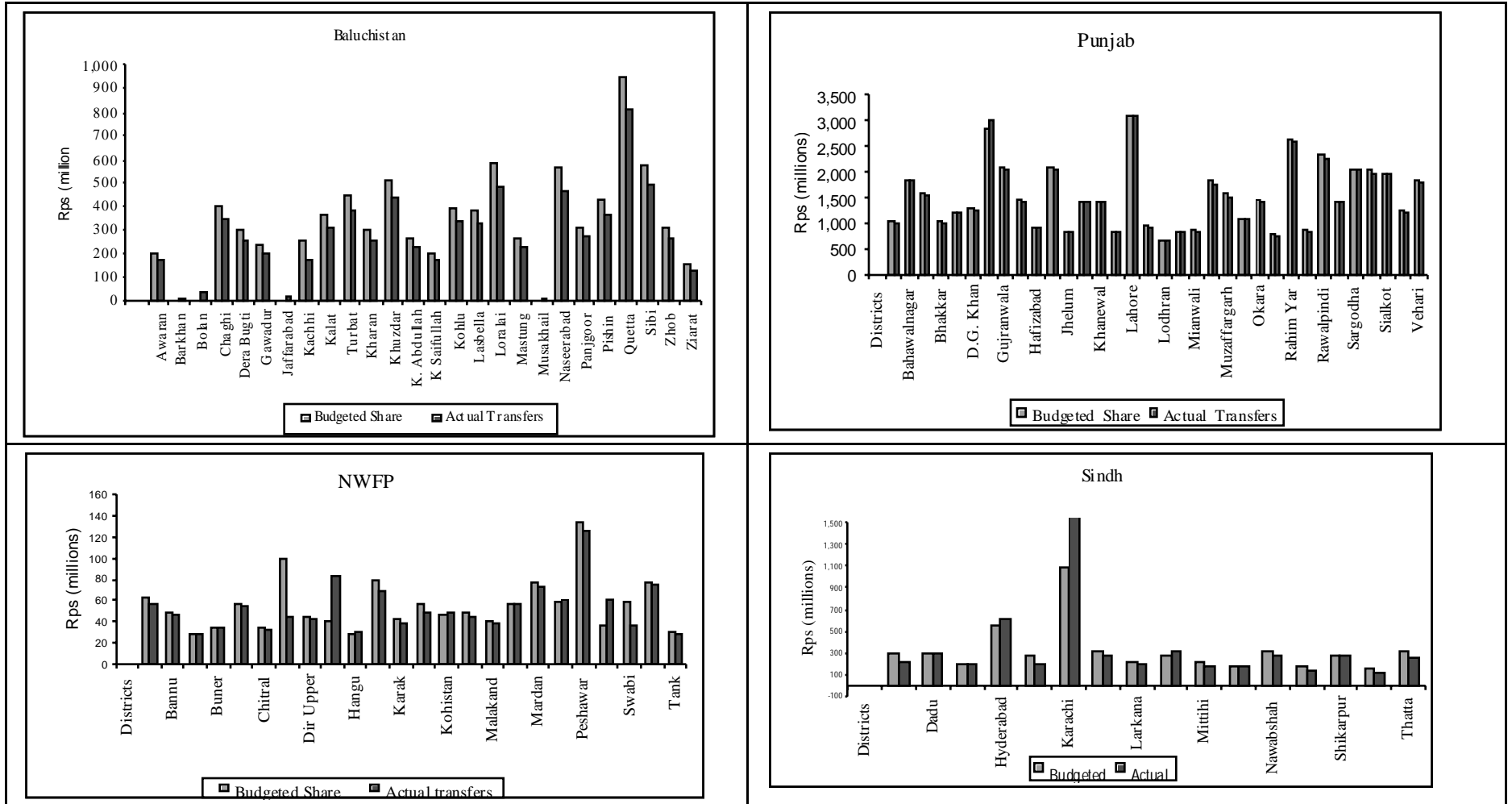
have the option of firing them. TMA officials also claimed that the two unions with the maximum revenue potential had been devolved to an adjacent TMA, and they had referred the matter to the Local Government Board to no avail. Similarly, TMA Kot Diji in district Khairpur has passed a deficit budget for the last 3 years, again primarily because of a mismatch between establishment costs and the TMA's revenue-raising potential.

Despite the generally encouraging picture, this study could not ascertain whether local governments were adopting realistic revenue estimates. The

Predictable Transfers

Given that transfers include a significant amount of discretion, there is a real possibility that they will vary significantly over time, making it difficult for local governments to predict their resource envelope. Within a given year, however, the data suggest considerable predictability in the transfers at the district level. In most cases, districts received slightly less than was budgeted (Figure 5).

Figure 5: Predictability of Province–District Transfers, 2002/03



Note: Sindh scale is truncated. Karachi actual transfers were Rs. 4.3 billion.
 Source: ADB/DFID/WBDS Dataset 2—from provincial finance department.

Predictability over the medium term can be encouraged by citizen oversight of the award process, initially hampered by poor understanding of the basis of the formulae in any of the study districts or TMAs. Where there were changes mid stream, not all stakeholders were automatically informed. When the basis of the formulae is not well understood, it is difficult for observers to detect the unpredictability until after the fact. The LGOs provide for public oversight of transfers, but implementing mechanisms have yet to be put in place (Table 9).

Table 9: Arrangements for Public Oversight over Transfers

Kind of instrument	Method of public dissemination	Public Domain
Monthly transfers	Notified by Finance	No
DAO statements	Communication internal to AG	No
Monthly accounts	Communication internal to AG	No
State Bank orders	Communication internal to SBP or SBP to NBP	No
PFC Reports	For Public Info (Yet to be formulated) A requirement under the LGO	To be determined
District Accounts Reports	For submission to the <i>nazim</i> and placement before the council (Yet to be initiated) A requirement under the LGO	To be determined

Enhanced autonomy in preparing the budget

Background

It is difficult to determine whether local governments have autonomy to allocate funds in response to local needs. Expenditure assignments are not the same as expenditure autonomy since much spending at the local level is set by policy conditions imposed by the federal government without necessarily reflecting local government's own policy choices.

In the initial year of devolution, in all four provinces the budget was prepared by the provincial Finance Department and sent to the districts for adoption. For example, in Bahawalpur the district government had no time to go through the FY 2001/02 budget. The Finance Department allowed only 5 days to examine and pass the budget, leaving district authorities no choice but to adopt this budget without amendment. By FY 2003/04, all districts had prepared their own budgets. In Faisalabad, the budget was submitted to the district council that made a number of changes to the allocations. In addition, enhanced powers of re-appropriation and reallocation at the local level allow governments to reprioritize between different heads of expenditure where necessary.

In practice, the districts and TMAs retain very little room for maneuver in making or amending their budgets. Despite the very few statutory limitations on the local governments, a plethora of notifications, instructions and operational practices allow provincial Departments of Finance to reach deeply into the local budget-making process. For example, NWFP in June 2002 prescribed targets for apportioning development funds among sectors, Punjab in June 2003 notified minimum proportions for maintenance and repair allocations, while Sindh exercised control over development shares by centralizing stage-by-stage disbursement of funds for schemes.

Despite the many rigidities and the extensive earmarking of recurrent budget funds and the equally frequent capacity problems, ownership of the budget process is increasing. For example, the Sindh LGO requires detailed scrutiny and recommendation to the Council by the Budget Committee. In FY 2002 and 2003, in both Karachi and Khairpur, this requirement was met. Similarly, the Sindh and Punjab LGOs require that there is authentication of the Schedule of

Expenditure by the *nazim*. While Karachi or Khairpur did not meet this requirement in FY 2002, Khairpur conformed in FY 2003. Bahawalpur also passed muster in FY 2002, and, along with Faisalabad, in FY 2003.

Autonomy in preparing the development budget

Vertical programs are the main constraint on district and TMA autonomy in preparing the development budget.

Box 10: Vertical Programs

Vertical programs represent the allocation of funds by federal or provincial governments to particular programs that might otherwise have been left to the discretion of local government. In these programs planning, budgeting and often even implementation remain central functions.

Broadly, vertical programs are of two kinds. Some represent federal or provincial government actions that simply happen to be located in the province or local government—with no fiscal relationship to the provincial or local government and no place in its budget—and as such are simply deconcentrated expenditures from the higher-level government.

Others entail some element of fiscal transfer to the province or to local government outside the mainstream mechanisms.³² As such, they represent a special case of conditional grants to provide incentives to build infrastructure or carry out service delivery. However, what makes them vertical is that (i) the transfers are conditioned on inputs—effectively removing them from the local government budget preparation and planning processes and (ii) the grants establish new expenditure controls that effectively place them outside existing accountability arrangements. In effect these are delegated expenditures, with all control remaining with the higher-level government. This latter type of vertical program can be ongoing or one-time, specific-purpose grants.

In reality many programs entail a combination of these components. In the spectrum, most vertical programs are those that remove responsibility for planning and operational design, budgeting and financing and expenditure control from the recipient subnational government.

As deconcentrated or delegated expenditures, vertical programs are distinct from fully decentralized expenditures, which are made with the full budgetary authority of subnational government and monitored using standard accountability arrangements. These programs are discussed in more detail in the third volume (*Annex 2—Technical Considerations*).

Each provincial government has provided sizable funds for schemes to be identified by the MPAs. In the case of Balochistan, these allocations were explicitly financed by withholding district development budgets and a 27 percent reduction was made in the Provincial Allocable during the fiscal year.³³ Although MPAs have been directed to seek scheme approval through the District Development Committee, this accommodation has continued to confuse responsibilities and accountability for efficient use of resources. In Sindh the MPAs are allowed to seek approval of their projects at the provincial level if they so desire, effectively sidelining any prospect of integration with local planning.

³² The four components of the mainstream federal/provincial transfers are:

- (a) The divisible pool provides revenue sharing;
- (b) Straight transfers represent the return of resource royalties, charges and excises after deducting a federal collection fee to the province of origin;
- (c) Special lump sum transfers are provided to NWFP and Balochistan provinces for backwardness; and
- (d) In 1999, a fourth component was effectively added to the Award, the “Octroi and *Zila* Replacement Grant,” although in practice the transfers of the 2.5 percent GST began only from FY 2002/03.

³³ The Provincial Allocable is the Provincial Consolidated Fund net of the Provincial Retained and the distribution of GST.

Often the volume of funds channeled through vertical programs dwarfs the district's own ADP for particular sectors (Table 10). Although figures are incomplete, in general it appears that more than half of the ADP is under the effective control of the federal and provincial agencies controlling the vertical programs. This practice undermines the sovereignty of local governments in planning the development of their districts according to their own priorities. Vertical programs frequently result in duplication of investments by province and local authorities. Of greater concern is that once completed, these programs off-load recurrent costs on to local budgets thus reducing further resources available to councilors to allocate to local demands. They distort relations between local service providers—administrators or agency personnel—and councilors by reinforcing vertical relations with higher governments. Citizens find it difficult to exert pressure for better performance from service providers because they can exercise only weak accountability over centrally controlled program management units. Finally, and most critically, in the present circumstances, vertical programs feed a clear ambition of federal and provincial legislators that they will, on a continuing basis be able to use local salary, staffing, resource allocation and development contracting as prime sources of political patronage.

Table 10: Vertical Programs as a Percentage of the District ADP

District	2001/02				2002/03			
	Recurrent Budget (Rs.)	District ADP (Rs.)	Total VP Outlay (Rs.)	VP as % of ADP	Recurrent Budget (Rs.)	District ADP (Rs.)	Total VP Outlay (Rs.)	VP as % of ADP
Killa Saifullah	202.415	—	—	—	167.858	71.785	23.424	32.60
Karachi	7275.900	—	—	—	11631.190	—	—	—
Bannu	520.296	131.899	51.118	38.80	586.936	189.727	—	—
Bahawalpur	1368.917	239.008	177.781	74.40	1486.218	462.888	281.669	60.90
Khairpur	1637.953	293.522	145.855	49.70	1637.953	192.000	—	—
Faisalabad	2630.754	164.927	150.000	90.90	2630.754	710.000	358.697	50.50

— Not available.

Note: The vertical programs included are: KPP; SAP; ESR; President's Program for Education; DERA; DIMRC; Governor's Priorities.

Source: District Budgets.

In addition to the vertical programs, some other practices limit district autonomy in relation to the development budgets. The large throw-forward of uncompleted development schemes means that if the funds for ongoing schemes are transferred to the local governments, the requirement to complete the ongoing schemes makes district governments implied conduits for implementing the priorities of the previous setup and leaves them little leverage to implement projects and programs based on their own priorities. The scale of the throw-forward problem is difficult to calculate from available data. However, given that from FY 2003/04, local governments were able to decide which schemes should be completed, it may technically be possible to address this constraint, provided that provinces accept the implied obligation to complete those schemes they regard as priorities.

Citizen Community Boards also represent a check on local government autonomy in preparing the development budget as they result in ring-fencing of 25 percent, annually compounded, of the development budget. They are discussed in more detail below. Arguably the price is worth paying if they facilitate deeper citizen engagement in planning.

The constraints on TMA budgetary autonomy are more acute, largely because of specific issues in water supply and sanitation. TMAs have responsibility for both urban and rural areas, and

while service delivery expenditures are increasingly focusing on the urban, the general trend of equal sharing of capital investments is now giving increasing shares to rural areas. The lack of clarity in the roles and jurisdictions of TMAs and the provincial water and sanitation organizations is creating some confusion. For example, Bannu district is divided into two TMAs, Town I (rural) and Town II (largely urban). Town II is developing, operating and maintaining WS&S infrastructures, but its rural neighbor does not have control over water and sanitation. Instead the provincial department looks after the sector. At the same time, because the local development resources in the two TMAs were sliced up among the councilors, only very small-scale schemes such as bore wells or lining of street drains were possible.

Autonomy in Preparing the Non-salary Recurrent Budget

Recurrent budgets were prepared during the transition years through the unbundling of provincial departmental budgets. The local governments are expected to follow the same pattern for the time being. With restrictions on the number of positions and the wage bill, local governments can do little with the recurrent budget beyond adjusting the non-salary allocations. Furthermore, restrictions on what local governments can do with the salary budget in effect result in earmarking a large share of the non-salary recurrent costs of the staff that the local government might otherwise not retain (for example, electricity, rent, and heating of offices occupied by staff). Among further restrictions is earmarking in preparation of the non-salary recurrent budgets in NWFP and in Punjab.³⁴ The transfers from these provinces to districts and TMAs are predefined by indicative proportions to be allocated to each sector. A key difference is that these indicative proportions are enforced in NWFP, but in Punjab they were offered late in the budget cycle and have been completely disregarded in practice.

Unlike the districts, TMAs receive most of their funds as general-purpose grants out of which councils make salary, non-salary and development allocations. Because of the provincial controls on establishment in effect, the non-salary and development budget are the only aspect of expenditures over which TMAs have appropriation authority. Table 11 shows that, typically, this gives them autonomy over some 60 percent of their revenues or some 50 percent of the total resource flows.

Table 11: Proportions of TMA Budgets Available for Local Determination
(Rs. and %)

TMA	Total Revenue	Salary	Payments made for PHE staff	Transfers within the appropriation authority of TMAs	
	(Rs.)			as % of revenues ^a	as % of total resource flows ^b
Lyari Town	372,930	158,000	102,957	58	45
Kot Diji	25,645	14,048	2,733	45	41
Jaranwalla	266,147	38,022	14,520	86	81
Faisalabad	1,120,991	352,100	228,304	69	57
Bahawalpur	194,755	86,218	47,600	56	45

a. TMAs have appropriation authority over their non-salary and development expenditures.

b. Total resource flows to the TMA include the reimbursement made for PHE staff. Non-salary and development expenditures are shown here as a proportion of total revenues plus PHE reimbursements.

Source: ADB/DfID/WB DSD Dataset 2—from 2003/04 budget estimates.

³⁴ This refers to 2001/02 budgets. No data are yet available on implementation of the 2002/3 budgets.

Autonomy in preparing the salary budget³⁵

Local governments have particularly limited freedom in preparing the salary budget. Neither local nor provincial governments are able to determine pay scales, which are de facto set at the federal level. In addition, as Table 12 indicates, in Sindh and NWFP, salaries are transferred through provincial Account I rather than the district-controlled Account IV. The districts must seek approval from the province (via the provincial District Accounts Officer) for the release of the funds from Account I for their salary payments. Thus, the salaries effectively are still paid from the provincial budget.³⁶ Similar ambiguities exist at the *tehsil* or *taluka* level, but the number of staff affected is much smaller.

Table 12: Local Government Control of Accounts, by Province

Province	Salary	Non-salary Recurrent	Development
Balochistan	Account IV	Account IV	Account IV
NWFP	Account I	Account IV	Account IV
Punjab	Account IV	Account IV	Account IV
Sindh	Account I	Account IV	Account I

In addition to basic concerns about district capacity, provinces may be reluctant for several reasons to transfer district salaries via Account IV. First, no objective, needs-based formula has been devised to ensure distribution of salaries in ways that approximate the current expenditures. Second, in the absence of reliable employee databases, transfers based upon the number of sanctioned posts run the risk of over-funding those districts in which many positions are unfilled. Third, the provinces argue that transferring salaries through Account IV presents a potential cash-flow problem. The current arrangement effectively allows the province to pool the district budgets until they are disbursed, providing the government with sufficient balances to cover the shortfalls arising from irregular receipts from Federal disbursements, thereby obviating the need to borrow.

However, the present arrangement places the largest part of the budget outside the control of the district government. The districts are unable to reallocate resources or change the composition of the workforce. Once salary budgets are paid through Account IV, the districts would, according to the LGO, be able to select more of one type of staff or skill and fewer of another. In practice, the provinces may retain control over the creation of new sanctioned positions; but the districts would be empowered at the least to reallocate any staffing savings.³⁷

Even if, in principle, the salaries budget could be prepared relatively autonomously by local governments, structural rigidities tie the hands of local governments. Organizationally, they are required to maintain a standard set of offices, which automatically carry overhead charges, and changing staff composition is difficult given the nature of the occupational group system.

³⁵ No data are yet available on implementation of the 2002/3 budgets. The following analysis therefore relies on 2001/02 budgets.

³⁶ This is in contrast to the previous employees of the rural district councils who are paid from the district budget through Account IV (or the Local Fund where this has not yet been merged with Account IV). It seems that even when salaries are transferred through account IV, there will not be any change in the responsibility for future pension liabilities.

³⁷ The Government of Punjab has begun working on this issue. The proposal has been made that where a district identifies a staff saving/redundant post, the employee will be sent to a provincial surplus pool for a new posting—possibly to another district. Districts will receive a proportion of the saving, although the province will retain a high proportion, as they will have to continue paying the salary.

Incentives for local revenue-raising

Background

As noted earlier, heavy dependence on intergovernmental transfers can lower the quality of public expenditures. Arguably, the disconnect between expenditure and taxation can reduce the incentives to monitor public expenditures as resources are collected from distant taxpayers not likely to be using the services produced by the local government. Incentives for local revenue effort are linked to the buoyancy and potency of taxes assigned to local government, and the clarity of such assignments. Effort will be deterred if there is no credible connection to likely revenue results and if it is not evident which level of government is to benefit from which tax. Additionally, PFCs can provide further incentives in the form of rewards for local revenue effort.

Buoyancy and potency of taxes assigned

The 1973 Constitution assigns almost all taxes with any worthwhile revenue potential to the federal government. The exceptions are the Agriculture Income Tax (AIT), Urban Immovable Property Tax (UIPT), Motor Vehicle Tax (MVT) and Stamp Duties. Local governments' tax bases are assigned through the LGOs and not through the constitution, and therefore tax assignments between the provinces and local government can, in principle, be changed according to the requirements of the time.

Table 13: Revenue-raising Authorities for Local Government

District Councils	<i>Tehsil</i> and Town Councils	Union administrations
<ul style="list-style-type: none"> • Education tax. • Health tax. • Tax on vehicles other than motor vehicles. • Local rate on lands assessable to land revenue. • Fees in respect of schools, colleges, and health facilities established or maintained by the district government. • Fees for licenses granted by the district government. • Fees for specific services rendered by a district government. • Collection charges for recovery of tax on behalf of the government as prescribed. • Toll on new roads, bridges, within the limits of a district, other than national and provincial highways and roads. 	<ul style="list-style-type: none"> • Local tax on services. • Tax on the transfer of immovable property. • Property tax on annual rental value of buildings and lands. • Fee on advertisement, other than on radio and television, and billboards. • Fee for fairs, agricultural shows, cattle fairs, industrial exhibitions, tournaments and other public events. • Fee for approval of building plans and erection and re-erection of buildings. • Fee for licenses or permits and penalties or fines for violation of the licensing rules. • Charges for execution and maintenance of works of public utility like lighting of public places, drainage, conservancy, and water supply. • Fee on cinemas, theatrical shows and tickets thereof, and other entertainment. • Collection charges for recovery of any tax on behalf of the government, District Government, Union Administration or any statutory authority as prescribed. 	<ul style="list-style-type: none"> • Fees for licensing of professions and vocations. • Fee on sale of animals in cattle markets. • Market fees. • Fees for certification of births, marriages and deaths. • Charges for specific services rendered by the union council. • Rate for the remuneration of village and neighborhood guards. • Rate for the execution or maintenance of any work of public utility like lighting of public places, drainage, conservancy and water supply.

While districts have been given rights to raise additional revenues (Table 13), their tax base is weak, and some district taxes and user charges are very difficult to impose in practice. For example, given that there is every reason to subsidize education (as is the case for elementary education, which is provided free of cost in every province) and health services, using the education and health tax opportunities would be hard to justify.³⁸ Tuition (and other) fees are

³⁸ There is some uncertainty here in the wording of the LGOs because these taxes are mentioned in the same clause as other heads of revenue. The NRB is of the opinion that “education tax” and “health tax” means earmarked taxes for education and health services, and does not mean tax on education and health services.

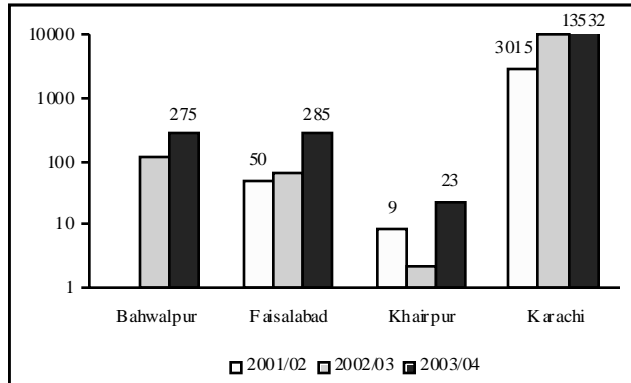
already levied on secondary³⁹ and tertiary level education. Since relatively more affluent segments of the society make use of higher education services, there is every reason to rationalize user charges for tertiary education provided measures are taken to ensure poorer households are not excluded as a result. *Tehsils* have been assigned more buoyant and potent taxes, such as the Urban Immovable Property Tax (UIPT), which is collected by the district and then passed down (minus a 15 percent collection charge). The *tehsils* are also assigned the transfer of property tax and entertainment tax. The provincial professional and calling tax, though collected by the province, has been devolved to the union administration.

Despite these difficulties, in the six study districts and their TMAs, where the council supported a determined *nazim* encouraging trends were emerging in own-source revenue (OSR) collection (Figure 6 and Figure 7). An analysis of the reported revised estimates for previous fiscal years and projections for the current fiscal year show a general rise in the OSR from 2002/03 to 2003/04 (noting that the revenue figures for 2001/02 might be distorted by transitional effects). In Karachi, as a proportion of total revenue, OSR has increased from 46 percent in 2002/03 to 48.85 percent in 2003/04 (Figure 8). A similar upward trend is evident in the TMAs visited (Figure 9).

³⁹ From the 2002/3 budget, Sindh has opted for free secondary education, which the Punjab government is seriously thinking of replicating from the 2003/04 budget.

Figure 6: District Own Source Revenue

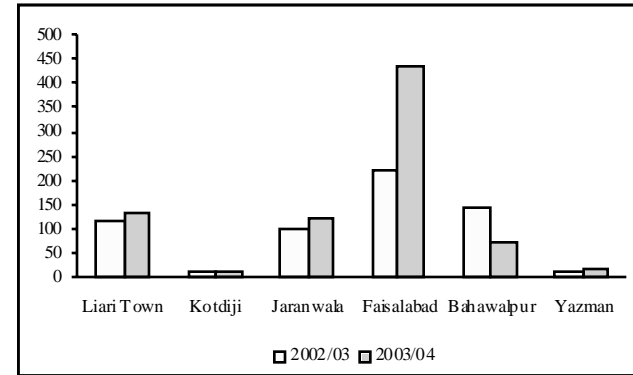
(Rs. million)



Note: Own sources are UIPT (15 percent); local taxes levied by districts; fees and user charges; capital income, such as recovery of loans; and rents from shops and plazas. Own sources exclude opening balances.
Source: ADB/DfID/WB DSD Dataset 2—from 2001/02, 2002/03 revised estimates and 2003/04 budget estimates.

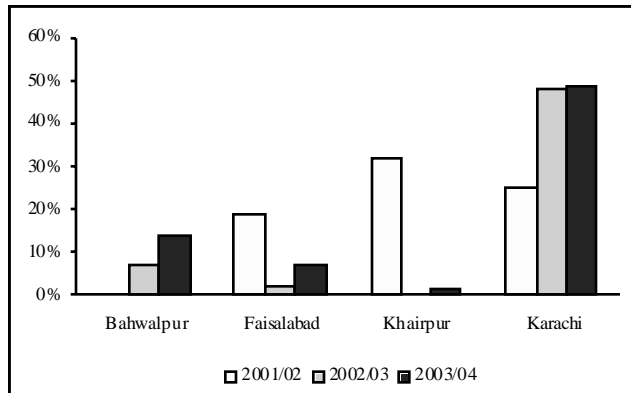
Figure 7: TMA Own Source Revenue

(Rs. million)



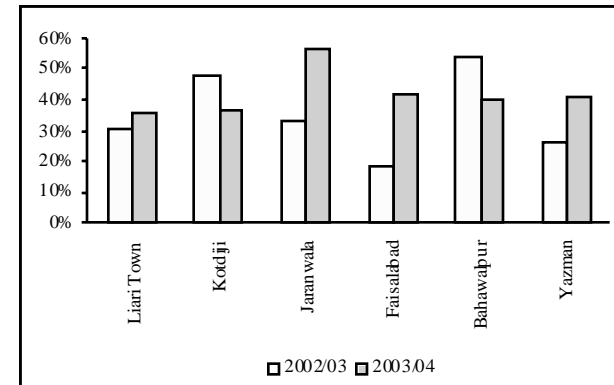
Note: Own source revenues include local taxes, UIPT (85 percent), rent, water rates, deposit money, retention money, fines, and user charges, and exclude opening balances. While UIPT is a shared tax, and not strictly OSR, the tax is classified as OSR under the LGO 2001.
Source: ADB/DfID/WB DSD Dataset 2—from 2002/03 revised estimates and 2003/04 budget estimates.

Figure 8: Trend in Own Source Revenues—Districts—as Proportion of Total Revenues



Note: As above; total revenues exclude opening balances.
Source: As above.

Figure 9: Trend in Own Source Revenues—TMAs—as Proportion of Total Revenues

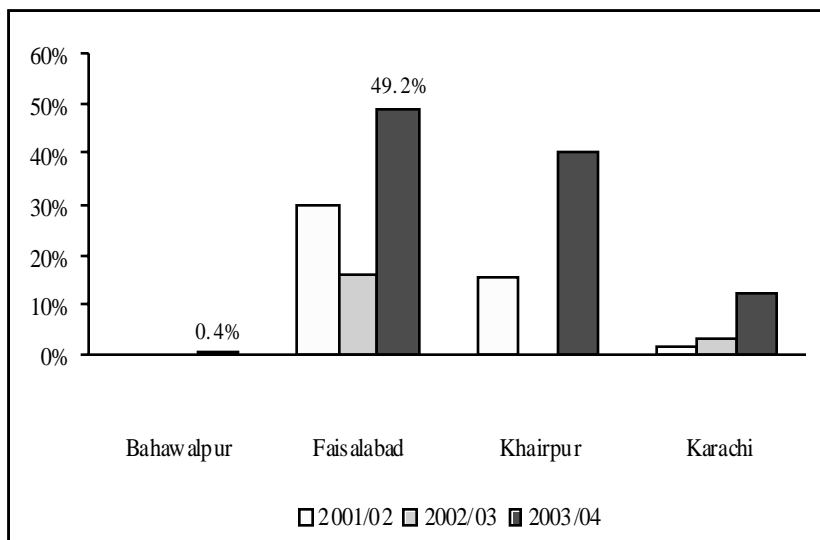


Notes and sources as above.

As a percentage of total resources, the upward trend in OSR is less evident than in absolute terms because transfers have also increased over the same time period. PFCs have legislated higher shares for local governments in general; where decreases have occurred, they are attributable to political skirmishes between the province and particular local governments. Transfers also increased because of the transfer of GST, which took effect from FY 2002/03. When these factors are considered, the efforts being made by *nazimeen* and councilors to increase OSR are quite remarkable and certainly belie the alarmist concerns that incentives to raise local taxes would be overwhelmed by political imperatives to do otherwise.

While these are positive initiatives to increase revenue, significantly greater effort from the districts is unlikely because the taxes assigned to them are not potent and produce only a small share of total OSR. In the six study districts, for example, for 2003/04 they range from 0.4 percent (Bahawalpur) to 49 percent (Faisalabad) (Figure 10). During the same period, however, since OSR represented only some 8 percent of total revenues for Faisalabad (Figure 8), the contribution of local taxes to total revenues ranges from 0 percent to 4 percent. In short, a large tax effort brings only modest results in total revenue. For OSR in general and tax effort in particular to be attractive propositions, buoyant tax items need to be assigned to local governments. The current range does not provide much room for increase.

Figure 10: Taxes as Proportion of Own Source Revenues, Districts

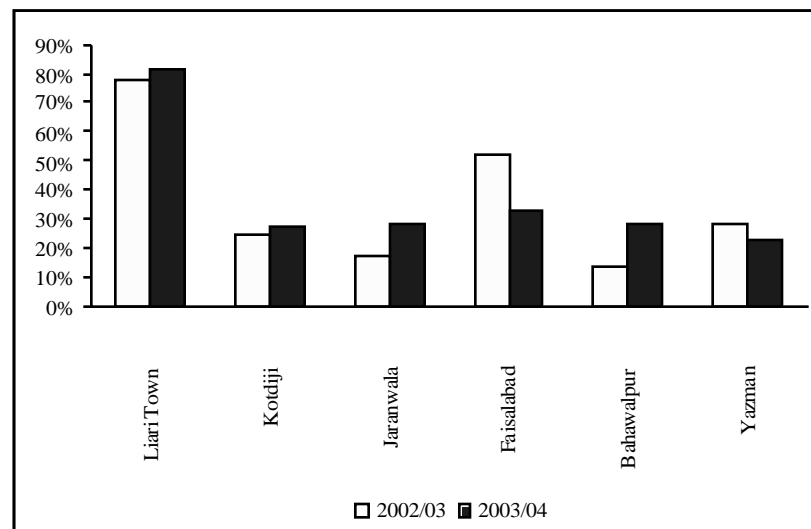


Note: Other income refers to: sale of trees, sale of old material, auctions, depleted assets, sale of carcasses, and miscellaneous income.

Own source revenues exclude opening balances.

Source: ADB/DfID/WB DSD Dataset 2—from 2002/03 revised estimates and 2003/04 budget estimates.

Figure 11: Taxes as Proportion of Own Source Revenues, TMAs



a. Water charges are shown as revenues from sale of water.

b. The property tax also includes a share from CGDK on local taxes, water charges include receipts from contractors.

c. While UIPT is a shared tax, and not strictly OSR, the tax is classified as OSR under the LGO 2001.

d. Other own source revenues include income from dirty water, sale of carcasses, auction, registration fees, interest, road cutting charges, refunds, sanitation, sale of tender document, recoveries, renewal fees, refund of loan, salary from other contractors, sale of property and trees; cinema tax, time tax from public service transport vehicles, professional tax, sewerage tax, vehicle tax, entry tax, building tax, cattle tax, advertisement tax, tax on birth and death, wheel tax, conservancy tax; light rates, sanitation and drainage rates; road restoration charge, disposal work charges, development charges, blood and bones charges, maintenance charges, service charges, land possession charge, latrine charge; court fines, law-breaking fines; rent of building, stands, land, and shops

Source: ADB/DfID/WB DSD Dataset 2—from 2001/02, 2002/03 revised estimates and 2003/04 budget estimates.

Clarity of Revenue Assignments

Although the district and TMA taxes are clearly assigned in theory, administrative confusions in the collection arrangements blur the assignments in practice. Non-tax receipts are mandated in LGO as local revenue, but the provinces currently collect non-tax receipts and put them in province accounts. For example, in Sindh, when the Provincial Finance Department calculates local government budgetary outlays, it includes non-tax receipts in district revenue but does not transfer them to districts.

Administrative complexity is most clearly evident in the case of property tax (UIPT). In Sindh, for example, where the province has control over various aspects of tax policy, collection is meant to be the responsibility of the district, while TMAs determine rating areas (Table 14). This sharing of responsibility is likely to reduce the potential for a revenue source that could make up a significant proportion of the fiscal gap in the TMA budgets (Asian Development Bank: 2001). For example, in June 2003 Sindh declared certain exemptions to levying property tax, thus reducing the base for City District Government Karachi and its 18 towns, and dramatically affecting revenue and operations. Since districts get to retain only 15 percent of the tax, there is less of an incentive for them to exert the maximum administrative effort to collect it. Similarly, TMAs have lessened incentive to declare new rating areas beyond the earlier limited jurisdictions declared urban under the previous laws, as they fear they would incur all the political costs for the action but not reap all of the benefits.

Table 14: Responsibility for Aspects of Rating

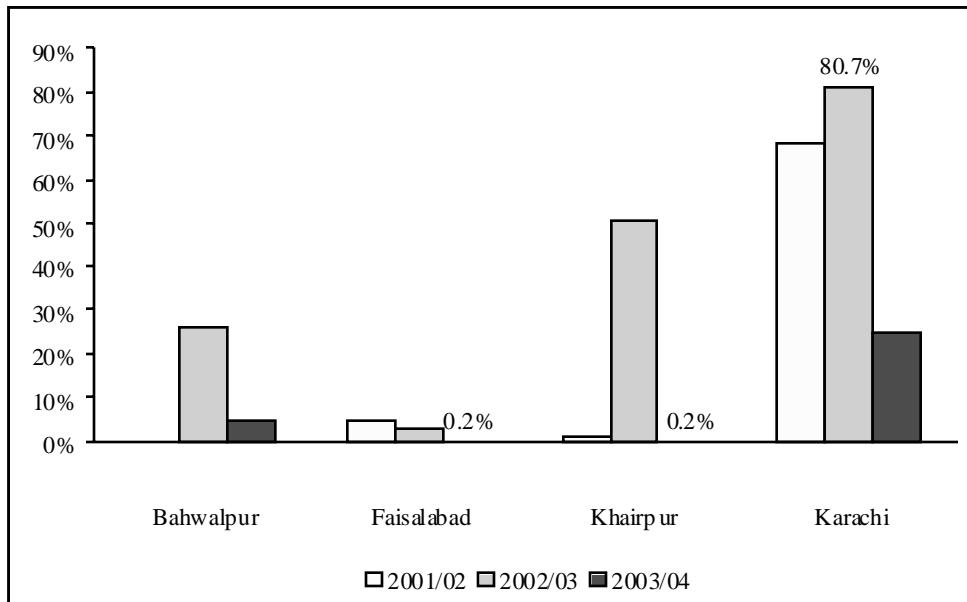
Level	Authority
Province	<ul style="list-style-type: none"> • Decisions on exemptions • Laws and regulations on rating levels and methodologies • Some de facto control on collection—through control of the civil service • Some collection*
District Government	<ul style="list-style-type: none"> • Some collection*
TMA	<ul style="list-style-type: none"> • Rating area declaration

* A policy commitment has been made in all provinces to assign collection to districts. However, the current practice is mixed.

User charges in the six districts range from 0.2 percent to 80 percent of the district's total own source revenues (Figure 12 and 13).⁴⁰ In general, however, new taxes and user charges remain underutilized as potential sources of OSR increases. Local governments should be encouraged to charge for some services. By establishing a visible linkage between the paying public and the quality of services that they value, such fees reduce the likelihood that infrastructure will suffer from underinvestment in operations and maintenance.

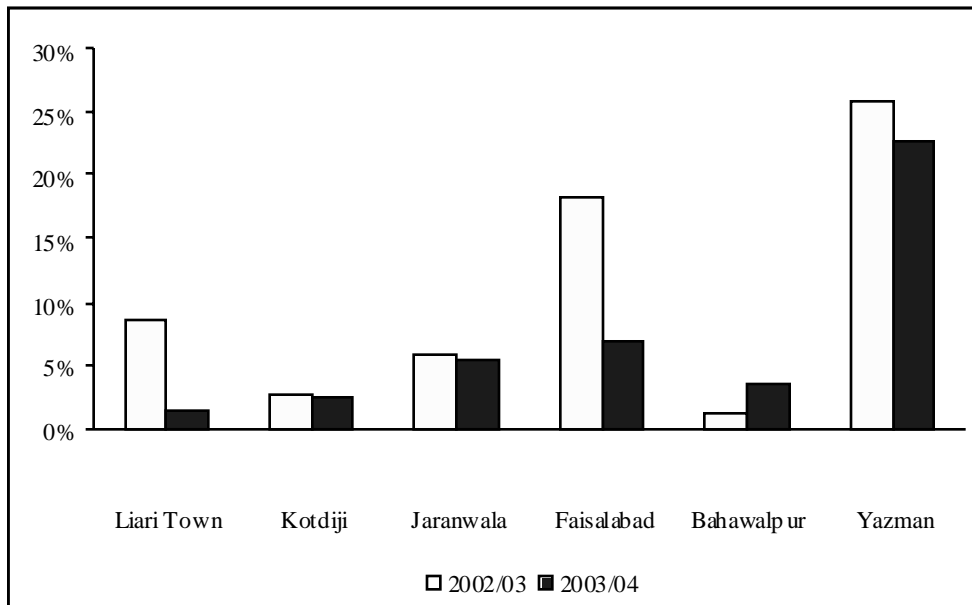
⁴⁰ In some cases these new taxes/user charges do not appear to be entirely well thought out. For example, a *tehsil* in Khairpur decided to use its development funds to buy real estate so as to yield a future stream of rental income. Not only does this run counter to the government's stated objective of withdrawing from areas of private sector expertise; the experiences of other countries also point to grave risks in such a mode of revenue generation.

Figure 12: Non-tax Receipts as a Proportion of Own Source Revenues, Districts



Source: ADB/DfID/WBDS Dataset 2—from 2001/02, 2002/03 revised estimates and 2003/04 budget estimates.

Figure 13: Non-tax Receipts as a Proportion of Own Source Revenues, TMAs



Source: ADB/DfID/WBDS Dataset 2—from 2001/02, 2002/03 revised estimates and 2003/04 budget estimates.

However, the study districts reveal a number of examples where jurisdictional confusion had a negative impact on these incentives for collection, because local governments do not have assurance that collection will be deposited in their accounts or ultimately made available to them. A case in point is user fees in health. In Killa Saifullah and Karachi, no outpatient department (OPD) fee was charged, but other receipts were deposited into the provincial account. In Bannu and Bahawalpur, the OPD fee and other user charges were deposited into the provincial account.

In Khairpur, by contrast, OPD fees are collected and deposited in a joint account of the facility and *naib nazim* of the union council concerned to be spent on small day-to-day requirements of the facility. In Faisalabad, OPD fee and other receipts do benefit the district as they are deposited in district account IV.

In other cases, higher levels of government have thwarted local government efforts to raise revenue. For example, after some union administrations resorted to the collection of tolls (and the defunct *zila* tax), the federal government required the province LGRD to vet any new local government tax plans. Despite some advantages, that oversight potentially undermines the independence or discretion of local governments.

Consumers are willing to pay for service and to co-manage services. In Faisalabad city, citizens have funded and constructed the sewerage system and are also managing it. However, jurisdictional problems generally prevent the effective application of user charges at the TMA level. These conflicts arise partly because the Water and Sanitation Agency, which is responsible for all water and sanitation services within the defunct municipal corporation boundary, covers an area that extends into other city towns. The overlaps between provincial PHED responsibilities and those of the TMA also counter any incentive to make the fees effective.

Box 11: Water and Sanitation Revenues

Significant collection inefficiencies in water rate appear across the country:

- There are collection inefficiencies in water and sanitation user charges, both for the TMAs and for the un-devolved agencies. For example, in the Karachi TMAs of Gulshan-e-Iqbal and Lyari, KWSB has 1.3 million registered consumers of whom fewer than 0.25 million are paying water bills. As a result only 19.6 percent of the potential revenue of Rs. 1.3 billion is being recovered. In Bahawalpur district, TMA Yazman raised Rs. 486,095 from water bills against an expenditure of Rs. 1.7 billion.
- Water rates are not uniform in the TMAs. In NWFP and Balochistan PHE and TMAs supply water in the same jurisdiction at different rates. Even after devolution of PHE, in some jurisdictions the differences persist. For example, in Jaranwalla municipal water is supplied at Rs. 12 per month while the newly devolved PHE systems charge Rs. 6 per month.
- Due to high expenditures and low collection efficiency, huge arrears have accumulated on account of electricity dues and become a major burden on TMA budgets.

The jurisdictional issues surrounding the devolution or non-devolution of PHED exacerbate these collection problems. For example, in the Balochistan TMAs of Killa Saifullah and Muslimbagh, the PHED is providing Water Supply & Sanitation services independently of the TMA. The consequence is that water bill recovery from domestic consumers is very poor, within the range of 10–15 percent contrasting with 80–90 percent for commercial consumers. Domestic consumers are charged Rs. 60 per month while commercial consumers are charged Rs. 260 per month.

Additional incentives for revenue raising

The interim PFC awards in Sindh and Punjab do seek to create some incentives for increased revenue generation from the existing range of taxes and charges. For instance, in Sindh, districts will be given an additional allocation in accordance with effort expended in collecting district OSR. The political calculation involved in revenue raising gauges whether the credit for services funded outweighs the political costs entailed. Overall, the results of the calculation are clear. Complex and uncertain administrative arrangements discourage extra revenue effort, and, although empowered to levy new taxes, no district or TMA has done so.

The Government of Punjab has provided some incentives to the TMAs for cost recovery in water and sanitation by waiving electricity arrears, loans liabilities and pension liabilities provided cost

recovery could match the expenditure on water supply systems.⁴¹ The consequence is that, in Jaranwalla, for example, the water rate had been increased, and efforts were being made to bring the rural water rate of Rs. 6 to par with the urban water rate of Rs. 12.

Citizen Power (Voice)

A central puzzle analyzed in the World Development Report 2004 (World Bank: 2003) is why democratically elected politicians in developing countries, where the median voter is likely to be a poor person, often have little incentive to provide services that benefit the poor. Instead of focusing on pro-poor services like primary education and basic health care, politicians are driven by clientele pressures that shift public spending to cater to special interests and core supporters. For example, instead of improving the quality of teaching in primary schools, politicians are often more interested in allocating scarce resources to construction projects and the salaries of overstuffed public administrations.

In Pakistan, similarly, it is often noted that politicians seem disinterested not just in pro-poor policies, but also in socially progressive or stable policies in general, preferring to allocate resources in a fashion that is more akin to personal investments. The orthodox answer to this behavior is feudal politics—that is, the influence of large landlords and tribal elders in rural areas allegedly transforms free elections into a kind of theater, in which local voters merely pretend to exercise independent discretion. Unquestionably, local power relations are important everywhere. However, recent studies of electoral behavior argue that Pakistani politicians care a great deal about voter demands (Wilder: 1999; World Bank: 2002). For example, one study notes:

Voting behavior is increasingly being influenced by voter concerns over local issues such as assistance in *thana-katcheri* (police station and courthouse) affairs; or the need for a road, school, or basic health unit in their village; or for an electricity, telephone, or natural gas connection for their house; or for jobs, promotions, or transfers in the workplace. A growing number of votes are therefore being cast for candidates with strong records of addressing these local concerns by delivering patronage to their constituencies and introducing development schemes in their constituencies (Wilder: 1999).⁴²

In other words, it appears that politicians are responding to citizen demands, but that they value private favor and patronage more highly than pro-poor service delivery.

What impact will devolution have on this general problem of political incentives for service delivery? A priori, given that local government in Pakistan is in large part a system of indirect elections with elected councilors in turn electing *nazimeen*,⁴³ it is far from automatic that a robust chain of accountability will link the citizen to the political leadership and that this linkage will motivate politicians to focus on service delivery. This study argues that there are two necessary conditions for these relationships to hold.

⁴¹ (Sidat Hyder Morshed Associates (Pvt) Ltd.: 2003) confirms the problems that the arbitrary deduction of WAPDA arrears causes for the TMAs.

⁴² Individual contacting by voters is certainly more likely to be for private favors, which also tends to bias politicians toward these types of goods. For example, one study found that an influential politician in Punjab was inundated with an average of 150—200 requests from constituents per day, the vast majority of which were requests for private favors like jobs, for getting land disputes resolved, for help in police matters, and for getting admissions to colleges and universities (Wilder: 1999).

⁴³ Although the PRSP envisages that to complete devolution direct elections for district and *tehsil nazimeen* are essential (Government of Pakistan: 2003, p. 59).

First, councilors themselves must have an interest in serving the needs of their constituents and in particular the poor. Factors that will contribute to councilors' responding to the needs of their constituents are:

- The public must be able to assign credit or blame for service delivery successes and failures and be in a position to threaten elected officials at the polls for failure;
- Councilors must be constrained from substituting private goods in the short term for long-term service delivery improvements.

Second, since the relationship between *nazimeen* and councilors is a critical intermediate step in the linkage to citizens, *nazimeen* must find the pull from the councilors more demanding than the pull from other political powerbrokers, particularly the provincial governments. This loyalty, in turn, depends on:

- The pull from the councilors being high because councilors enjoy a high degree of legitimacy and translate it in the form of checks and balances into effective opposition politics in the local councils;
- The province being disinclined or constrained from intervening in the affairs of the district.

Do councilors listen to citizens?

Public assignment of credit or blame

While it is probably true that citizens value education and health services, it is also likely that voters believe politicians' claims to deliver patronage and infrastructure schemes are more credible than promises to improve health and education. This is partly because, as the WDR argues, education and health are transaction-intensive services that depend on day-to-day provider behavior. It is much easier for a politician to demonstrate to a voter that he or she was responsible for providing the voter with a job, for resolving a police dispute, or for laying the first brick of a new school building, than to make the case that he or she was responsible for reducing teacher absenteeism in the village school. Such credit-claiming is particularly awkward if terms of office are short, as they were in Pakistan during the democratic period in the 1990s. Unlike the provision of government jobs or construction of school buildings, improvements in service delivery, such as higher-quality education, do not bear immediate fruit and are therefore unlikely to preoccupy politicians with short time horizons.

In the context of devolution, jurisdictional overlap makes it particularly difficult for politicians to seek credit for improved services. When multiple levels of government are involved in delivering the same services, the public is unable to assign credit or blame effectively for that particular service to a particular politician. The overlap thus weakens incentives to perform well on service delivery and encourages politicians to target services to their core supporters.⁴⁴ Jurisdictional overlap is particularly an issue in the education and health sectors, as federal and provincial vertical programs remain principal tools in promoting national policy priorities and represent a significant proportion of local-government expenditures on service delivery. For example, in the six study districts, in the first year of devolution between 39 percent and 91 percent of district budgets for the annual development program in health and education were channeled through vertical programs that required that districts spend resources in predefined ways (Table 10). Jurisdictional clarity was further blurred, and conflicts became more acute, when MNAs, Senators and MPAs were provided with funds (Rs. 10 million each) for development schemes.

⁴⁴ There is some cross-national evidence to support this argument. A recent econometric study found that the number of tiers of government was positively associated with corruption, and negatively with the number of paved roads or infants inoculated (Triesman: 2002).

The overlap also stretches deep into the provincial rules of business. In many cases, the provincial remit still extends into local domains in the form of project approvals, technical sanctions and authorization of payments. An example is the creation of regional Public Health Engineering offices for approvals and project oversight for *tehsil* water and sanitation schemes.

Box 12: Conflicts Over Credit-Claiming

In Karachi, the city *nazim* and councilors complained that provincial ministers and members of parliament were inaugurating projects initiated by the city government. For example, one minister had inaugurated a local road built by the city government and claimed instead that the road was built with the MPA funds. The negative impact of this credit-claiming by the province for local-government schemes was aptly summed up by a town *nazim* who stated that “the minister who inaugurated his road scheme should be the one to complete it—I will not do it.”

In Killa Saifullah, party workers from the JUI(F) campaigned to claim credit on behalf of the MPA for a local bridge constructed by the district administration; similarly a school constructed by the local government in *tehsil* Muslimbagh was inaugurated by a prominent local JUI(F) party member.

In Toba Taik Singh, a tussle developed between the district *nazim* and the newly elected MNA over the provision of gas to two towns in the district. The district *nazim* had announced before the October general election that gas had been approved for the two towns. However, at a big public meeting after his election, the MNA stated that he was responsible for the approval of the gas connection. The *nazim* responded by ordering an inquiry against the heads of those government educational institutions who had displayed banners praising the MNA for getting approval of gas for the two towns. The MNA in turn challenged the *nazim* to a public debate and announced that he would quit politics forever if his opponent succeeded in proving that the announcement was wrong. It is not known whether this challenge was taken up.

Sources: ADB/DfID/WB DSD Dataset 1; Dawn, February 20 2003.

These problems impact intra-local government relations as well, particularly with respect to water and sanitation. Development Authorities and Water and Sanitation Authorities in large cities have been transferred to the TMAs but not without creating some difficulties.⁴⁵ For example, in Faisalabad the WASA was devolved to one *tehsil* without appropriate reorganization. Therefore, while the WASAs’ service network spreads in neighboring TMAs as well, those TMAs denied a role in decisions on the quality or coverage of service provision are beginning to suffer.

Jurisdictional overlaps are particularly problematic because citizen expectations are rising. A clear conclusion from all the districts visited is that the degree of access of citizens to their representatives has increased considerably with devolution. This increase was in many ways inevitable. With hundreds of union councilors in all parts of the district, citizens now have multiple channels for conveying their problems to the government. In the districts visited, councilors stated, and NGO workers and journalists confirmed, that on average 50–60 people meet with councilors on a daily basis. Multiplying such contacts by the number of councilors makes it clear that the quantity of information flowing from citizens to elected representatives has increased by several orders of magnitude as compared to the pre-devolution setup.

The mismatch between expectations and jurisdictional responsibility, however, is creating disabling problems of accountability without responsibility. Union *nazimeen* and *naib nazimeen* constantly report that voters are demanding services from them for which they do not have responsibility. Despite their ex officio presence on *tehsil* and district councils, moreover, they are

⁴⁵ Except in the City Districts where, in accordance with the LGO, WASAs fall under the district governments.

not credited with any of the successes of higher tiers of government. This problem is particularly acute in Karachi. Not only is the local population very politicized; but its major demand—for better water supply and sanitation—falls precisely in the area where the local government has the least power to deliver results. The reason: the Karachi Water and Sewerage Board and the Sindh Katchi Abadis Authority have yet to be devolved. The fact that citizens protesting the non-availability of water stoned one union council reveals the magnitude of this problem. One citizen interviewed stated that he didn't care whose responsibility it was—he had voted for the union councilors and as far as he was concerned they were responsible.

The Mushawarat Committees, with the membership of the district and town *nazimeen* and the DCO, were envisaged as forums for evolving broad strategic plans and coordinating the development of entire districts. Presumably, they could help resolve some of these jurisdictional conflicts. Devolution arrangements establish no overt hierarchical relationship between the three component parts of local government. The Mushawarat Committee, therefore, is the only coordinating mechanism between the district and *tehsils*. However, it appears these committees are not entirely functional; they have no leverage over reluctant or recalcitrant parties. The City Districts have similar committees that should act as the forums for the approval of capital investments for municipal services. These bodies are viewed, however, as hurdles to be cleared for scheme approval and not as opportunities for constituency-wide planning or rationalization.

Constraints on the Substitution of Private Goods for Public Ones⁴⁶

Realistically, the underlying motives for the provision of private rather than public goods will not soon diminish. For one, councilors will have an incentive to focus on private goods because electoral campaigns are expensive. They need funds for posters, vehicles, fuel, newspaper and television access, and door-to-door campaigning, and local elites can cover these expenses in exchange for private favors later. For example, it is estimated that campaign spending averaged \$120,000 per parliamentarian in the 1997 elections (World Bank: 2002). The cost of local government elections, while lower, was still substantial, especially given the more modest backgrounds of the lower-tier politicians. In the districts visited, reported election costs were on average Rs. 10,000–25,000 for a union councilor, Rs. 50,000–200,000 for union *nazimeen* and Rs. 500,000–2 million for the district *nazim*.⁴⁷

More generally, as argued above, apart from any opportunities for patronage that they offer, activities focusing on infrastructure and targeted specifically to a particular locality are more politically visible than improvements in service delivery and hence a greater priority for policymakers.⁴⁸ For example, a review of the Faisalabad district development portfolio reveals

⁴⁶ This paper refers to private goods to include both pure private goods (that is, individual-specific) as well as narrow public goods (for example, locality-specific projects). Local infrastructure projects often encompass both—that is, only the local community benefits, and the contractors for the projects reap the private rewards.

⁴⁷ It should be noted that the indirect election of district *nazimeen* also creates the potential to buy off members of the electoral college, thereby increasing campaign costs. There is anecdotal evidence from the district visits that a number of elections were influenced in this way—in one case through the distribution of motorcycles to male councilors and jewelry to female councilors.

⁴⁸ It is also important to note that these projects are also easier to initiate. New water supply projects are favored in part because rehabilitation of existing projects is complicated (by ownership and mandate issues) and because, despite over 340 donor-supported water supply investment projects in Pakistan since the mid-1990s, it is easier to get external support for new projects than for rehabilitation. The extensive donor presence in the infrastructure sector also leads to unintended and distorting consequences. In Bahawalpur, elected representatives had an incentive to focus on high-profile, clearly visible projects like infrastructure development and not on education and health. However, the launch of three “mega projects” in water and sanitation reflected the *nazim*'s accurate belief that by creating a highly visible throw-forward, he could attract a commitment from Provincial politicians to ensure that an ADB project (Southern Punjab Basic Urban Services Project) would be directed during its preparation to pick up most of the liability.

the infrastructure focus—of the 1286 schemes, 525 are for rural drainage and water supply, 200 are for roads and 90 are for electrification. By contrast, only 134 projects concerned education and 15 focused on health. Many of the 149, moreover, emphasize infrastructure. In all the districts visited, the district and *tehsil* councils had reserved significant portions of their development budgets to be distributed equally among their respective councilors. For example, in Karachi Rs. 3.5 million were allocated for each union *nazim* from the City District's development budget, and Gulshan-e-Iqbal TMA and Lyari TMA each released Rs. 1.5 million and Rs. 1 million, respectively, to the *naib nazimeen* of the unions in their jurisdictions.

The councilors in turn have used these allocations mostly for neighborhood-specific (or *gully koocha*) schemes, such as water and sewerage network extensions. It may be argued that this practice of equal sharing across unions is politically wise given the uncertainty many councilors perceive about the future. It may also ensure that some poorer constituents do get better access to the benefits of public spending than they would merely as pawns in a vote bank. However, these allocations are detrimental to constituency-wide planning, a fact recognized by the district *nazim* of Karachi, who complained that council members do not have a citywide vision but focus exclusively on the issues of their unions. One union councilor in Karachi summed up the incentive by stating that solving neighborhood problems—such as fixing the streets sanitation line, or providing manholes—was more important politically than either a) reducing teacher absenteeism in the local school since that was less visible or b) working on union-wide projects because that would result in credit-sharing with other councilors.

This focus on union-specific development has meant that union *nazimeen* are not paying adequate attention to their other important role as district council members. The field visits revealed that councils, particularly in rural areas, were not performing as envisaged in the LGO. The important council budget sessions were largely perfunctory, with budgets being passed in a matter of minutes, suggesting that district-wide issues had not received the attention that they deserve. Monitoring committees, while formed, are generally not functional, in part because councilors lack capacity and generally deal with a frustratingly non-responsive bureaucracy, but also because councilors' priorities lie elsewhere, and their attention is focused on their particular constituency. This lack of effectiveness of monitoring committees is particularly detrimental to service delivery, as oversight is one of the main mechanisms of controlling staff absenteeism in schools and hospitals.

The lack of attention given to CCBs is also symptomatic of the priorities of local representatives. With the notable exception of Khairpur, in none of the districts visited had the political leadership sustained any interest in CCBs as potential vehicles for citizen participation in service delivery. As one NGO representative in Bahawalpur stated, CCBs were being ignored because they were viewed as a potential rival by the elected leadership, a force able to challenge the government's monopoly over development. This inattention might be changing. Faisalabad has recently formulated bylaws for CCBs; 107 projects have been identified and community 20 percent shares raised; 85 projects have been fully prepared, and 15 projects are currently underway.

The study districts however, also reveal some important counter examples of local politicians' imposing constraints on the provision of private goods. Some districts are trying to encourage councilors to collaborate in using ADP resources for larger district-wide schemes. In Bannu district, for example, the district *nazim* has adopted a transparent procedure to prioritize development schemes identified by individual district councilors. Every union *nazim* who proposes schemes to the district assembly has to produce a form showing the voting pattern of UC councilors in favor or against the scheme. This requirement ensures the schemes presented at district council by each UC *nazim* are thoroughly discussed in UC council before being approved

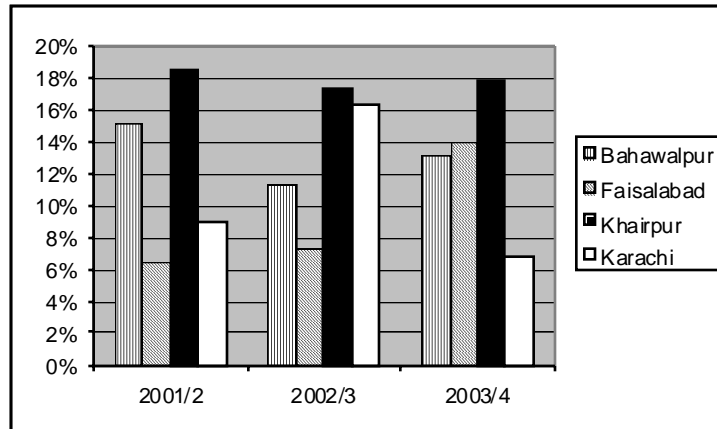
and ratified, thus encouraging the adoption of schemes with more union-wide, as opposed to parochial, relevance.

The anecdotal evidence presented above suggests the strong incentives working on councilors to focus on private goods. However, it does not provide any indication of whether or not these incentives have become more pronounced with devolution. The expenditure patterns of local governments—specifically comparing the allocation in 2003/04, the first year local governments prepared their own budgets, to the earlier years—can provide clues as to whether devolution has had a negative or positive impact on the provision of private goods. If these strong incentives exist, then local governments would be motivated to divert funds:

- From operations, repairs and maintenance toward new investment schemes.
- From large to small schemes.
- From completion of ongoing schemes toward more new schemes.

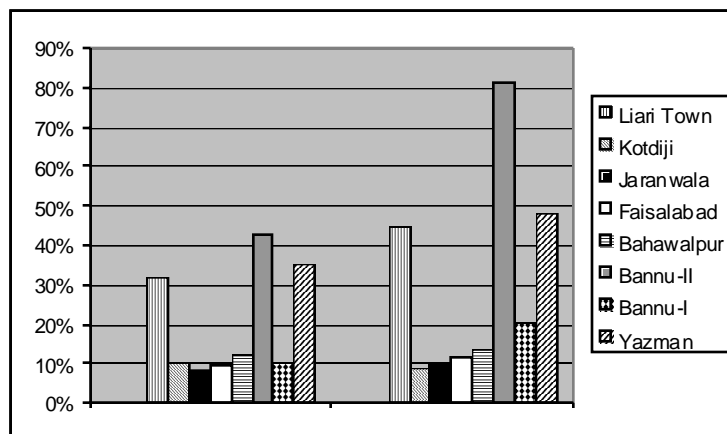
The evidence in Figure 14 and Figure 15 shows no obvious reduction in operations and maintenance expenditures and, in the case of the TMAs, some apparent increase. The argument in favor of continued earmarking—that non-salary budgets will be raised to finance new greenfield projects—therefore does not appear justified. Figure 16 illustrates the proportion of small schemes (in terms of total value) in the development budget for districts. The proportion is large, but no compelling evidence demonstrates a change in either direction. Again, it seems that the new electoral arrangements provide sufficient incentives to prevent a significant movement toward more small schemes. Finally, as Figure 17 highlights, the limited evidence available does not indicate that councilors are abandoning existing schemes to gain political glory by starting new ones. The argument against granting district governments greater autonomy in preparing the development budget revolves around the concerns that unfettered, local governments would focus their resources on new schemes for reasons of patronage and credit-taking and that those new schemes would tend to be small and low impact, in order to obtain maximum political benefit. In fact, the value of new schemes makes up only around a third of the total.

Figure 14: Non-salary as a Percentage of Total Expenditure, Districts



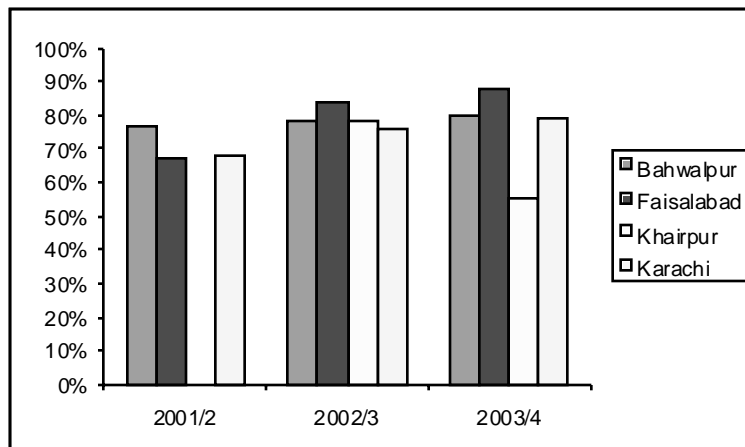
Source: ADB/DfID/WB DSD Dataset 2—from 2001/02, 2002/03 revised estimates and 2003/04 budget estimates.

Figure 15: Non-salary as a Percentage of Total Expenditure, TMAs



Source: ADB/DfID/WB DSD Dataset 2—from 2002/03 revised estimates and 2003/04 budget estimates.

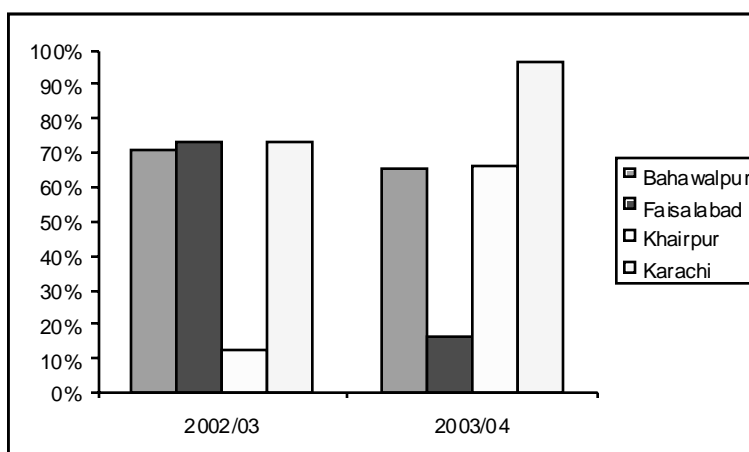
Figure 16: Percentage of Small Schemes in the Development Budget, Districts



Note: Percentage calculated on the basis of total value, not the number of schemes. Small schemes defined as less than Rs. 1 million.

Source: ADB/DfID/WB DSD Dataset 2—from 2001/02, 2002/03 revised estimates and 2003/04 budget estimates.

Figure 17: Percentage of Ongoing Schemes in the Development Budget, Districts



Note: Ongoing is defined as funding for schemes that were initiated before the current fiscal year.

Source: ADB/DFID/WB DSD Dataset 2—from 2002/03 revised estimates and 2003/04 budget estimates.

Overall therefore, the new electoral arrangements seem to have prevented any major movement toward extending the private-goods strategies of councilors. The legacy of local and national politics in Pakistan and the patterns of parochial and infrastructure politics, in particular, has built a strong tradition of private-goods approaches to constituency management. Devolution could not have been expected to counter the weight of history in the short term. However, this study found no evidence that devolution is exacerbating the problem; indeed it found encouraging signs to the contrary.

The pull from councilors is stronger than that from the Provinces

A second condition of devolution's positive impact on incentives for service delivery comes from insuring that the *nazimeen* have greater incentives to be accountable to the councilors rather than to other political powerbrokers, particularly the provinces. Although elected by them, *nazimeen*—judging by evidence from the district assessments—have few incentives to take notice of the district or TMA councilors. They feel some need to maintain their support, as indicated by the equal allocation of development funds to each councilor. However, it is striking that no district *nazim* faced effective opposition in any of the districts visited. This is, in large part, because the electoral college is often more dependent on *nazimeen* than vice versa. This in turn is because *nazimeen* tend to be established politicians who in many cases have used their influence to campaign on behalf of councilors and because of their control over development funds, primarily via the District Development Committee.

This study asserts that councilors are likely to have more influence on *nazimeen* than the province if a) they can claim a distinctive political legitimacy and can translate it into an effective opposition in the council, and b) if the province itself feels little need to intervene in the districts and TMAs.

Political legitimacy of councilors

The degree of accountability of the *nazimeen* to the councilors is likely to increase when there is significant political competition in local elections marked by higher voter turnout, fewer uncontested seats and independent candidates giving way in most cases to representatives of

established parties.⁴⁹ Overall, the six study districts revealed that the degree of local contestation was fairly high, certainly no lower than in the parliamentary elections (Table 15). In general voter turnout was higher than in the October 2002 general elections, with the notable exception of Karachi where the turnout was lower due to the boycott of the MQM.⁵⁰ In Bannu and Killa Saifullah, seats were often uncontested because of prior arrangements made between different groups to ensure that significant tribes were represented. In both these districts also, it is important to note that many women's seats were either not contested, or no woman was nominated for the reserved seat. (Initially there were 10 percent vacancies nationally in the reserved seats for women, with particularly large vacancies in NWFP and Balochistan, but some of these have now been filled.) Where, as in Bannu, the MMA decided to boycott the elections, this abstention undermined the legitimacy of the local government. The result was electoral success for candidates who undoubtedly come from the economically favored classes rather than from the lower-middle-class ranks of the MMA. In both districts of Punjab and in Khairpur, party politics, despite the nonparty rubric of the elections, was very strong. Where the party political element is clear, turnout is also higher.

Table 15: Political Legitimacy in Local Government Elections

Dimensions of Legitimacy	Killa Saifullah	Karachi	Bannu	Bahawalpur	Khairpur	Faisalabad
Degree of political contestation	Low contestation—156 out of 315 seats (50%) were not contested but were nominated through <i>jirga</i> process.	High, including women in LE. Approximately 90% of all seats were filled through contestation.	Low contestation—approximately 50% of women's seats vacant; and 25% of seats elected without contest. In two union councils all members were elected unopposed.	Contestation higher than Bannu and KS, but below Karachi. 74% of women's union councilor seats filled through contest.	High level of political contest, including for women's seats of which 90% were filled through political contest.	High in all categories of seats.
Voter turnout (%)						
Local election		31	47	55	65	60
General election						
2002	25	35	38	44	39	43
1988	21	47	32	43	43	49
% of union <i>nazimeen</i> who are "independents"	40	11	60	3	0	0

Source: ADB/DfID/WB DSD Dataset 1.

Although competition was reasonably high, it has not translated into effective opposition politics in the councils. No-confidence motions have been used for internal recall primarily against union *nazimeen* and *naib nazimeen*, particularly in Faisalabad and Bahawalpur. The relative lack of no-confidence motions against the district and *tehsil nazimeen* is not surprising as the formal rules

⁴⁹ It can be argued that intensity of election campaigns is likely to be higher when political parties are involved as opposed to when independent candidates are contesting, primarily because candidates affiliated with political parties have greater resources at their disposal for their campaigns. Partisan politics is also likely to lead to higher turnout and greater contestation. In addition, party politics can also allow for internal—that is, within the party—accountability arrangements to operate.

⁵⁰ In most countries, local government election turnout is significantly lower than in general elections (for example, Uganda only about 25 percent).

for internal recall of district and *tehsil nazimeen* effectively protect them.⁵¹ In proposing a no-confidence motion against a district or TMA *nazim*, a councilor has to be confident of securing a majority in both the council and among all the union councilors in the district or *tehsil*, because otherwise he or she will be forced to resign as a union *nazim*. By contrast, union *nazimeen* and *naib nazimeen* are much more vulnerable to no-confidence motions than their district and *tehsil* counterparts. This is because in most cases village and neighborhood committees have not been formed, and a simple majority in the union council is enough to suspend the union *nazim*.⁵² Therefore, a district *nazim* can engineer or threaten to engineer such a motion against a troublesome union *nazim*. This threat is particularly real because in many districts the relationship between union *nazimeen* and union *naib nazimeen* is strained, and the district *nazim* has a potential ally in his or her bid to discipline union *nazimeen*.⁵³

Another reason for weak opposition is that district and *tehsil nazimeen* are usually established politicians with high standing in the community, making them crucial allies in the electoral efforts of union councilors. This dependence was in view in Bahawalpur, where the district *nazim*—prior to the elections and in order to ensure his subsequent election—campaigns on behalf of union councilors and claims to have individually won 54 out of 107 UCs. In effect he elected them just as much as they elected him.

Modest incentives for provinces to intervene in the districts

Another clear connection that emerges from the district visits is the importance of the political relationship between provincial and local governments. Effectively, this relationship determines the extent of political control that the district *nazim* can exercise within local government as well as the freedom local policymakers have to act to meet their constituents' demands.

Table 16 is a stylized depiction of the degree of constraints imposed on the district *nazim* by the province. While other variables, such as the independent political strength of the *nazim* and the political affiliation of the MPAs from the district play a role, the key factor determining the *nazim*'s freedom to maneuver is his or her relationship with the ruling provincial political coalition. In two of the six districts visited—Bahawalpur and Faisalabad—the district *nazim* is allied to the Chief Minister and the ruling provincial political coalition, while in the other four the district *nazim* is in opposition. This relationship has a significant impact on the flow of funds between the province and local governments, on the implementation of local development schemes and on the manipulation of appointments and transfers of personnel.

⁵¹ District *nazimeen* can also be recalled by provincial action. This external recall requires that the chief minister of the province bring a motion to the provincial assembly that, by passing the motion, discharges the *nazim*.

⁵² The LGO specifies that the internal recall of a union *nazim* requires a majority in the village or neighborhood councils of that union. The holding of council elections at those levels is the responsibility of the *tehsil* or town administration, and if the *tehsil* fails to perform this duty within 90 days of assuming office, the district government is to hold these elections. However to date these councils have not been formed. Interestingly, the internal recall of a union *naib nazim* is even easier as it requires only a simple majority in the council.

⁵³ It appears that the reason for this tension is that union *nazimeen* and *naib nazimeen* both have access to development funds (from the district and *tehsil* councils, respectively), putting them in competition for patronage.

Table 16: Provincial Incentives to Intervene in the Districts

Source of the Incentives	Killa Saifullah	Karachi	Bannu	Bahawalpur	Khairpur	Faisalabad
Party affinity between the Chief Minister and or the main provincial coalition, and the district <i>nazim</i>	Opposition	Opposition	Opposition	Same party	Opposition	Same party
Position of the <i>nazim</i> 's party in the Provincial Assembly constituencies within the district	All seats with opposition parties	Majority seats with opposition parties	All seats with opposition parties	Evenly split	Majority with same party	Evenly split
Independent political standing of the <i>nazim</i>	Medium: <i>nazim</i> tribal elder, but new to politics and selected from above	Medium: well respected but represents political party with relatively small base	High: <i>nazim</i> extremely wealthy	High: <i>nazim</i> astute politician with a big vote bank	Medium: <i>nazim</i> from established political family, but new to politics	High: <i>nazim</i> extremely wealthy
Overall incentives for the province to intervene	High	High	Moderate	Low	High	Low

Source: ADB/DfID/WB DSD Dataset 1.

In districts that are politically allied with the province, the district *nazim* has several tools at his or her disposal to discipline opposition *nazimeen*. The most important is the District Development Committee (DDC), which has the responsibility for giving technical approval to development schemes and which can act as an effective agent of the province through its chairman, the DCO. *Nazimeen* with strong relationships with provincial governments, as in Bahawalpur and Faisalabad, have been able to use the DCO to discipline opposition union *nazimeen* by blocking their development schemes in the DDC.

Box 13: A Case Study of Provincial Government Interference

In May 2003, through an order of the Finance Department, the Government of NWFP eliminated 21 posts in the Bannu District Works and Services office, including the post of EDO. Across the province, the government abolished 291 such posts and in its place created six Works and Services Circles (each with responsibility for four districts). A Superintendent Engineer (SE) will head each new Circle.

In the opinion of the Bannu district *nazim*, this act was a clear indication of the provincial government's efforts to undermine the district government. One of the Circles is headquartered in Bannu, but the SE is a provincial level employee who is not answerable to the district government. There are two XENs (Executive Engineers or DOs) who report to the SE, and each of these district employees has technical sanction powers capped at Rs. 2 million. The practical effect of this change is that any district scheme above Rs. 2 million will need the approval of the provincial government.

When the province has few incentives to intervene, the *nazim* can have a fairly free hand to direct administrative staff without much check from the provincial headquarters. The *nazim* of Faisalabad was able to resist the transfer of the DCO, who had been posted there at the *nazim*'s request in the first place. In Bahawalpur the harmonious relationship that prevails between a dominant *nazim* and a fairly compliant administration means that transfers of teachers and health staff within the district are subject to the approval of the *nazim*. Similarly, the *nazimeen* in both Faisalabad and Bahawalpur actively influence the contractual hiring of doctors.

By contrast, in opposition districts the DDC can be used as a tool to subvert the workings of the local government. In Killa Saifullah, for example, the district council reportedly proposed a number of water supply schemes that were blocked in the committee; instead, tube wells that were part of the MPA schemes were approved. Khairpur is perhaps the most blatant example of province-district tensions negatively impacting local development works. Initiatives by the *nazim* have been neutralized or delayed by the DCO who uses his powers as a principal accounting officer to block funding and support to shelterless schools and CCBs and withholds the release of *zakat* and KPP funds. Provincial actions can also increase opposition to the *nazim* within the council. In Khairpur, for example, the former governor allocated funds to three opposition *talukas* in the district, an act that has emboldened the opposition in the district council as they now have an alternative source for development funds, in sharp contrast to the situation in Faisalabad.

Unwanted provincial intervention can have an impact on the political career of the district *nazimeen*. In Killa Saifullah for example, the district *nazim* stated that the frustration of the people was growing and that continuation of the present impasse with the province would harm his chances for re-election. Similarly, union councilors and *nazimeen* stated that given the high costs and general poverty of the districts and the frustration that they are facing in their work, not many of them will wish to run again for office.

There is potential for further provincial involvement in district affairs. In June 2002 Chapter XII of the LGO 2001 made it a dual responsibility for the Auditor General to lay the reports before the Provincial Assembly as well as *Zila* Council thus creating a dual accountability for the district *nazim*—to the province as well as to the *Zila* Council. This situation has been rectified in the recent round of amendments to Chapter XII recently made by all four provinces. Since the Auditor General recently recommended again to the President that the audit reports of the districts be submitted to the Governor, the issue may reopen.

EARLY SIGNS OF CHANGING INCENTIVES FOR SERVICE PROVIDERS

While devolution does appear to have increased incentives for councilors to listen to citizens, not only does a strong tradition still encourage focusing on the provision of private goods, but also interference by the province greatly diminishes the accountability of *nazimeen* to the councilors. For service delivery to improve, however, the service providers—not just their elected superiors—must want to see improvements. This motivation is provided either by ensuring that the service providers have an incentive to listen to the policy makers—managerial power—or by providing potential service recipients with some direct means to have an impact on the conduct of service providers—citizen power in the terminology of the WDR.

Managerial Power

In reviewing the changed incentives for front-line staff and other service providers to listen to *nazimeen*, the study examines four key aspects:

- The extent to which staff working in the district are employed by the district—including consideration of six key features: autonomy in preparing the salary budget; local control over the establishment; locally determined recruitment; local determination of career paths; local management of staff performance; and autonomy in pay policy
- Adequacy of the *nazim*'s authority over senior staff, including inputs into the performance evaluations for senior staff and power to require their transfer.
- Extent of external oversight, including a review of the effectiveness of bodies, such as Accounts Committees, Monitoring Committees and District Public Safety Commissions that are instruments for monitoring front line staff.
- Adequacy of the deployment of staff, including adequate numbers, skills and technical sanction powers.

The first three of these areas focus on the issue of incentives, while the last—the adequacy of staff deployment—analyzes whether or not front-line staff have the capacity to listen to the *nazimeen* even if these incentives are in place.

The first of these considerations is dominant. In the 6 districts studied, public sector service provision in the key health and education sectors is almost entirely delivered by departmental staff with little contracting out or other partnership with the private sector. Such developments may come over time, but for the moment, service providers are largely synonymous with civil servants.

The question is whether these civil servants have reason to take policy directions from locally elected representatives, in other words, whether they view local governments as their employer. The transfer of functions and the physical relocation of staff have not been fully matched by the transfer of the employer role. Local governments have limited ability to create fiscal space by dismissing surplus staff, and in two of the four provinces (Sindh and NWFP), salaries continue to be paid from Account 1. In other cases, while the formal authority rests with the local government, the province continues to exercise informal control. While the LGO provides for a sophisticated sharing of control over posting of civil servants based on norms which clearly delineate responsibilities, informal provincial controls are clearly evident in the area of Appointment, Promotion and Transfer (APT) authorities. In many cases, provinces have reduced the control of local political executives over their civil service through unilateral orders of postings.

The result is that although physically located in the districts, most senior district staff do not consider themselves as district employees and therefore are likely to accommodate provincial pressures to transfer subordinate staff. This attitude has considerably weakened the accountability of senior staff to local elected representatives. In fact, politically motivated inter- and intra-district staff transfers are a main area of conflict between provincial and local governments and are most severe in districts that are not politically aligned with the province, such as Bannu, Khairpur, and Karachi. Since TMA staff largely belong to local government cadres or are the council's own employees, the problem of low institutional allegiance and weak accountability is less acute.

New mechanisms like the Monitoring Committees, District Public Safety Commissions, Accounts Committees and insaaf committees are aimed at bolstering Political authority over administrators. However, as yet these have been introduced only to a very limited degree.

Staff Working in the District are Employed by the District

Under a system of complete administrative devolution, all authority for personnel management would be found at the same level of government where staff are located. In practice, there are very sensible reasons to deviate from this simplistic model. Above all, history and tradition determine many of the present arrangements, making it difficult to abandon them completely and start again. Moreover, there are quite defensible reasons for higher levels of government to retain some control over staffing at lower levels. Specifically, such an arrangement provides:

- An opportunity to exercise some top-down influence over policy (as a national integrating device) even where political and fiscal authority have been largely devolved;
- A broader set of career options for civil servants, so they are competing for positions both within and outside their immediate administrative location; and
- Some fiscal safeguards in settings where political pressures might otherwise overwhelm constraints on hiring or remuneration.

There are also sector-specific reasons—particularly in education and health—for maintaining certain personnel management responsibilities outside the administrative unit where staff are located. For example, there is a need to follow a common set of professional standards in curriculum design and public health. Arguably, this goal can be achieved most readily by creating overarching staff groupings that share common interests and provide a single career path.

Notwithstanding these caveats, the ongoing challenge of decentralization is to shift the employer function gradually to coincide with the new levels of functional responsibility—to create, in effect, the equivalent of a District Service whether a body is formally established under that name or not. A District Service would constitute a group of personnel clearly employed by the districts.⁵⁴ Being fully the employer in such a situation makes a government responsible for:

- Budget Control
- Establishment Control
- Recruitment
- Career Management
- Performance Management
- Pay Policy.⁵⁵

Progress to date in shifting the employer functions to district governments has been decidedly mixed. The federal government clearly remains the employer of the DMG and Audit and Accounts Group staff posted to the districts. Meanwhile, senior staff of the districts—Executive District Officers (EDOs) and others at or above BPS-16, or BPS-18 in Punjab—remain subject to the province or the federal government for appointment, promotion and transfer (APT) decisions.

The result is confused and competing lines of control. For instance, while the DCO reports to the district *nazim*, he or she remains part of a federal employee cadre for whom promotions and transfers are determined by authorities outside of the district, undermining the reporting

⁵⁴ The NRB continues to discuss the possibility of creating a formal District Service, but no decision has been taken yet.

⁵⁵ See the third volume (*Annex 2—Technical Considerations*) for a more substantial discussion.

relationship to the district *nazim*. DCOs have been transferred frequently, and while *nazimeen* may request the transfer of a DCO they disapprove of, they cannot prevent an adverse transfer. While the districts clearly became the employers of the former rural district council employees, the vast majority of district staff are from former provincial cadres. This group includes teachers and health-service providers over whom lines of control clash. Particularly in relation to APT authorities, these staff find themselves effectively managed by the province.

The six features of the employer function are described below. Table 17 provides a summary of the extent of devolution of the employer function in each province. Overall, as can be seen, local governments have little de facto employment authority over staff located in their areas.

Table 17: Location of the Employer Function for District Staff

Aspects of the Employer Function		Balochistan	NWFP	Punjab	Sindh
Budget Control	Paying salaries from its own budget	D	P	D	P
	Authority to dismiss surplus staff	P	P	P	P
Establishment Control	Controlling overall staff numbers	P	P	D	S
	Controlling disposition of staff within district	P	P	D	S
Recruitment	Authorized to hire	P	P	P	P
	Oversight of merit	P	P	P	P
	Legally recognized as employer	S	S	S	S
Career Management	Offering promotion	S	S	S	S
	Making transfers within local government	P	P	P	P
Performance Management	Directing and supervising activities and tasks	D	D	D	D
	Conducting Evaluations (ACRs)	S	S	S	S
	Undertaking discipline or dismissal	P	P	P	P
Pay Policy	Setting overall pay rates	P	P	P	P
	Setting hardship or remoteness allowances	P	P	P	P

P = province has primary authority

D = district has primary authority

S = shared

Source: ADB/DfID/World Bank DSD Dataset 1.

Autonomy in preparing the salary budget

Budget control over personnel includes paying staff from government's own budget and the authority to dismiss surplus staff. In NWFP and Sindh, nearly all district salaries are still paid from the provincial Account I rather than the district-controlled Account IV (see Table 12).⁵⁶ Under this arrangement, the districts must seek approval from the province for the release of the funds for their salary payments. Thus, the salaries effectively are paid from the provincial budget, the district wage bill envelope is firmly controlled by the province, and any unspent district funds accrue to the province.⁵⁷ By contrast, in Balochistan and Punjab, district salaries are received and

⁵⁶ The exception is former employees of the rural district and urban local councils who are paid from district budgets through Account IV (or the Local Fund where this has not yet been merged with Account IV).

⁵⁷ The section on *Autonomy in preparing the salary budget* summarizes the arguments presented by provinces for maintaining this arrangement. The method for calculating the size of the salary transfer differs by province and

disbursed through Account IV, maintained by the District Accounts Office (DAO). Furthermore, in no province are district governments permitted to identify and dismiss surplus staff. Thus, even where salaries are transferred via account IV, there is no incentive for districts to find savings in the salary budget and reallocate them to other purposes.

Local Control over the Establishment

Establishment control refers to the authority to set limits on the number of personnel in each government organization and of each skill type. According to the LGO, this authority formally rests with the district governments as the districts can create new sanctioned positions.⁵⁸ However, in practice, the provincial governments retain considerable influence over establishment decisions because districts and TMAs need provincial authorization to create new posts and to fill vacancies.

It should be noted that there are both advantages and disadvantages to devolving establishment control to local governments. On the one hand this shift will enable local governments to respond to the demands of their constituents particularly where staff shortages hurt service delivery, but on the other hand provincially imposed constraints may be limiting the scale of patronage-based staff appointments.

Box 14: The Politics of Staff Transfers

In Sindh many EDOs reportedly were pressured by provincial politicians to accede to inter-district transfers to and/or from posts within their department in advance of the last by-election. The threat was that EDOs who did not comply would themselves be transferred to less attractive posts outside the district.

Several reports in Dawn recount the rivalry between the Muttahida Qaumi Movement (MQM), a key member of the provincial coalition government, and the Jamaat-e-Islami party, which controls City District of Karachi. While the city district *nazim*, Naimatullah Khan, has insisted that no officer should be transferred without his permission or, at least, consultation, the MQM has ignored this demand. In February 2003 senior police officers were transferred without consulting the *nazim*, although law and order is a responsibility of the district government. Similarly, in March the EDOs for Revenue, Finance, Education and Local Government were transferred and replaced with successors chosen by provincial officials.

The Pakistan People's Party (PPP) dominates rural district administration in Sindh. However, even some PPP parliamentarians have come out in favor of curtailing the authority of local *nazimeen* who can pose a challenge to the authority of the party's provincial office holders. Rural district *nazimeen* have complained to the Chief Secretary that their DCOs have ordered transfers without consulting them, and approved transfers that countermand their direct instructions. *Nazimeen* simply have little authority over the DCO.

In NWFP, all 24 district *nazimeen* resigned on June 2, 2003, to protest political interference by the MMA. The primary grievance of the *nazimeen* was the transfer of government officials and the placement of politically sympathetic new recruits within the districts. As reported in the News International, "The officers were threatened of bad consequences if they didn't obey directives about transfers and postings" (June 2, 2003).

sometimes by district. For Khairpur district in Sindh, the provincial government releases funds based upon the number of sanctioned and newly created posts. Meanwhile, for the City District of Karachi salary transfers are made according to the actual strength of employees, and not on the basis of sanctioned posts. In Punjab (Bahawalpur and Faisalabad districts) and for Bannu district in NWFP the salary transfers to Account IV are based on data for the actual staff strength in the districts.

⁵⁸ The SLGO establishes as a "function and power of the *Zila* council" to "approve the proposals of the District Government for changes in the number of posts of officials and employees of the decentralized offices of District Administration and *Tahuka* Municipal Administration and Town Municipal Administration as part of the budget statement" (Art. 39).

Locally determined recruitment

Recruitment authority includes the ability to select and appoint staff and oversight over merit. Selection and appointment responsibilities have been devolved to districts but with significant limits—most notably, a prohibition on recruitment presently imposed by each province. Thus, even if local governments have vacant posts and local revenues to cover the salaries, the recruitment ban undercuts their ability to develop their own human resources complement. These bans have recently been relaxed, but the districts may only hire certain groups of employees and only on a contract basis.

Normally, the federal and provincial governments carry out hiring at specified intervals through their respective Public Service Commissions. The hiring of administrative staff and officers on contracts by the district government is a significant departure from this tradition. Contract hiring has been commonly practiced in the Health and Education sectors for teachers, medical staff and paramedics. Though it is becoming more common among the provinces, no clear rules or policy support this practice. One notable exception is NWFP, where a contract policy was introduced in October 2002. Under it, BS 1–10 contract appointments would be made on the recommendations of Departmental Selection Committee (DSC) while BS 11–15 contract appointments would be made on the recommendations of Provincial Public Service Commission (PPSC). Contract appointments in BS 16 and above are to be made through the PPSC. Thus oversight of merit rests in part with the districts and in part with the PPSC. In Sindh the oversight of merit remained, with the PPSC for staff above grade 11 until the Cabinet very recently removed BS 11–16 from the purview of the commission.⁵⁹ Similarly, in Balochistan a recent notification of the provincial government, dated March 26, 2003, removed appointments in BS 11–16 from the purview of the Balochistan Public Service Commission.

In the absence of a clear policy, confusion exists as to the powers of district governments to hire essential staff on contract. For example, in Khairpur, the provincial finance department has reportedly given authority (not yet been carried out) to hire a DO Finance and EDO F&P on contract, but it is not clear who has this authority and how it will be exercised. However, in the same district, the Health department was able to hire a large number of doctors, in excess of the number of advertised vacancies.

Contract policies are also being gradually introduced in the other provinces, such as Punjab. The Government of Punjab's policy lays down certain parameters and guidelines to ensure uniform criteria for such appointments. The selection committees constituted at the district level for processing recruitment on a regular basis have been entrusted with the task of making these contract appointments. In Faisalabad, the hiring of doctors and teachers was proudly considered to be a strong display of district autonomy and authority. In accordance with the provincial government's policy, a district recruitment committee has filled many previously vacant positions in the BHUs through the appointment of more than 100 doctors on contract basis in various health facilities. Similarly, surgeons and child specialists have also been recruited on contract. These facility-specific contracts appear to carry slightly better salary and emolument packages than those of regular employees. However, they can be usually terminated on three months' notice.

⁵⁹ The Sindh Local Government Ordinance does not specifically mention the PPSC, raising the possibility that the districts will be able to mount a legal challenge to PPSC oversight of recruitment for their staff.

The government selecting and appointing staff is likely to be recognized legally before the courts as the employer, but that status is not certain.⁶⁰ For government employees who may wish to contest an employment action in the courts, the legal definition of the employer is critical. It is not clear whether employees formally transferred to the districts will bring legal action against the province or district government to contest a perceived injustice concerning their employment.

Local determination of career paths

Career management includes the authority to offer promotions and make transfers among local government posts. The formal rules governing transfer authorities vary somewhat by province and by sector (see the Appendix). APT authority in Punjab rests with the DOs and DCO up to grade 18, and with the district *nazim* for grade 19 (except for the transfer of EDOs and DOs). In Sindh APT authority rests with the DCO in consultation with the *nazim* up to grade 17. In NWFP district officers control APT authority up to grade 15 staff, while the provincial governments are authorized to make APT decisions for all higher grades. Balochistan has so far not produced APT rules for the districts. However, in practice, provincial officials in all four provinces frequently exercise APT authority

The disjuncture between the geographic location of senior staff and the location of their superiors making APT decisions creates competing lines of control. The 10–12 EDOs responsible for sectors such as education, health and literacy—report formally to the DCO and not to provincial line ministries in the former divisional-provincial hierarchy. However, as their promotion and transfers are determined at the provincial level, they too are unlikely to regard the district management structures as paramount. The threat of an unpleasant transfer or the promise of an attractive one can pressure the senior staff member to arrange the transfer of a junior employee, below grade 16. Enforced inter-district transfers for provincial cadres posted to the *tehsils* are also a significant problem.

Thus, despite various bans on transfers and postings issued by the provinces, the provincial government often initiates transfers by exerting influence upon senior district officials.⁶¹ External pressure is coming from at least two directions: provincial headquarters and elected representatives (MNA, MPA). The transfers of district staff tend to be most frequent in areas where there is some political conflict between the district and provincial governments. So long as provincial and federal cadres retain positions in local governments, some minimum time should be placed on their tenure. Without this, the temptation to use transfers as a covert policy instrument is overwhelming.

Tensions between the province and districts in staff management also manifest themselves in issues relating to the accounting and audit cadres. Since accounting continues to be a federal and provincial domain, it appears that in many cases accounting practice is reflecting provincial and not district priorities in supporting financial and general management. This is producing behind-schedule, unreliable and nontransparent reporting of local government accounts. In the six districts the accounts reports to the councils were not being tabled in accordance with the LGO provisions. With regard to auditing, there is a problem of dual accountability for the district *nazim*, as district audit reports were required, until recently, to be placed in both the provincial assembly and the district council.

⁶⁰ The district generally is recognized as the employer for health and education staff. In NWFP district cadres were formally created for these staff on January 15, 2002, and March 15, 2002, respectively. Gazetted Notifications SOR.I(E&AD)1-218/2001 and SOR.II(E&AD)1(20)98.V.III.

⁶¹ It is reported that in the 14 April 2004 decision (see footnote 8.) powers of postings and transfers of DPOs have been vested in the provincial Chief Minister who will appoint on the basis of a list prepared by the Province Police Officer. This potentially will further exacerbate these tensions.

Local management of performance

Preparation of the Annual Confidential Report (ACR) is the chief instrument for assessing the performance of public officials in Pakistan. At the district level, the ACR of the DCO is prepared by the district *nazim* and countersigned by the provincial Secretary Local Government. The DCO is responsible for preparing the annual ACR for EDOs, which are then countersigned by the district *nazim*, and the EDOs, in turn, prepare the ACRs of DOs, which are countersigned by the DCO. At the TMA level, similar arrangements exist, although with some variation among provinces. In general, the TMO prepares the ACR of TOs, to be countersigned by the *tehsil nazim*, with the notable exception of Balochistan where the performance evaluation channel has yet to be delineated.

Many officers interviewed consider the ACR to be an ineffective device for promoting accountability. In most districts ACRs are prepared infrequently and only for senior officials. These also appear not to be a robust instrument for measuring the quality of an officer's performance or ensuring accountability. However, some *nazimeen* have argued that EDOs/TOs might be more responsive to instructions if the *nazimeen* were authorized to prepare their ACRs, as this duty would provide them some influence, however modest, in promotion decisions. DCOs, TMOs, and TOs have countered that this procedure would subject officers to undue political pressure in the discharge of their duties, including pressure to provide favors at some stage.

Autonomy in pay policy

Setting wage scales and hardship or remoteness allowances are the two cardinal features of a pay policy. In Pakistan there is no provincial or district control over basic pay scales, and very little over allowances. It is possible, however, for local governments to establish incentive payments for their personnel. The Provincial Local Government Ordinances state, "in every budget a provision may be made for payment of performance incentive bonuses as prescribed."

In the study districts, some districts were making use of this provision. In Faisalabad for example, the FY 2003/04 budget earmarks Rs. 500,000 for incentive payments. Once funds are set aside in the budget, as approved by the district council, then, in accordance with Schedule III of the District Government Rules of Business 2001, specific recommendations for the grant of honors and awards are to be submitted to the *nazim* for approval. In July 2003, the employees of DO Finance and Budget, DO Planning and the central staff of EDO Finance and Planning each received a bonus of one month's salary (base pay and allowances) in recognition of their work in preparing the budget.

The performance-pay provision of the LGO provides local government policy makers an opportunity to exercise some limited control over pay policy. However, it is possible that this authority could be abused, as the *nazim* may approve any payments once an overall envelope has been approved in the budget.

Nazimeen Authority over Senior Staff

The role of the *nazim* acting as the employer for the DCO is particularly complex. The relationship between the two officeholders is key to the smooth functioning of the local government and is meant to be balanced and two-sided. On the one hand, the DCO should, as per the LGO, be accountable to the *nazim*. On the other, and appropriately for a senior public servant, the DCO must be able to express independent views in order to provide professional, impartial advice to the *nazim* and council ("speaking truth unto power"). In many cases, as the previous section noted, the DCO is not performing this key role and has become de facto a political player, either acting at the behest of the province against the district *nazim* or as an agent in furthering the

nazim's political control over the district. These difficulties are of course not peculiar to devolution but reflect prevailing norms regulating politician-civil servant dealings at all levels of government in Pakistan.

It was generally observed that the authority of the *nazim* to write the ACRs of DCOs was an insufficient mechanism for enforcing accountability since it was an ineffective tool for measuring the performance of an officer and tended to be viewed as a routine matter to be placed on an officer's file at the time of promotion in fulfilling a legal or administrative requirement. Officers tended to be given postings regardless of their performance in previous tenures.

District *nazimeen* must have a working relationship with the DCO that enables the *nazim* to drive policy, while being appropriately challenged on due process. In practice, there are few DCOs providing robust, technically informed and professional advice to *nazimeen* during the planning and budgeting process. Although DCOs can be supportive to *nazimeen* who are in a secure political relation with the province, where *nazimeen* are not well aligned politically with province interests DCOs can also be hostile, supporting conflicting provincial interests. The relationship between *nazim* and DCO is therefore key. Strong differences between these two players can lead to administrative paralysis and divided loyalties for staff.

There are two principal reasons why DCOs might and do seek to bypass the *nazim*. First, they can themselves face some challenges in imposing authority over other senior district staff. Pre-devolution, the office of Deputy Commissioner (DC) held the pivotal position at the district level, but other line departments were not answerable to the DC with respect to their annual development plans, budgets, or personnel issues. With the advent of devolution, the office of DCO has assumed a much larger and more formal role vis-à-vis the other groups of offices in a district. However, provincial departments can and do choose to disregard the new arrangements, and many instances were reported where the provincial government had sent instructions directly to EDOs, particularly education, instead of following the proper procedure. To counter this, DCOs use their informal contacts in the province to enforce authority.

Second, as members of federal or provincial cadres, DCOs consider, correctly, that the province rather than by the *nazim* will determine their career advancement. DCOs can feel that their position as a federal or provincial employee in a district is now a less powerful office. Senior officers at grade 19 serving in the districts note that their juniors are now serving the provincial government as Secretaries while they are serving as DCOs in places where they might have held more powerful positions more than a decade ago.

The ACR system is unlikely to provide a particularly strong mechanism for ensuring that the DCO retains some incentive to serve the interests of the *nazim* as these officers remain part of the federal employee cadre and so the ability of the *nazim* to make a credible threat to transfer the DCO is completely a function of the informal relationship between him or her and the province.

Nazimeen also have very little authority over the District Police Officer. Formally, only in Punjab has the district *nazim* been given the initiating authority for the ACR of the DPO, although in practice in none of the districts studied were these performance evaluation reports completed.⁶² Some *nazimeen*, in fact, considered that removing the authority of the former district magistrate in completing the ACR of a former district Superintendent of Police has contributed to deterioration in law and order in general.

⁶² The 14 April 2004 meeting (see footnote 8) reportedly reaffirmed the *nazim*'s responsibility to initiate the DPO's ACR in respect of law and order in all the four provinces. Police rules have not yet been prepared.

External Oversight

The LGO provides institutional arrangements for external oversight of service providers, some of which are internal to council—Monitoring Committees, for example—whereas others provide channels for direct influence by citizens on service providers’ performance through external bodies that have a statutory basis. Defined in this way, Table 18 summarizes the various oversight and other community management institutions that support devolution.

Table 18: Mechanisms for External Oversight

Body	Created or amended by which legislation	Function of the body	Status
Accounts committees	LGO	To be formed at the district, <i>tehsil</i> , and union level for the legislative scrutiny of public funds	Formed but not functional
District monitoring committees	LGO	Oversight of district offices, such as Education, Health and Works	Formed, but partly functional
<i>Tehsil</i> monitoring committees	LGO	Oversight of <i>tehsil</i> offices, such as infrastructure, and regulation	Formed, but partly functional
Union monitoring committees	LGO	Oversight of all offices of local government, such as education, health, infrastructure	Formed, but not functional
District public safety commission	Police Order	Community monitoring of police	Formed but generally ineffective
Village and neighborhood councils	LGO	Community mobilization for maintenance of local infrastructure	Not formed
<i>Insaaf</i> committees	LGO	To redress citizen grievances against district courts	Generally non-functional

Accounts Committees

The LGO calls for a strengthening of the auditing functions of local governments. Prior to devolution, a sample audit was conducted of different district departments but the district, as a whole, was not audited. Instead, the audit of district offices of line departments was conducted in isolation. Post-devolution, annual audits of the entire district government are meant to be the rule. Legislative oversight over the management of public funds is an internationally accepted good-governance practice and essential for ensuring accountability. The LGO calls for the creation of public accounts committees at all three tiers of local government to be responsible for reviewing the accounts and audit reports of the respective government. Devolution has therefore, created the potential for a much larger number of transactions to be publicly scrutinized, thus making increased accountability for public expenditure management possible.⁶³

However, this potential remains unrealized. With the exception of Khairpur, no accounts committees have been notified, and in no district or TMA has any audit report of the post devolution period been presented in council. So practically there has been no activity on accountability and audit reports.

Monitoring Committees

NRB has laid out elaborate guidelines for the establishment of monitoring committees at the union, *tehsil* and district level to identify problems at the service facility level and bring them to the attention of the respective council and the concerned EDOs (National Reconstruction Bureau:

⁶³ It should be noted that the accounts committees do not have the ability to review monthly accounts. Once the budget is released to DDOs, they maintain their own accounts and reconcile them with the DAO on a monthly basis. These monthly accounts are not presented before the District Council, and hence the council has no formal mechanism to make a timely check of improper use of funds.

2001b). Monitoring committees are meant to be subcommittees of the concerned council, consisting of at least three council members elected for a period of three years. A third of the members of each committee is to be from among the reserved seats for women, peasants, workers and minorities. The union monitoring committees are responsible for monitoring the functions of *all* local government offices responsible for the delivery of services within the union, while the *tehsil* and district committees oversee the functioning of the offices in their respective governments.⁶⁴ The guidelines specify that through regular field visits, members of the monitoring committees are to involve the community in assessing the quality of service delivery. The committees are to present quarterly reports of their activities to their respective councils as the basis for the councils' passing the necessary resolutions or referring the matter upward to *tehsil* or district councils if needed. The *nazim* is to report back within 30 days to the council on the actions taken.

The field visits revealed that, with some notable exceptions and for several reasons, monitoring committees were not performing as the regulations envisioned. First, in only one of the six districts—Khairpur—did it appear that the monitoring committees were the product of a competitive election through which opposition members were also able to secure some representation. In the other districts the process was controlled by the respective *nazimeen*. As a result the committee members were not necessarily the most enthusiastic or qualified for the job.

For example, in Killa Saifullah some of the union committees were formed simply by distributing the councilors among them, and the councilors were not even aware that they belonged to any committees. In Bahawalpur, the district council formed a seven-member task force which was assigned the task of forming monitoring committees and which selected their members. The members selected for the education monitoring committee were all male, mostly illiterate and unaware of their roles and responsibilities. Unsurprisingly they were unable to make much of an impression on the EDO and DDO, who did not recognize their authority. Committee meetings have also not been held, and no interaction has taken place among committee members. The Bahawalpur district health monitoring committee was somewhat more functional. It had produced a monitoring report in which the chairman acknowledged that the committee is not functioning properly due to lack of training of the councilors and lack of coordination among the union and district health monitoring committees.

Other reasons that monitoring committees function poorly if at all include lack of traveling allowance and transport facilities which greatly increase the costs of field visits, lack of training, and inability to effectively enforce outcomes which in turn discourages effort. In the districts visited, none of the monitoring committee members had traveling allowances, and at the union level, with the exception of Killa Saifullah, councilors receive no honoraria. There was also a general feeling among councilors that since the bureaucracy is not answerable to the local government and is in fact sometimes trying to subvert it, monitoring of teachers and health officials is an exercise in futility.

In Faisalabad, for instance, one councilor cited the case of a teacher who was asked to be transferred since she was physically abusing the children. After 6 months of complaining, the teacher was finally transferred only to manage later to get herself reassigned to the post. In another case, the chairman of the district works and services committee in Faisalabad stated that

⁶⁴ The NRB Guidelines specify that at the Union level monitoring committees will be established in at least the following areas: Municipal Services, Finance, Public Safety, Health, Education, Literacy and Works and Services. *Tehsil* monitoring committees will be established for Municipal Regulation, Infrastructure and Services, Planning and Finance; and District monitoring committees will be established for each "group of offices or for each individual office within the group of offices."

the committee had reported a few months earlier to the district council about an unsafe school building, but to date no action had been taken.

Karachi was the only district where monitoring committees were functional, in part due to the more politically aware and educated body of councilors. Reports of these committees were submitted regularly, and the health, education and works committees claimed to have increased the attendance of staff by 20 percent in their respective sectors, and the quality of maintenance, and repair, a claim that was generally supported by NGOs and journalists. Similarly, the city health committee stated that it had visited 25 hospitals in the last year to ensure quality of service and reduce absenteeism. The committee members believe that this improvement has been achieved because of their consistent monitoring and not because of the respective EDO's interest in the improvement of services. Even here though, there is considerable frustration with the bureaucracy, as exemplified by the fact that the district council has passed over 300 resolutions, many of them calling for disciplinary actions against particular staff, but without much result.

These problems have resulted in dwindling enthusiasm among the councilors for carrying out their functions as envisioned in the LGO.⁶⁵ Clearly, while problems with enforcement go back to the larger issue of the mismatch between political decentralization on the one hand and administrative and fiscal decentralization on the other, it is imperative that the morale and capacity of monitoring committees be maintained so that they may continue to play the vital role of information gathering. Proper training, payment of honoraria and proper election procedures, to ensure that only interested councilors become members, are needed.

District Public Safety Commissions

In Pakistan, overall public confidence in the police is low. Nationally, only 22 percent of households stated that they would contact the police for a matter of public safety, according to the CIET survey, and only 12 percent had initiated any contact with the police in the past five years (CIET: 2003). Among those who had contacted the police, about a third were satisfied with the way the police treated them, a degree of discontent primarily reflecting anger at the police for demanding payments.

Lack of effective checks and balances on the police is perhaps the key reason for this low level of public satisfaction. It is interesting to note that in Balochistan and NWFP, where there is greater use of the levies forces, there is also a higher level of public satisfaction (40 percent in each) with the police.⁶⁶ The levies forces are reflective of local tribal arrangements and are therefore like a community policing system subject to tribal checks and balances. For example, in Killa Saifullah it was generally observed that the levy prosecution and investigation was of a high standard and the evidence was usually trustworthy and credible, that illegal detentions were rare and that the levies were generally well behaved and appeared respectful of the citizenry. Community sanction was the main reason cited behind the decent behavior and truthfulness of the levies. Similarly, in Karachi, the Citizen Police Liaison Committee (CPLC), an organization of citizens with roots in the business community and dependent largely on private donations, has played an important role in monitoring police performance and essentially co-producing police services through the use of information technology for crime analysis.

⁶⁵ Studies from other districts point to similar problems with monitoring committees. For example, one study of the City District Government of Peshawar found that most MCs were dormant or barely functioning due to lack of training and infrastructure, delayed notification of the MCs that constrained their working, lack of cooperation by the District Administration, and low budgets (City District Government: 2003).

⁶⁶ In this survey the term "police" for Balochistan and NWFP refers to both the regular police and the levies force.

Box 15: DPSC Unable to Enforce Compliance

In Bahawalpur, an NGO activist complained to the DPSC that a false case had been registered against him when he stopped police personnel from entering a function arranged by him at the Bahawalpur Zoo. The Commission's fact-finding committee has been inquiring into the case for the past seven months, but despite repeated attempts, has been unable to get the accused police personnel to appear before it. The police personnel are said to be on a training course from which they cannot be excused. Meanwhile the complainant's case has been sent for trial to the Antiterrorism Court where it is pending adjudication. One of the DPSC members inquiring into the case was doubtful about the police intentions in the case. He said that the same police personnel were appearing in law courts but were unable to make it to the commission. Moreover, the police had written to the Commission that the case should not be probed further because the matter was now sub judice.

Source: ADB/DfID/WB DSD Dataset 1.

Given these examples of the benefits of community oversight, the centerpiece of the police reforms as laid out in the Police Order is the establishment of District Public Safety Commissions to enforce local, and in particular, citizen control over the police. The DPSC is part of a hierarchy of PSCs, stretching from the union council and *tehsil* to the provinces and the National Public Safety Commission. At the city district level, the DPSC is to consist of three elected members of the district council, and three from the provincial assembly, as well as an equal number of independent members recommended by a selection panel headed by the Chief Justice of the High Court. The ordinance defines the DPSC's functions as investigating cases of alleged police excess, ensuring the registration of FIRs, approving the district's annual policing plan covering proposed expenditures and performance targets, and exposing misuse of the police by district political leadership.

While a step in the right direction, the DPSC ordinance has some serious limitations.⁶⁷ It gives the DPSC no powers to enforce any of its decisions with regards to police excesses; it can only recommend action against a particular police officer to the DPO.

This stipulation effectively means that the external accountability mechanism provided by the DPSC must either defer to internal police procedure, giving an in-house inquiry under relevant police disciplinary rules the leeway to exonerate delinquent police officers, or refer its case to the Province PSC, should the DPO not submit a report or take action on the direction of the DPSC.

Unfortunately, even with this limited mandate, DPSCs were either not formed, or where formed, were not particularly effective. For example, in Khairpur and Karachi, at the time of the visit, the DPSC had yet to be established as the independent members had not been selected. In other cases, such as Bannu, Faisalabad, and Killa Saifullah, while commissions had been formed they were not provided with offices, and their members were generally uninformed about the nature of their duties and their powers under the law. In Killa Saifullah for example, neither the DPSC members nor the DPO were knowledgeable about the concept of the policing plan. Only in Bahawalpur was the DPSC somewhat functional, as evidenced by the fact that it had established fact-finding subcommittees that were investigating a number of cases of reported police excesses or negligence. However, the DPSC has been unable to elicit compliance from the police in its investigations. Apart from noting these institutional weaknesses, journalists also voiced the opinion that DPSC members were afraid to take action against the police.

Granted, DPSCs have a limited mandate under the PO. But unless they can be shown to be effective bodies that listen to and make serious efforts to address the public's grievances regarding the police in a nonpartisan manner, it is likely that cynicism about police reforms will further erode public confidence. Urgent attention is therefore required to establish, adequately

⁶⁷ Further, the reported decisions of 14 April 2004 (see footnote 8) to include Members of the Provincial Assembly on the DPSCs, as well as increase the control over the police by the Chief Minister, will undoubtedly impact on local policing.

support and build the capacity of DPSCs and to clarify, by way of the police rules, their responsibilities and powers with respect to both the DPO and the province PSC

Insaaf Committees

While it is not possible to interfere with judicial decisions, it has long been recognized that litigants should have recourse to administrative difficulties that they face in the courts, including complaints regarding the conduct of a subordinate judge. Accordingly, High Courts have entertained administrative complaints against the subordinate judiciary, and all High Courts have established Member Inspection Teams (MIT) to investigate such complaints. MIT's report directly to the Chief Justice of the High Court concerned.

Unfortunately the MIT's existence is not well publicized. The LGO provides for district insaaf committees to assist the public to gain redress through the MIT. Unfortunately, while district insaaf committees have been established, they have rarely met and have generally been ineffective in discharging their role of assisting litigants pursue grievances about district courts by facilitating access to the MIT. As a result the gap between citizens and the courts has not been narrowed.

The courts have, however, taken two important initiatives in this regard under the Access to Justice Program. First, the high courts have institutionalized the office of the MIT and are now in the process of making it more accessible and building its capacity to deal with citizens' complaints. In 2003 the Peshawar High Court took out newspaper advertisements about the MIT function and received over 800 complaints in response. PHC is also taking steps to build the capacity of the MIT under the Access to Justice Program. Second, the high courts have also endorsed the establishment of Citizen-Court Liaison Committees with the District and Session Judge as its chair. These committees have members drawn from the bar and civil society. In the NWFP such committees have now been established in all districts.

Adequate deployment of staff

The preceding discussion of employership, the *nazim*'s authority over senior staff and the extent of external oversight over service providers has focused on the incentives of frontline staff to listen and respond to local political leadership. Although the emphasis here is on incentives, it should be recognized that lack of capacity is clearly a constraint on the ability to act on these incentives. This section briefly reviews the staffing and skill levels in the key departments in the study districts, as well as the financial powers exercised by local officials that enable them to execute the budget effectively.

Adequate numbers and skills

The districts face particular problems of understaffing in the Health Departments, in part because there has been a ban on recruitment, but also because of confusion about staffing due to the merging of different cadres after devolution. Shortages of key staff such as doctors were particularly acute in Killa Saifullah (only 40 percent of doctors' vacancies are filled), Karachi, and Khairpur. By contrast, the situation in Bahawalpur and Faisalabad was better, in major part because—as noted earlier—the district government had hired a number of doctors on contract. The situation in education was in general better, although all the EDO offices, except that of Bahawalpur, were understaffed.

When provinces have particular incentives to intervene in the district, staff vacancies and capacity problems are worse. In Khairpur, five EDO positions (F&P, Law, Information Technology, Community Development and Health) are currently vacant, and against a sanctioned strength of

36 officials, only 17 officials are posted in Finance and Planning (F&P) department. By contrast, in Faisalabad officers are posted to all senior posts in district government, and overall, fewer than 5 percent of posts at DO or DDO levels are vacant. For the TMAs generally, however, the current vacancy levels can be extreme.

Lack of adequate skills is an equally pressing problem. Although there are undoubtedly many capacity gaps in the districts, the worst problems are found in the TMAs. TMA staff often lack the capacity to perform the planning and service-delivery functions that they have been given. Many staff are serving in positions that require higher levels of seniority and carry greater responsibility than is appropriate for their experience. The posts of TO (Regulation), TO (Finance) and TO (Planning) were consistently weak aspects of TMA functioning. For example, in Khairpur, grade 11 staff are posted to these positions but without the appropriate experience or training. Where junior-level staff have been posted to the Infrastructure and Services departments in the TMAs, capacity problems are evident. Staff have been assembled from the PHED, the Local Government and Local Council Service, and the Provincial Civil Service among others, and many occupy positions which require skills above their grade and cannot perform their responsibilities effectively.

In some cases the problem is one of over-qualification. Typically, the TOs (Infrastructure and Services), who might have been external engineers PHED at grade 18 prior to devolution, were most uncomfortable with their present position. In Punjab the PHED staffers resent the devolution of their department, considering that like W&S, education and health, they should also have been assigned to the district level and allowed to keep their links with province. The external engineer level staff who have been posted as TO (I&S) take exception to the loss of their powers, independence and large jurisdiction.

Box 16: Staff Shortfalls in the TMAs

The six study districts revealed several examples of the capacity problems facing local governments. In the two TMAs of Killa Saifullah, two TO seats were vacant, and the TMO and his staff did not have the requisite experience to perform their functions. In one TMA, a sub-engineer had an additional responsibility for TO (Infrastructure and Services). In Karachi, the TO (Planning) post was vacant in all 18 TMAs of the city. Moreover, a significant proportion of the 8390 officers of the Karachi Water and Sewerage Board (KWSB) were political appointees, none of whom was performing his duties properly. In Khairpur, the TMO post in *tehsil* Kot Diji had been lying vacant for the last three months, while the TOs for Planning, Finance, and Regulation were grade 11 employees working in grade 17 positions. In the TMAs of NWFP, a number of TO (Planning) positions are vacant. The situation in Punjab was relatively better—TMO and TO positions were filled in the TMAs of Faisalabad and Bahawalpur, although the officers in many cases do not have the skills required. However, in Jaranwalla TMA in Faisalabad, almost half of the posts—sanitation workers for the most part—are vacant (300 employees out of 567).

Source: ADB/DFID/WB DSD Dataset 1.

The provinces have taken some steps to improve the technical capacity of local governments. For example, Punjab is about to embark on a scheme to build finance and accounting capacity through the contract appointment of up to 250 technically qualified experts to support district and *tehsil* government. This innovation is an example of the proactive approaches taken by the Punjab Finance Department to getting the key financial systems of local government up and running.

Technical sanction powers

The Delegation of Financial Power Rules designates the authorities competent to approve expenditures, outlining the financial powers enjoyed by different categories of officers.

Nevertheless, devolution, while producing a degree of centralization of financial powers within the local administration, has also generated considerable ambiguity about the financial powers of the staff appointed to the new district and TMA positions. Many senior staff do not have Category I financial authority, and the technical sanction authorities no longer are structured in a coherent hierarchy.⁶⁸ Even when they do have this authority, as in the case of the DCO, in many cases the district government has to turn to the provincial government for sanction, particularly in matters relating to the purchase of durable goods. This lack of financial authority impairs budget execution.

Development budget execution suffers because the powers of technical sanction available at the district level in such provinces as Balochistan and NWFP have declined (Table 19). As a result, getting the required approvals from the province opens the process to political interference, particularly in those districts that are in political opposition to the provincial government. Denying local government this technical sanction authority weakens the staff responsibility since the responsible officials are not district employees and hence cannot be held responsible for delays in execution. Furthermore, in the case of Karachi and Khairpur, the funds for development schemes are released through account I by the provincial finance department. The procedure involves submission of approved PC1 to that department, which then releases the funds for capital portion in two equal installments. No maximum period is fixed for the release of funds, and the district governments cannot be certain about the timing of disbursement.

In many of the districts studied, devolution has led to reduction in the EDOs' financial powers, particularly in relation to those of the DCO. For example, in Killa Saifullah, Bannu and Karachi, EDOs are category II officers; previously the equivalent position had category I financial powers. As a result, spending powers of the EDO have been severely curtailed. By contrast, the financial sanction powers that were formerly accorded to provincial Secretaries have now devolved to the DCO, and as the Principal Accounting Officer of a district, the DCO is a Category I officer. He therefore has higher financial sanction and procurement powers than EDOs of the attached departments. This disparity has the effect of centralizing the budget preparation process and expenditure authorization within the districts, causing some delay in approvals and decisions, particularly affecting the Health and Education departments.

Another example of the centralization of financial powers is that not all the officers in charge of Health and Education departments have been declared Drawing and Disbursing Officers (DDOs). Every department has a number of DDOs, responsible for drawing the pay for all the non-gazetted staff. In cases where they have been declared DDOs, their powers are those of either category II or category III officers, a status that limits their powers of budget execution.

The technical sanction problem is exacerbated by the continuation in all provinces of the PHED in some form, either at the provincial headquarters or in circles where they serve as Superintending Engineers with high sanctioning authority. Most schemes of any importance are submitted outside the district for approval.

⁶⁸ Category I financial powers means that the officers have no limits on their authority to incur liabilities on behalf of the government. Category II and III have decreasing limits.

Table 19: Execution of the Development Budget
(millions of Rs.)

District	Budget Approval	PC-I Approval by the DDWP/DDC	Administrative Approval	Technical Sanction
Killa Saifullah	District Council	Up to Rs. 5	District Coordination Officer	XEN up to Rs. 5 CE (province) beyond that.
Karachi		Up to Rs. 20		District Engineer up to Rs. 3 EDO/CE up to Rs. 20
Bannu		Up to Rs. 10		District Engineer Rs. 2
Bahawalpur		Up to Rs. 20		EDO up to Rs. 20
Khairpur		Up to Rs. 20		District Engineer up to Rs. 3 EDO/CE up to Rs. 20
Faisalabad		Up to Rs. 20		EDO up to Rs. 20

In all the 10 TMAs studied, every expenditure is sanctioned, subject to budgetary allocations, by the *tehsil nazim*, and every check is signed jointly by the TMO and the *nazim*. Compared with the district governments, therefore, the TMA budget execution remains a centralized operation inside the TMA. However, the technical staff in TMA need similarly enhances technical sanction powers. So far, only Punjab and the towns in Karachi have notified proper sanction powers for the TO (I&S). Ideally, the TO (I&S) should have such authority up to Rs. 1 million, and in the larger districts, senior level staff like SEs can be given powers of up to Rs. 20 million.

Citizen Power (Client Power)

As the WDR argues, service delivery can also be improved by improving client power, that is, strengthening the direct linkage between citizens and service providers. In many ways such an approach can be more effective than focusing on efforts to make service providers more accountable to policymakers and policymakers, in turn, to citizens. One shortcut is to increase consumer power through participation. The LGO and Police Order call for the creation of various bodies that can serve to improve this client power (Table 20). The study considers:

- Citizen dispute resolution—including Departmental Complaints Cells and Citizen Police Liaison Committees.
- Community management of facilities—including Citizen Community Boards and School Management Committees.

The potential for client power in Pakistan needs to be viewed in the context of a generally low level of citizen involvement in community organizations. According to the results of the CIET household survey (CIET: 2003), 2 percent of households had a male member, and 0.6 percent had a female member, participating in voluntary groups. No significant difference in the levels of participation separated urban and rural areas (CIET: 2003). In theory, decentralization can have a positive impact on community participation; greater citizen accessibility can reduce the costs and raise the benefits of community mobilization, and the large number of local politicians can act as catalysts for this mobilization.

Table 20: Mechanisms for Citizen Dispute Resolution and Community Management of Services and Facilities

Mechanism		How introduced?	Purpose	Status
Citizen Dispute Resolution	Complaints and Grievances cells	LGO	To address citizens' complaints against mal-administration	Formed in cases, but generally nonfunctional
	Citizen Police Liaison Committee	Police Order	Voluntary bodies to assist the DPSC to develop mechanism for liaising between aggrieved citizens and police	Formed in Karachi and Faisalabad, variable in effectiveness
	<i>Zila mohtasib</i> (district ombudsman)	LGO	To address citizens' complaints against mal-administration	Nonfunctional
Community mgmt of facilities	Citizen Community Boards	LGO	Community participation in local development works	Generally nonfunctional except for a few notable exceptions
	School Management Committees	Social Action Program	Parent-teacher association for maintenance and repair of schools, and procurement of educational materials	Formed; most functional in Punjab and Sindh.

The overall conclusion from the field visits is that it is too early to tell whether or not devolution has had any impact on client power for the better or the worse. A number of participatory mechanisms, such as Village and Neighborhood councils and *insaaf* committees, are either not formed or are ineffective, while others, such as Citizen Community Boards and School Management Committees (a pre-devolution initiative) have yet to achieve their full potential. On the other hand, there are numerous examples from the districts visited and from others that suggest that innovative local leadership has had a positive impact on community mobilization and in turn on service delivery.

Citizen dispute resolution

Departmental Grievances Redressal and Complaint Cells

In theory, keeping a record of all complaints enables an authority to find out the nature and number of problems faced by the community it serves. Formalized mechanisms of redressing grievances, moreover, can be engines for service delivery improvement. The Departmental Grievance Redressal and Complaints Cells envisaged by the LGOs, provide such potential avenues for citizen oversight of official actions and for improving accountability.

However, these mechanisms are poorly developed in all districts. The most common method used was the installation of a complaints box in various offices. Officials however, tended to forget its existence. In some places like Khairpur specific officials had been designated to redress public grievances, but no data were available as to the kind and number of complaints. A complaint cell had been established in Bannu only. In nearly all the districts, senior officers continued to regard answering public complaints as an integral part of their job description, and both written and verbal complaints were common. Whether or not complaints resulted in action, however, seemed to depend on the perseverance of the complainant rather than the presence of any institutionalized mechanism.

LGO mandates the appointment of a District Ombudsman for each district. This initiative is modeled on the relative success of the federal and provincial ombudsman systems, which—with all their faults—have been able, by using relatively informal procedures to provide relief at little cost to citizens. Unfortunately no District Ombudsman has been appointed in any province.

The LGO also contains a provision on right to information of citizens and disclosure of information by local government offices. It provides that each local government office must display in a prominent place accessible to citizens information about its staffing and performance during the preceding month. This provision had not been followed in any of the districts visited. Neither had any local government office taken any action to bring to the attention of citizens their right to information about any office of the local government.

Citizen Police Liaison Committees

The Citizen Police Liaison Committee is a self-financing voluntary organization, which citizens can set up to assist the Public Safety Commission and the Police Complaints Authority. The CPLCs in Karachi and Faisalabad, the only two examples in the study, were established before the promulgation of the Police Order and are somewhat different from the CPLC it envisaged.⁶⁹ Similar in design and focus, the Faisalabad CPLC is patterned on that in Karachi. Both assist the public in registration of FIRs and in resolving civil financial disputes with the active assistance of the police. Additionally, the CPLC in Faisalabad renovated and equipped police stations, but neither was undertaking any capacity building or assisting the Public Safety Commissions. In fact in Faisalabad there was resentment among the DPSC members that—because of its good relations with the police—the CPLC had taken over their role.

In summary, these two CPLCs are business initiatives, and most of their members are industrialists and traders. They undoubtedly helped improve channels for some citizen-police contact, but there is little evidence this progress promotes a pro-poor orientation in service delivery.

Community management of facilities

Citizen Community Boards

The provision for the establishment of CCBs in the LGO is a significant departure for the government. It marks the first formal recognition that civil society has an important role to play in development and service delivery. A CCB is to be a non-elected voluntary organization, consisting of at least 25 members. It can, in principle, be established for a variety of purposes, including initiating and improving development projects, establishing cooperatives, forming monitoring bodies over police and other service providers and reinforcing the capacity of monitoring committees at the behest of the concerned council. At least 25 percent of the total development budget of each tier of local government (district, *tehsil*, and union) must be earmarked for projects identified by CCBs, and each CCB has to make a cash contribution of 20 percent in order to tap into these funds for a specific project.⁷⁰ Moreover, these CCB development funds cannot be re-appropriated for other activities. If unused at the end of the fiscal year, they must be carried forward to subsequent financial years.

⁶⁹ In addition, a CPLC has recently been established in Quetta. These three comprise the only CPLCs in Pakistan. The Faisalabad and Karachi CPLCs do not undertake the primary responsibilities as detailed in the Police Order 2002, for example, training of PSC members.

⁷⁰ The guidelines specify that in-kind contributions by CCBs will be considered as an add-on to the 20 percent cash requirement and not a replacement and will be taken into consideration in the ranking and evaluation of the project proposal.

Box 17: CCB Success Story

A CCB was formed in a newly settled area of Bahawalpur city, an area that had mainstream development in the city largely passed by. The CCB was formed with the primary aim of improving the sewerage system of the neighborhood. Its membership included a retired bank manager, an auditor, a driver and an education worker. Although the UC *nazim* had not won the votes of the majority of the local population, he was still a supporter of the CCB, not a common occurrence.

The CCB was registered in June 2002, and completed its first major project, the placement of a sewerage line, by July 2003. Completed at a cost of roughly Rs. 3 million, it benefits approximately 35 households in the community. The quality of the work was high—CCB members explained that they reduced the distance between two manholes for easier and faster flow of water and had also increased the ratio of cement to sand from 1:7 to 1:4, which strengthened the structure. Funds were received regularly from the union government, and accounts, ledgers, cashbooks and all other relevant records were maintained meticulously. Payments, even to masons and contactors, were made by check to avoid any misuse of money. Upon the completion of scheme, the CCB prepared impressive details of the final statements of expenditure for the UC *nazim*'s appraisal. Their accounts carried two signatures: that of the CCB president and the general secretary. These books were maintained properly primarily due to the banking expertise of the CCB members as well as their good intentions.

As far as the future plans of the CCB are concerned, they were very enthusiastic and willing to undertake more small-scale projects such as the building of a playground, mosques and roads for their locality in the coming years. They also believed that they could play a role in awareness-raising campaigns on political and social issues. For example, the CCB is already involved informally in settling local disputes. The CCB members claimed that the community in general had confidence in the board and came to them to resolve family problems, fights over children, cases of false registrations of FIR, and so forth. They also claimed to have been able to work these problems out amicably. For instance, in the case of the false FIR, the CCB took it back from the police and resolved the matter locally.

Source: ADB/DfID/WBDS Dataset 1.

With a few notable exceptions, the districts visited have no functional CCBs. In most cases CCBs have not been registered, and where they have been registered, as in Faisalabad and Khairpur, in the main they have not received any development funds, although there are important exceptions.

Several reasons account for this poor record. First, CCBs need to be registered before they can gain access to the funds earmarked for them. Registration has to be undertaken by the EDO Community Development at the district level or TO Planning for *tehsil*-level schemes and Secretary Community Development for the union level. In a number of districts the relevant office was either vacant for a significant period of time (as in Karachi) or lacked the capacity to undertake the registration (Bannu). Second, until recently the registration guidelines lacked clarity; as a result, some local governments adopted overly cumbersome processes. For example, a Bahawalpur requirement, now abolished, kept CCBs from registering until the 20 percent contribution was made, and this precondition in turn deterred citizens from contributing to an organization that did not have any legal status. Third, in many poorer communities the 20 percent cash requirement is prohibitive. Fourth, especially in rural areas, many members do not have the education or training to develop the PC-1 for projects and to carry out projects. Finally, and most importantly, in many cases CCBs have not been a priority for the local government political leadership.

Most councilors (save for a very few astute *nazimeen*) see CCBs as competitors for political credit and a source of rigidity in the development budget. The NRB has recognized this foot-dragging and insisted in building pressure for their development by requiring that the 25 percent

set-aside be compounded, creating an increasingly large amount of resources, to provide an incentive for *nazimeen* and councils to get CCBs working.

In general, there is a general lack of awareness about—and in some cases hostility toward—CCBs among local elected representatives. For example, the CIET survey reveals that in the second half of 2002, about half of the union councilors and 18 percent of the women councilors had heard of CCBs (CIET: 2003). In other cases, NGO representatives stated that the local leadership opposed CCBs because they challenged the government's monopoly over development. CCBs have also in some cases been victims of the political tussle between the province and local government.

The lack of progress in forming CCBs has had some negative impacts on the already low levels of community involvement noted earlier. In Faisalabad, while over 300 CCBs have been registered, none had received any funds at the time of the district visit. Subsequently, 15 have obtained funding. In some cases, the chairmen of the CCBs note that they have had to return the community's contributions.

Some forward motion has occurred, however, where active involvement of councilors and community organizations resulted in successful CCBs. In Bahawalpur, for example, the work of an active CCB has greatly improved the sewerage system of the neighborhood. (See Box 17) The key ingredients for this success story are support from the union government, as exemplified by regular release of funds, and an educated and proactive membership. Another success story comes from district Jhelum in Punjab, where the district government, in partnership with a union government and the National Rural Support Program (NRSP), has launched a pilot project under which CCBs have been created and are being provided on-the-job training through the implementation of physical infrastructure schemes (street pavement, sewer-drain construction and reservoir construction). The funding arrangements are shared, with a community contribution of 20 percent, a district government contribution of 50 percent and an NRSP contribution of 30 percent from the Pakistan Poverty Alleviation Fund (PPAF). Schemes are identified on the basis of consensus among members of the CCB, and the technical tasks of project design and costing are done by NRSP. The project is then managed and implemented jointly by NRSP and the CCB, with regular monitoring by the *nazim*, *naib nazim* and councilors of the union. To date, six projects at costing roughly Rs. 2 million have been completed.

As noted in the PRSP, government intends the recently established Devolution Trust for Community Empowerment (DTCE) to play a critical role in supporting CCBs. It is not just to provide technical assistance and capacity building to nascent CCBs and local governments to assist in mobilization, registration and project planning, but also to facilitate the emergence of a devolution movement at the local level to help consolidate the reforms with citizens as well as the elected representatives. DTCE will work with the National Rural Support Programme to mobilize and train communities and councilors. DTCE has received commitments for funding support from a number of bilateral donor agencies as well as from the UNDP who will manage the fund

School Management Committees

A further level of administrative decentralization is available to the facility level. The various examples of this potential in Pakistan all predate devolution and include SMCs, PTAs and water committees. The logic of school-based management is that parents and the local community have better information about the quality of teaching in the local schools and of the needs of the local school than central or even sub-national governments. Therefore, school management committees

(SMCs) should have responsibility for managing school affairs. Empirical investigations of school autonomy, while few, appear to support this proposition.⁷¹

School Management Committees (SMCs) provide the starkest example examined by the study of attempts to create incentives for service providers to respond to views and concerns of service users. In recent years, SMCs have been revived, largely as a result of donor engagement at the provincial level. Names vary with the provinces—SMCs in Sindh and Punjab, Parent Teacher Associations (PTAs) in NWFP, Parent Teacher School Management Committees (PT SMCs) in Balochistan. The structure of the SMCs is different from the old PTAs (whose membership was limited to parents and teachers) and includes in some cases representatives from NGOs as well as from the local political leadership. As discussed below in the section on Education, the initial results from the newly constituted SMCs are mixed but not without promise.

⁷¹ Two countries that have been studied in some detail are El Salvador and Nicaragua. In El Salvador, community-managed rural schools, called EDUCO, were given significant decisionmaking authority and autonomy, including the ability to hire and fire teachers and principals, choosing textbooks and determining teaching methods, and responsibility for equipping and maintaining the schools. One study found that EDUCO schools had much higher parent involvement—measured by frequency of meetings with teachers and visits to classrooms—than traditional schools, and consequently that these schools had a lower incidence of student and teacher absenteeism than traditional schools (Jimenez and Sawada: 1998). Moreover, this higher parent engagement occurred despite EDUCO parents being on average poorer than the parents in traditional schools, suggesting that institutional reform was a decisive factor in the improved outcomes. In Nicaragua, from 1993 onwards school management functions have been transferred to a select number of primary and secondary schools. These autonomous schools were given de jure responsibility over teacher management, and over the school plan and budget. However, one empirical investigation found that de facto autonomy varied considerably across these autonomous schools, and that, after controlling for a variety of student and household characteristics, there was a positive and statistically significant relationship between the degree of decisionmaking actually exercised and student achievement as measured by test scores (King and Ozer: 1998). Furthermore, the ability of schools to monitor teacher activities and teacher staffing had the greatest impact on student achievement.

Appendix

DATA ON INSTITUTIONS IN TRANSITION

Table 21: Numbers of Local Governments after Devolution

District	District Governments	City District Governments	<i>Tehsil</i> Municipal Administrations	City Towns	Union Administrations
Punjab	33	1	115	7	3,453
Sindh	16	1	86	18	1,044
NWFP	23	1	34	2 ^a	957
Balochistan	25 ^b	1	71	2	568
Total	97	4^c	306	29	6,022

a. In NWFP, single *tehsil* districts have been given the opportunity to subdivide *tehsils* into what are termed "towns." However, these have neither the legal underpinning nor the roles and responsibilities of city district towns.

b. 5 of these district governments have been newly created and while they have the district administration in place, the Election Commission has yet to hold the indirect elections for the *nazim* and *naib nazim*.

c. Islamabad became a City District in November 2002 with the passing of the Islamabad Capital Territory Local Government Ordinance. However this has yet to be implemented.

Table 22: Phasing of Local Government Elections, 2000/01

Milestones	Election dates					
	Dec. 2000	March 2001	May 2001	Aug. 2001	Sept. 2001	Total
Number of districts	18	20	20	31	11	100 ^a
Number of union councils	959	1,459	1,577	1,677	353	6,022
Number of union council seats	20,076	30,639	33,117	35,217	7,413	126,462

Note: Nonparty elections for Union Council seats were held sequentially, in 5 rounds, in the period from December 2000 to September 2001. The election of *nazimeen*, *naib nazimeen*, and reserved council seats at the district level took place after the completion of all the union council elections.

a. The table reports elections to 100 district councils while the text states the numbered 96; this is a result of the merger of the five Karachi districts after the election. The table shows the potential total of union councilors. (6,022 x 21 = 126,462). However not all seats were filled.

Source: (Pattan Development Organization: 2003).

Table 23: Local Electoral Arrangements for Pakistan in Comparative Perspective

Country	Number of Local Governments ^a	Average population per local government	Mode of election of mayor	Mode of election of councilors
Argentina	1,100	30,818	D	D
Bolivia	311	27,703	D	D
Brazil	4,974	31,222	D	D
Columbia	1,034	34,429	D	D
Indonesia	370	567,000	I	D
Philippines	1,538	490,000	n.a.	D
Pakistan	101	1,443,000	I	D

D: direct, I: indirect

n.a. Not applicable.

a. In cases where there are multiple tiers of local government—as in Indonesia, Pakistan, and the Philippines,—the tier that has the most jurisdiction over service delivery is chosen. In the case of Pakistan this is district government.

Sources: (Azfar: 2002; Hofman, Kaiser and Goga: 2002; Nickson: 1995).

Table 24: Impact of the Reforms on Each Level of Government

Level of Government/administration	Impact
Federal Government	<ul style="list-style-type: none"> No change Remains with largely the same structure
Provinces	<ul style="list-style-type: none"> The deconcentrated units of the major service delivery line departments (staff, assets and budgets) devolved to local government. Provincial government now has no local representation in the devolved service delivery sectors, except for provincial functions, but head offices and directorates remain unchanged
Divisional tier of province	<ul style="list-style-type: none"> Abolished, except for police. Functions, staff and budgets allocated to districts
District level province offices	<ul style="list-style-type: none"> Grouped in 11 “Groups of Offices” with creation of new offices of F&P, Law and Literacy. The 11 Groups, an elected <i>nazim</i> and a <i>Zila</i> Council created to form the new tier of District Government; 97 district governments and 4 city district governments created.⁷²
Urban and rural local bodies established under LGO 1979	<ul style="list-style-type: none"> The earlier jurisdictions redrawn to merge rural and urban areas; in most cases the new precincts remain coterminous with the revenue <i>tehsils</i>, while in case of “city districts” the municipal areas were divided to form “towns;” provincial departments of Public Health Engineering devolved to this level (although not in all provinces) 335 <i>tehsil</i>, <i>taluka</i>, or town municipal administrations created largely with the municipal service delivery mandates of the local bodies
Union administrations	<ul style="list-style-type: none"> In some cases larger Unions have been divided and in case of urban areas also Unions have been created 6022 Union Administrations have been created with minimal executive functions but, legally, a potential to gain more functions

Source: ADB/DfID/WB DSD Dataset 1.

⁷² Balochistan has since further divided its districts.

Table 25: Health Facilities Transferred to District Governments

Health facility	Killa Saifullah	Karachi	Khairpur	Bahawalpur	Faisalabad	Bannu
Hospitals	2	13	4	6	6	1
MCH Centers	1	9	8	10	6	1
RHCs	1	7	11	10	11	2
BHUs	16	35	75	71	169	34
Sub Health Centers		5			32	
Provincial dispensaries	11	20	30	5	5	8
Former municipal corporation and Local Government Department dispensaries	0	219	0	51	149	0
Unani Shafakhana	0	0	20	0	0	0

Source: ADB/DfID/WB DSD Dataset 1.

Table 26: Implementation of Budget Reforms as Required by the LGO

Requirement	Ref. Legal Provision	Bannu	Bahawalpur	Faisalabad	Karachi	Khairpur	Killa Saifullah
2002/03							
Preparation of revised budget by local govt. before the close of the financial year	Section 112(6) of NWFP LGO 2001 112(12) of SLGO 2001 112(11) of PLGO 2001	Incorporated in the budget document for the next financial year	Yes	Yes	Yes. Incorporated in budget document	Yes. Incorporated in budget document	Yes. Incorporated in budget document
Approval of the revised budget before the end of the financial year	Section 112 (6) of NWFP LGO 2001 112(12) of SLGO 2001 112(11) of PLGO 2001	Approved at the time of approval of budget	Yes	Yes	Approved in the budget session.	Approved in the budget session. The FY had ended already .	Approved during the budget session
Notification of the provincial shares for the district govt. by the govt. from provincial allocable amount	Section 112(2) of NWFP LGO 2001 111(2) of SLGO 2001 112(1) of PLGO 2001	June 2002	28.06.02	26.06.02	Yes	No	June 2002
Presentation of the budget for approval of the respective Council	Section 112(1) of NWFP LGO 2001 112(1) of SLGO 2001 111(2) of PLGO 2001	07.08.02*	09.07.02	—	25.06.02	6.07.03	July 2002
Detailed scrutiny and recommendation to the Council by the Budget Committee	No legal provision under NWFP LGO 2001 112(3) of SLGO 2001 No legal provision in PLGO 2001	—	Informal	No	Yes	Yes	Yes
Approval of the budget by simple majority of the total membership of the respective Council	Section 112(3) of NWFP LGO 2001 112(4) of SLGO 2001 112(3) of PLGO 2001	Yes	Yes	Yes	Yes	Yes	Yes
Approval of budget Before the beginning of financial year	Section 112 (1) of NWFP LGO 2001 112(7) of SLGO 2001 112(6) of PLGO 2001	No	9.07.02	29.06.02	29.06.02	July 8 2002	It was approved within 30 days of June 30.
Authentication of Schedule of Expenditure by nazim?	No legal provision in NWFP 112(9) of SLGO 2001 112(8) of PLGO 2001	—	Yes	No	No	No	Authenticated on August 27,2002

Table 26: Implementation of Budget Reforms as Required by the LGO

Requirement	Ref. Legal Provision	Bannu	Bahawalpur	Faisalabad	Karachi	Khairpur	Killa Saifullah
2003/04							
Preparation of revised budget by local govt. before the close of the financial year	Section 112(6) of NWFP LGO 2001 112(12) of SLGO 2001 112(11) of PLGO 2001	Yes	Yes.	Yes.	Yes. Incorporated in budget document	Yes	Under preparation
Approval of the revised budget before the end of the financial year	Section 112 (6) of NWFP LGO 2001 112(12) of SLGO 2001 112(11) of PLGO 2001	Approved at the time of approval of budget 2003/04	Yes	Yes	Approved in the budget session.	No.	Not approved till July 4 th , 2003
Notification of the provincial shares for the district govt. by the govt. from provincial allocable amount	Section 112(2) of NWFP LGO 2001 111(2) of SLGO 2001 112(1) of PLGO 2001	June 16, 2003	25.06.03	24.06.03	Yes	Yes	Notified on June 28, 2003.
Presentation of the budget for approval of the respective Council	Section 112(1) of NWFP LGO 2001 112(1) of SLGO 2001 111(2) of PLGO 2001	23.07.03*	25.06.03	26.06.03	June 25 2003	July 4 2003	Not presented until July 4 th 2003
Detailed scrutiny and recommendation to the Council by the Budget Committee	No legal provision under NWFP LGO 2001 112(3) of SLGO 2001 No legal provision in PLGO 2001	—	Informal	No	Yes	Yes	—
Approval of the budget by simple majority of the total membership of the respective Council	Section 112(3) of NWFP LGO 2001 112(4) of SLGO 2001 112(3) of PLGO 2001	Yes	Yes	Yes	Yes	Yes	—
Approval of budget Before the beginning of financial year	Section 112 (1) of NWFP LGO 2001 112(7) of SLGO 2001 112(6) of PLGO 2001	No	27.06.03	27.06.03	30.06.03	4.07.03	—
Authentication of Schedule of Expenditure by <i>nazim</i> ?	No legal provision in NWFP 112(9) of SLGO 2001 112(8) of PLGO 2001	—	Yes	Yes	No	No	—

— Not available.

Source: ADB/DFID/WBDS Dataset 1.

Table 27: APT Authorities in the Districts

Grades	Balochistan			Sindh						NWFP			Punjab																										
	Killa Saifullah			Karachi			Khairpur			Bannu			Bahawalpur			Faisalabad																							
	Health	Education	Civil Service ^a	Health	Education	Civil Service	Health	Education	Civil Service	Health	Education	Civil Service	Health	Education	Civil Service	Health	Education	Civil Service																					
1	EDO			DDO			DDO			DDO			EDO			EDO			EDO																				
2																																							
3																																							
4																																							
5	DCO			EDO			DO			EDO			EDO			EDO																							
6																																							
7																																							
8																																							
9																																							
10																																							
11																																							
12																																							
13																																							
14																																							
15	DCO			DCO			EDO			DCO			DCO			DCO																							
16																																							
17	Provincial Government			DCO (in consultation with <i>nazim</i>)			DCO			DCO			DCO			DCO																							
18																																							
19	<i>Nazim</i>			<i>Nazim</i>			DCO (in consultation with <i>nazim</i>)			<i>Nazim</i>			provincial government			provincial government			DCO (in consultation with <i>nazim</i>)			<i>Nazim</i>			<i>Nazim</i>			Nazim (except EDOs and DOs)			<i>Nazim</i>			<i>Nazim</i>			Nazim (except EDOs and DOs)		

a. Data not available with certainty.

b. In consultation with the district *nazim*.

Source: ADB/DfID/WBDS Dataset 1.

Table 28: Honoraria for Members of District Monitoring Committees

Committee members	KS	Karachi	Bannu	Bahawalpur	Khairpur	Faisalabad
District <i>nazim</i>	Yes	Yes	Yes	Yes	Yes	Yes
District <i>naib nazim</i>	Yes	Yes	Yes	Yes	Yes	Yes
Res. Dis.	Yes	No	No	No	No	No
Councilor*	Yes	Yes	Yes	Yes	Yes	Yes
<i>Tehsil nazim</i>	Yes	Yes	Yes	Yes	No	Yes
<i>Tehsil naib nazim</i>	Yes	No	Yes	Yes	No	Yes
Union <i>nazim</i>	Yes	No	Yes	Yes	No	Yes
Union <i>naib nazim</i>	Yes	No	No	No	No	No
Union councilor						

*Those who occupy reserved seats (women, peasants, workers, and minorities).

Source: ADB/DfID/WBDS Dataset 1.

Table 29: Cases before Courts at the Time of Devolution, 2001

Nature of Cases	Killa Saifullah	Karachi	Bannu	Bahawalpur	Khairpur	Faisalabad
Institution from 1/1/01 to 31/12/01	545 ^a	55,615	9,072	—	7,072	—
Disposal from 1/1/01 to 31/12/01	569	49,088	7,745	21763	4,755	48,608

— Not available.

a. Case load includes cases from two other districts before the Sessions court and includes Cases pertaining to the whole of the *Majlis-i-Shoora's* jurisdiction.

Source: ADB/DfID/WBDS Dataset 1.

Table 30: Comparison of sanctioned and actual strength of police (October 2003)

Category	Killa Saifullah		Karachi		Bannu		Bahawalpur		Khairpur		Faisalabad	
	S	P	S	P	S	P	S	P	S	P	S	P
Addl.IGP	—	—	1	1	—	—	—	—	—	—	—	—
DIG	—	—	5	4	1	1	1	1	—	—	1	1
SP	1	1	35	32	1	1	3	2	2	2	5	5
DSP	1	1	104	108	4	3	8	8	11	3	12	12
PDSP	—	—	6	4	1	1	1	1	1	1	1	1
Inspector	—	—	732	537	8	6	42	42	30	25	89	76
P/Inspector	—	—	59	54	1	1	19	8	10	1	37	30
Sub.Insp(SI)	2	3	1841	1841	24	27	89	63	74	80	277	280
PSI	—	—	17	—	7	1	NK	NK	3	5	NK	NK
Asst .SI	4	2	3503	2799	73	60	156	160	165	83	431	361
H/Constable	17	12	4748	4748	163	163	160	152	317	315	415	423
Constable	82	58	18300	18300	1131	1131	1737	1670	2372	2367	4205	4198
Others	60	60	—	—	—	—	—	—	—	—	213	213
Total	167	137	29351	28428	1414	1395	2216	2107	2985	2877	5686	5600

Source: ADB/DfID/WBDS Dataset 1.

Table 31: Staffing Strength of Judges, October 2003

Type	Killa Saifullah	Karachi	Bannu	Bahawalpur	Khairpur	Faisalabad
Sessions Judge	1 ^a	6 ^b	1	1	1	1
Member <i>Majlis-i-Shoora</i>	1 ^c	—	—	—	—	—
Additional Sessions Judge	—	25	2	7	4	20
Senior Civil Judges	—	30	1	1	4 ^d	1
Civil Judges	1 ^e	19	—	—	8	—
Civil Judge cum Judicial Magistrate	—	—	4	18	—	54
Judicial Magistrates	2	45	—	—	8	—
Qazi ^f	2	—	—	—	—	—
Special Judicial Magistrate ^g	—	—	—	4	—	10
Total	7	125	8	31	25	86

a. The Sessions Judge has jurisdiction over three districts namely Loralai, Killa Saifullah, and Barkhan.

b. There are five District and Sessions Judges in Karachi and one District Judge having jurisdiction over small causes.

c. An appellate as well as court of first instance in areas subject to the Balochistan Civil Disputes (Application of Shariat) Regulation 1976. The *Majlis-i-Shoora* having authority in Killa Saifullah also has jurisdiction over Sanjavi *tehsil* of District Ziarat and Bori *Tehsil* of Loralai District. Caseload pertains to the whole of the *Majlis-i-shoora's* jurisdiction.

d. The Senior Civil judges in Sindh also have criminal powers of the Assistant Sessions judge.

e. The Civil Judge Loralai has no jurisdiction over civil disputes in Killa Saifullah except where the government is one of the parties.

f. A court of first instance for civil disputes in areas subject to the Balochistan Civil Disputes (Application of Shariat) Regulation 1976.

g. Former executive magistrates on loan to the judiciary and performing the work of the defunct executive magistracy.

Source: ADB/DfID/WB DSD Dataset 1.

DATA ON VERTICAL PROGRAMS

Table 32 lists a sample of highly vertical programs in education, health, and water and sanitation. Some of these programs are specific to the sector, such as ESR and LHW while others, such as KPP and the various Tameeri programs in the provinces, are more generally for local development works, such as farm-to-market roads, drains, and school construction and upgrading. The table also gives an estimate of how vertical these programs are (High, Medium, and Low), measured by which level of government is responsible for planning and operational design for the program budgeting and financing, and expenditure control.

Table 32: Highly Vertical Programs (Deconcentrated Expenditures)

How vertical? Higher level of government responsible for:		Planning and operational design	Budgeting and financing	Expenditure control
Federal—provincial				
Health				
LHW	The National Program for Family Planning and Primary Health Care, better known as the Lady Health Worker (LHW) program. LHWs are women from the community with at least Grade 8 education and who meet certain other criteria and who are selected by the staff of the nearby basic health unit (BHU) in discussion with village leaders. The LHWs are paid a small stipend to provide simple preventive, promotive, and curative services in the communities where they live. These services include promotion and provision of family planning services, nutrition promotion, prevention of childhood infectious diseases through immunization, health education, and treatment of diseases like acute respiratory tract infections and diarrhea. This is the only health vertical program that is fully funded by the federal government (salaries, medicines, and POL are paid by the federal government, via the provincial coordinator—that is, funds are transferred directly from federal govt. To PLAs of provincial coordinator and then released onwards to accounts of individual LHWs). District health authorities and representatives of the provincial health coordinator of the program jointly recruit LHWs, EDO H's representative, the district coordinator of the program, supervises them. Parallel supervision by the provincial coordinator also exists.	M	H	H
Provincial—local (donor-funded)^a				
Education				
Sindh Education Reform Program	Supported by the World Bank's Sindh Structural Adjustment Credit, the Education Reform program consists of provincial vertical programs for the provision of free textbooks and funds for School Management Committees. Planning, budgeting, and expenditure control is with the province. Textbook allocations per school and funds per SMC are identified by the province, and in both cases funds are transferred from Account 1 into the PLAs of DCOs. There have been major delays in the release of funds, particularly from the DCOs onwards to the accounts of the SMCs.	M	M	M

Table 32: Highly Vertical Programs (Deconcentrated Expenditures)

How vertical? Higher level of government responsible for:		Planning and operational design	Budgeting and financing	Expenditure control
Water and Sanitation				
DFID RWSS NWF project for Watsan	DFID Rural Water Supply and Sanitation Program (RWSS) is designed to improve the institutional capacity of the <i>tehsils</i> to deliver low cost, appropriate and sustainable drinking water and sanitation services. The program (initially designed prior to devolution) has been redesigned with the needs of the new local government system as its focus, given that planning and implementation of Water and sanitation services are now the responsibility of TMAs. There is a scheme selection committee (SSC) in each <i>tehsil</i> headed by the <i>tehsil</i> or town <i>nazim</i> and includes the main <i>tehsil</i> officers including TMO, TOs (Infrastructure) (Finance) (Planning). The schemes prioritized and chosen by this committee will be sent to the <i>tehsil</i> or town council for endorsement (as per the LGO). As this program is province wide, the overall implementation of the program is the responsibility of LGERDD with technical support from the Sarhad Rural Support Program SRSP is also responsible for working with the <i>tehsil</i> to develop their capacity to work with citizens in identifying needs. The Minister, LGERDD heads the project Steering Committee at provincial level which includes representatives of P&D, Finance, Health, Schools and Literacy, Social Welfare and Women's Development. The provincial committee provides policy guidelines and overall monitoring, including setting the prioritization and selection criteria. Finance flows from the Province to a separate <i>tehsil</i> project account on the basis of the schemes approved for that <i>tehsil</i> .	M	M	L
DERA	Drought Emergency Relief Assistance. Funded by the federal government, with World bank assistance, the program is executed by the provincial P&D department. That is, provincial P&D department identifies the schemes, and funds are transferred via Account 1. District officials in both Balochistan and NWFP were very critical of these schemes, as sites are selected by MPAs with very little input from the districts. In NWFP the provincial government has recently established SE circle offices, on the behest of MPAs and some senior W&S department officials, to effectively control the vertical programs	M	H	M
DIMRC	Drought Impact Mitigation and Relief Component (DIMRC). Similar to DERA. Federally funded, with ADB assistance.	M	H	M
PCWSSP	Punjab Community Water Supply and Sanitation Program. This ADB funded project will have its own Project Director based in Lahore while six Deputy Project Directors (DPD) have been placed in six circles covering four to five districts each. The schemes will be identified in collaboration with <i>tehsil</i> and district government while execution will be done by DPD and after completion these would be handed over to communities for O&M	L	M	M

Table 32: Highly Vertical Programs (Deconcentrated Expenditures)

How vertical? Higher level of government responsible for:		Planning and operational design	Budgeting and financing	Expenditure control
Local infrastructure				
Tameer programs	Each province has allowed individual MPAs to identify development schemes of up to Rs. 10 million. These schemes can be identified for any sector and area under the provincial domain and therefore in all areas devolved to the district and <i>tehsil</i> governments. In Punjab, a District Steering Committee, consisting of the MPA from the district, the DCO, EDO F&P, and the TOs Infrastructure of all the tehsils, identifies the schemes. Once these schemes are identified, they are then sent to the District Development Committee (chaired by the DCO) for technical approval. Therefore both scheme identification and scheme approval can have de facto little “district input.” In Sindh, the guidelines issued by P&D state that “schemes identified by the elected representatives can be executed by the Provincial Department or by the Districts—elected representatives while forwarding the proposals may indicate the agency accordingly for preparation as well as execution of their development schemes.” The PDWP can give technical sanction to schemes even in those sectors that fall under the purview of the districts.	H	H	H

a. This chart omits proposed World Bank projects that are now unlikely to proceed: the Community Based Maternal and Child Health Project (to support the Lady Health Worker program); the Punjab Municipal Services Improvement Project (to improve urban municipal services—water supply, sewerage, sanitation); and the NWFP Community Infrastructure Project 2 (local infrastructure).

Source: ADB/DfID/WB DSD Dataset 1.

Table 33 sets out some of the input-based conditional grants that, although less vertical, are conditioned on inputs (that is, earmarked, preventing flexible planning and budgeting) and require that the recipient sub-national government provide distinct arrangements for expenditure control.

Table 33: Less Vertical Programs (Delegated Expenditures)				
How vertical? Higher level of government responsible for:		Planning and operational design	Budgeting and financing	Expenditure control
Federal—provincial				
Education				
ESR	The Education Sector Reform program (ESR) is a federally funded program that has the following components: introduction of a technical stream in secondary schools; science education in secondary schools; adult literacy; establishment of EFA units, early childhood education; rehabilitation of primary school facilities; and quality assurance (teacher training, national education assessment). Of these the rehabilitation of school facilities is by far the biggest component. The federal government does the macro planning, such as the size of the allocation for each of these thrust area, while implementation rests with the districts.	M	H	M
Health				

Table 33: Less Vertical Programs (Delegated Expenditures)				
How vertical? Higher level of government responsible for:		Planning and operational design	Budgeting and financing	Expenditure control
EPI	The Extended Program on Immunization provides childhood vaccination for seven diseases. The federal government, through the provincial coordinator, provides vaccines and equipment (purchased from UNICEF), including vehicles. Salaries of vaccination staff are paid by the district governments in Punjab, NWFP, and Balochistan, and by the Province in Sindh. The districts, through Account 4, pay for the POL, and other non-salary inputs in all the four provinces. All vaccination planning, as well as supervision of staff, is done at the district level.	M	M	L
MCP	Malaria Control Program The federal government supplies the insecticides, anti malarial medicines and money for spraying campaigns to the provincial coordinator of the program. Insecticides and medicines are then delivered to the district in kind, whereas the money goes through the treasury under the provincial account. All the employees are now on the pay roll of the district under the control of the EDO (H).	M	M	L
TB DOTS	Directly observed treatment system (DOTS) program for controlling the tuberculosis. In this program patients are diagnosed and their treatment done under close supervision of a relative or any other person who ensures that the patient takes medicines on time. The provincial government purchases and supplies the medicines and reagents through a provincial coordinator, existing district and provincial health facilities are utilized for diagnosis and follow up. Planning, such as geographical prioritization, as well as coordination and supervision of the BHUs is done by the districts.	M	M	L
Water and Sanitation				
KPP	Under the KPP the federal government transfers the funds to the districts administration (or district governments), which are to be spent as per their priorities on small civil works schemes. The federal government specifies the criteria for scheme selection—there was only a negative list of sectors and areas for which these funds can not be used, and a cap on the size of the scheme—and the districts identify the schemes. In all provinces except Sindh funds are transferred into Account 4; in Sindh they are transferred via Account 1.	L	H	M/L
Provincial—local (donor-funded)²				
Education				
Punjab Education Sector Reform Program	Supported by the World Bank, the reforms focus on improving access through the rehabilitation of primary schools, and improving quality through teacher training and free textbook provision. The centerpiece of this program is the Terms of Partnership Agreements between the provincial government and participating districts. Based on these agreements, the province will provide conditional grants to districts in Account 4, outside the PFC framework. These grants will be conditional on a number of items such as increased education expenditure allocations, meeting of reform targets, and meeting of other education indicator targets.	M/L	M	L
Sindh Devolved Social Services Program	ADB programmatic loan focusing on education, health, and water supply and sanitation services. Under the program, the province and districts will enter into contractual agreements whereby the province will provide a conditional block grant to local governments (through account IV) to undertake social sector development according to local priorities within the defined program scope. This grant will be conditional on a number of activities such as allocation of funds to SMCs, incentive schemes for girls, and public-private partnerships.	M/L	M	L
Water and Sanitation				

Table 33: Less Vertical Programs (Delegated Expenditures)				
How vertical? Higher level of government responsible for:		Planning and operational design	Budgeting and financing	Expenditure control
Southern Punjab Basic Urban Service Project	ADB project sector investment loan focusing on municipal services, including water, sanitation, solid waste management and minor support for local credit activities. Under the program, in the first year, TMAs will be eligible to receive grants for implementation of water and sanitation activities, provided they also met basic access conditions—including demonstrating availability to technical staff, contracting and supervision capacity, and completion of surveys to determine water fee collection potential and to prepare action plans for reduction in arrears. In the second and subsequent years, the balance of resources from TMAs that have not met these conditions will be available to competitive allocation to TMAs on the basis of performance. Grants will then be fully conditional on TMA performance and will have established the basis for PFC conditional grants for municipal services in the future.	H	L	M

1. In addition to vertical programs targeted at all districts, other, smaller, vertical programs operate in selected districts only. For example, the Tawana Pakistan is a school nutrition program currently being implemented in 26 districts through nongovernmental organizations that receive funds from the district government.

2. This chart omits proposed World Bank projects that are now unlikely to proceed: the Community Based Maternal and Child Health Project (to support the Lady Health Worker program); the Punjab Municipal Services Improvement Project (to improve urban municipal services—water supply, sewerage, sanitation); and the NWFP Community Infrastructure Project 2 (local infrastructure).

Source: ADB/DfID/WB DSD Dataset 1.

Glossary

<i>Anjuman</i>	Society or organization
<i>Challan</i>	Indictment
<i>Gully koocha</i>	Street and neighborhood
<i>Gram panchayat</i>	Local council (India)
<i>Insaaf</i>	Justice
<i>Insaaf committee</i>	Local committee whose function is to help citizens pursue complaints about the functioning of subordinate courts
<i>Jirga</i>	Traditional or tribal council
<i>Kotwal</i>	Police officer in Moghul times
<i>Kutchery</i>	Local magistrate courts
<i>Majlis-i-shoora</i>	Consultative council
<i>Madrassah</i>	Islamic religious school
<i>Markaz</i>	Headquarters or center
<i>Mohtasib</i>	Ombudsman
<i>Muk mu-ka</i>	An arrangement; reference to corrupt deals made by police
<i>Musalihat</i>	Reconciliation
<i>Musalihat Anjuman (or Anjuman-i-Musalihat)</i>	Society, organization, or committee for reconciliation
<i>Naib nazim</i>	Deputy mayor
<i>Nazim</i>	Mayor
<i>Nazimeen</i>	Mayors
<i>Panchayat</i>	Council
<i>Qazi</i>	Judge under Islamic law
<i>Shariat</i>	Islamic law
<i>Sifarish</i>	Recommendation of a patron
<i>Taluka</i>	Town (same meaning as <i>tehsil</i> , but used solely in Sindh)
<i>Tehbazari</i>	Use of pedestrian walkways for the selling of merchandise
<i>Tehsil</i>	Town
<i>Thana</i>	Police station
<i>Zakat</i>	Alms
<i>Zila</i>	District
<i>Ziladar</i>	District officer (historical term)

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