

# **Fiscal Decentralization in Pakistan: A Case Study of Punjab Provincial Finance Commission**

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## **Abstract**

The success of federalism in multiethnic societies greatly depends on fiscal decentralization. It empowers the provincial governments along with the local bodies at the grass root level. In this perspective fiscal decentralization needs structural arrangements in order to ensure revenue generation and appropriate expenditures. It helps to strengthen the national grid to avoid inter-provincial or intra-provincial discrepancies. This study illustrates the relationship between fiscal devolution and symmetrical horizontal economic development. It envisages the devolution plan (2001) introduced by former General Pervez Mushraff in Pakistan under which the Provincial Finance Commissions were established. This research would focus on Punjab as a case study to analyze the working of Provincial Finance Commission.

This research tends to address the questions like what have been the patterns of fiscal decentralization in Pakistan? Did National Finance Commission and Provincial Finance Commission promote the principles of equitable devolution of resources in the divisible pool on the basis of need assessment? Could PFC be able to mitigate the intra-provincial disparities in Punjab? Did PFC take efficiency advantage in Punjab through the empowerment of local governments? This study would encompass the analysis of the resource allocation formula opted by the successive governments in the past till present and the counter arguments by the academia and the local body members. Qualitative and quantitative both methods would be used while incorporating primary as well secondary sources. This research concludes with the proposition that empowered local bodies and effective finance commission are the *sine qua non* of fiscal decentralization in democratic state like Pakistan.

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## **Introduction**

Fiscal decentralization in federal structure is one of the most fundamental notion in ‘Public Finance Theory’. It refers to the vertical distribution of resources to achieve the targets of macroeconomic

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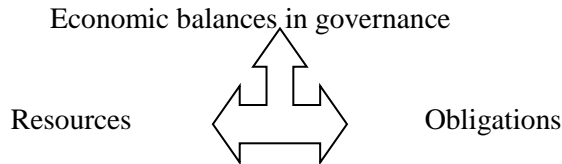
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stability and public goods. It also paves the way to accountability and transparency in all sub national authorities. Sometimes fiscal decentralization creates problems for federal government when they do not have adequate resources to stabilize the macroeconomic indicators.

Despite this fact fiscal decentralization is one of the most important pillars of federalism. It delegates powers to the provincial and local governments and enhances the proficiency of the federal government.

### **Fiscal decentralization**



Fiscal decentralization is ensured by certain key elements:

- (i) Regular revenue collection.
- (ii) Proper division of functions.
- (iii) Appropriate distribution of funds among different departments.
- (iv) Checks and balances in expenditures.

### **Literature review and contextual analysis**

Most developing states, that have a federal system, tend to promote the phenomenon of fair allocation of resources among all tiers of government to guarantee economic growth and avoid fiscal misappropriation. In this perspective Malik, Hassan and Hussain<sup>1</sup> quote Lin and Liu for explaining the relationship between fiscal decentralization and economic development under slow model in China during last twenty years. Chinese government focused on rural development along with urbanization. Similarly Yushkov refers Vazquez and Mc Nab when he states that fiscal decentralization has reduced inflation in fifty two developing countries but it did not influence their economic growth.<sup>2</sup>

There are several views about fiscal centralization and decentralization. Centralization makes the national governments

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<sup>1</sup> S. Malik, M. Hassan and S. Hussain, 'Fiscal Decentralization and Economic Growth in Pakistan', *The Pakistan Development Review*, 45:4 (Winter, 2006), pp.845-54.

<sup>2</sup> Andrey Yushkov, 'Fiscal Decentralization and Regional Economic Growth: Theory, Empirics and the Russian Experience', *Russian Journal of Economics*, 1:4 (December, 2015), pp.404-18.

responsible to distribute fiscal resources fairly to remove sharp regional economic disparities. National governments can better manage taxation system and deliver public services. On the other hand it is argued that local governments have more capability to administer finances at local level. They can also generate more revenue and funds by mobilizing regional resources. They can better address the issues at local level.<sup>3</sup>

The phenomenon of fiscal decentralization has been anatomized by Stansel (2005)<sup>4</sup>. He inquired that fiscal empowerment of local bodies fosters their economic growth. In his research of 314 U.S metropolitans, he concluded that more participation of people at grass root level generate more economic growth. Faridi, Chaudhry, Hanif and Ansari (2012) quote iqbal and Nawaz that fiscal decentralization indicated effective growth rate in Pakistan since 1979 to 2010.

Some scholars like Zhang and Zou<sup>5</sup> negatively perceive the relationship between economic development and fiscal decentralization. They are of the view that command economic approach of the central government better managed fiscal matters among different tiers of governing authorities during the decade of 1980s. While scrutinizing the data since 1972-2009 in Pakistan, Faridi<sup>6</sup> highlights that fiscal empowerment of provincial governments could not bring promising results in order to generate more employment opportunities. According to his research provincial governments got incapacitated to collect taxes. He recommends that expenditure power should be devolved to the provinces to reduce poverty and economic inequalities. Trillo and Rabling<sup>7</sup> examined that poverty reduction funds must not be under the control of political elite to avoid fiscal misappropriation.

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<sup>3</sup> R. Bahi and J. Linn, 'Fiscal Decentralization and Intergovernmental Transfers in Less Developed Countries', *The Journal of Federalism*, 24:1 (Winter, 1994), pp.1-19.

<sup>4</sup> D. Stansel, 'Local Decentralization and Local Economic Growth: A Cross-Sectional Examination of U.S Metropolitan Areas', *Journal of Urban Economics*, 57 (2005), pp.55-72.

<sup>5</sup> T. Zhang and Zou, 'Fiscal Decentralization, Public Spending and Economic Growth in China', *Journal of Public Economics*, 67 (1998), pp.221-40.

<sup>6</sup> Z.M. Faridi, S.I. Chaudhry, I. Hanif and N.F. Ansari, 'Fiscal Decentralization and Employment in Pakistan', *International Business Research*, 5:11 (2012), pp.54-64.

<sup>7</sup> F. Trillo and B. Rabling, 'Is Local Beautiful? Fiscal Decentralization in Mexico', *World Development*, 36:9 (2008), pp.1547-58.

Moreover Khan and Ghaus<sup>8</sup> investigated in their research that, during 1989-95, due to the changing trends in federal – provincial fiscal relations, provincial governments had to channelize their revenue source to increase efficiency. Their study shows that Punjab showed better performance in some aspects of the fiscal effort index. Before 1990 the federal government used to finance the provincial governments to compensate or facilitate their revenue deficits. But afterwards the nature of fiscal relations was changed and the provincial governments were supposed to arrange finances while mobilizing their resources to overcome their deficits.

Although several writers have assessed the critical issue of fiscal decentralization in Pakistan but the available data on the said topic is not adequate to determine the working of provincial finance commission in Punjab and its repercussions on the local bodies. The proponents of respective paradigm do not complement the phenomenon of vertical and horizontal decentralization in the federal settings of Pakistan. The mechanism of fiscal decentralization is not expounded in terms of status discrepancy between the provincial and local governments. Similarly the current literature doesn't sufficiently addresses the issue of status enhancement on the part of the local units which is desirably necessitated for local empowerment. Moreover both the structural arrangements are examined separately ignoring the scourges arising from institutional compartmentalisation. The reviewed literature retrospect's that there is a scope for more research in order to elucidate the inter-mingling of finance commission and local governments. This research endeavors to fill the gap in existing literature while creating a rationale to harness both Provincial Finance Commission and the local bodies for halcyon monetary relations to make the system more effective.

### **Research questions**

This research addresses the following research questions:

- What is the nature of relationship between fiscal decentralization and economic development in the federal structure?
- Does Provincial Finance Commission minimize the intra-provincial discrepancies in Punjab to ensure symmetrical economic development?
- Does the Provincial Finance Commission bolster the local governments in their status enhancement?

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<sup>8</sup> R. Ghaus and R.A. Khan, 'Relative Fiscal Effort by Provincial Governments in Pakistan (1989-90 to 1994-5)', *Pakistan Economic and Social Review*, XXXIV:1 (Summer, 1996), pp.55-75.

## Objectives

- To analyze the fundamental prerequisites of fiscal decentralization
- To explicate the power constellation between provincial and local governments in terms of resource distribution in the federation of Pakistan
- To delineate the working of Punjab Provincial Finance Commission.
- To envisage the orientation and commitment of local bodies under a new system.

## Methodology and data sources

This study contains qualitative research design to analyze the trends of fiscal decentralization in Pakistan with special focus on Punjab Provincial Finance Commission. This research envisages the following themes to empirically verify the data for authentic results.

**Table - 1: Themes for Interviews**

Sr. No.	Major Theme	Sub Theme
1	The role of Punjab Provincial Finance Commission in fiscal decentralization.	<ul style="list-style-type: none"> <li>* Lack of mechanism for capacity building of local bodies.</li> <li>* Contribution of PPFC to achieve Sustainable Development Goals (SDGs) set by Punjab government.</li> </ul>
2	The effectiveness of PPFC.	<ul style="list-style-type: none"> <li>* Disproportionate budget for infra structural development and social sector.</li> <li>* Authoritarian trends in provincial governments constrain the working of PPFC.</li> </ul>

It is imperative to note that the primary nature of underlying study is qualitative research. As in social science research, interviews are useful data collection method to deal with the human subjects as it is most flexible and widely used technique for gaining qualitative information of respondents' experiences regarding the research area under consideration.

In the light of the above mentioned themes the 'interview protocols' were established to conduct structured interviews. The population is Punjab while the sample contains academia, representatives of local bodies and the auditor journal of Punjab government. Primary as well as secondary sources are used.

**Table 2: Demographic profile of respondents**

Code No.	Academia	Code No.	Elected Representatives of Punjab Local Government	Code No.	Punjab Finance Ministry
1	Professor from Economics Department, National Defence University, Islamabad.	4	Union Councilor from Rawat, Islamabad/Rawalpindi N-League (North Punjab).	7	Retired Auditor General, Punjab.
2	Professor from Economics Department, Lahore College for Women University, Lahore.	5	Union Councilor from Johar Town, Lahore. Pakistan Tehrik-e-Insaf (Central Punjab)		
3	Professor from Economics Department, Bhauddin Din Zakria University, Multan.	6	Nazim, Khanewal District, Multan Division. Q-League (South Punjab)		

### **Patterns of fiscal decentralization in Pakistan – historical perspective**

Pakistan\* comprises four federating units (Punjab, Sindh, NWFP, Baluchistan) and tribal areas. Since the time of its inception different forms of government like presidential or parliamentary democracy have been experienced but the federal character remained intact. Federal

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\* Pakistan is the forty fourth largest economy in the world having \$ 225.14 billion GDP in 2016. Currently its annual growth rate is 4.24%. The state of revenue in GDP is 12.4% during the financial year 2016. As far as the fiscal trends in Pakistan are concerned the current expenditures are Rs.3,400 billion while the development budget is Rs.800 billion for the year 2016. The allocation of revenues between central and provincial governments depends upon the NFC (National Finance Commission) which is formed by the president of Pakistan after every five years. The share of provincial and federal governments in divisible pool has been varying from time to time.

constitutional and political structure was also the British legacy. Therefore when Indian Independence Act 1947 was adopted as first interim constitution then Raisman Award 1947 was implemented for sharing revenue between center and provinces. Under this award fifty percent share of sales tax was given to federal government in order to overcome the initial problems during the early years of independence. In this perspective East Pakistan got 45 percent share and rest of it was given to West Pakistan. In 1955 with the establishment of One – Unit the distribution of resources were reviewed under 1961 Award. Share in divisible pool:

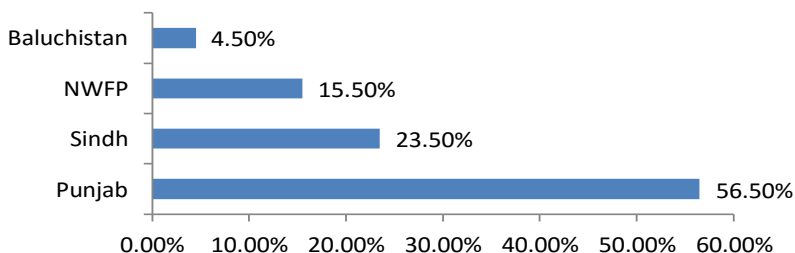
East Pakistan	54%
West Pakistan	46%

Then in 1964 NFC was formed under article (144 of 1962 constitution). Share in divisible pool:

Center	35%
Provinces	65%

Afterwards in 1970 National Finance Committee was composed to review the share of centre and provinces after the dissolution of One – Unit which became 20% and 80% respectively.

**Figure1: 1970 Award**

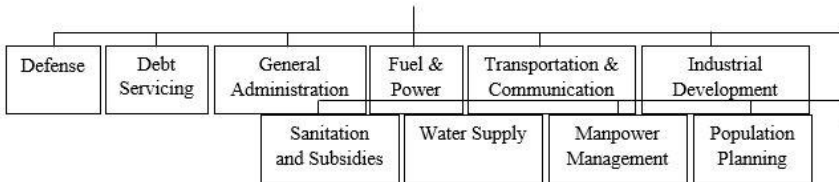


*Source:* Ahmed, I, Mustafa, U, and Khalid, M, ‘National Finance Commission Awards in Pakistan: A Historical Perspective, PIDE Working Papers’, *Pakistan Institute of Development Economics Islamabad*, 33 (2007).

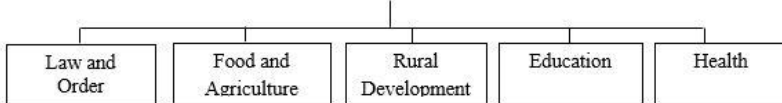
After East Pakistan debacle the state structure was completely amended and the new 1973 constitution delegated powers to the provincial

governments in terms of health and education but due to the growing trends of centralization, federal government shared the responsibility regarding planning the curriculum and health care.

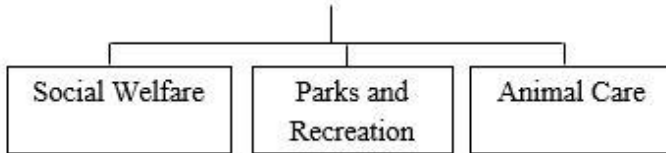
**Table 3: Domain of federal government in terms of spending**



**Table 4: Domain of provincial government in terms of spending**



**Table 5: Domain of local government in terms of spending**



**Table 6: Share in spending 19980 – 1995 Budget**

Share	1980	1995
Federal Government	42%	67%
Provincial Government	40%	29%
Local Government	18%	4%

The above data shows the growing centralization trend.

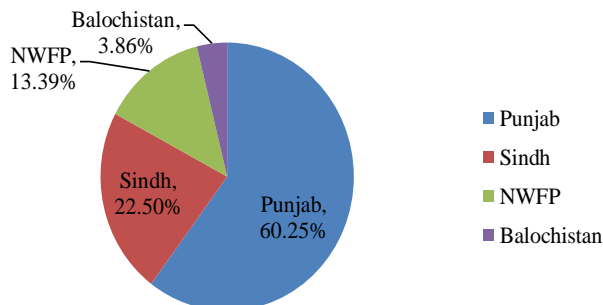
Although during 1950s and 1960s under BD\* system Pakistan had comparatively strong local government structure which empowered the public sector. However under 1973 constitution new National Finance Commission was established to properly distribute financial resources

\* Ayub Khan introduced a comprehensive scheme of local self-government popularly known as Basic Democracies. The scheme was enforced through a detailed law known as Basic Democracies Order, 1959 with effect from 27<sup>th</sup> October 1959; It was a pyramidal plan to enable the people to elect directly the local councils, who would in turn elect the upper tiers of the administration.



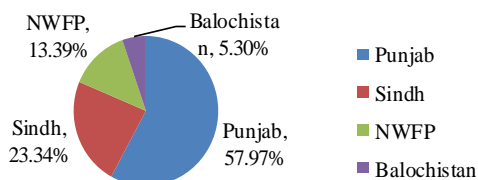
between centre and the provinces. It was aimed to resolve the contentious issue of resource transfer vertically under article 160(1). According to the first National Finance Commission Award 1974, few taxes (export duty, sales tax and income tax) were incorporated in the divisible pool. The basic criterion for the allocation of resources was set as population.

**Figure 2: Provincial shares according to 1974 NFC Award**



Then second NFC was formed by Zia ul Haq in 1979 but initially none of its meetings were held and 1974 NFC was continued to be followed. Afterwards the provincial share was restructured under 1979 NFC Award.

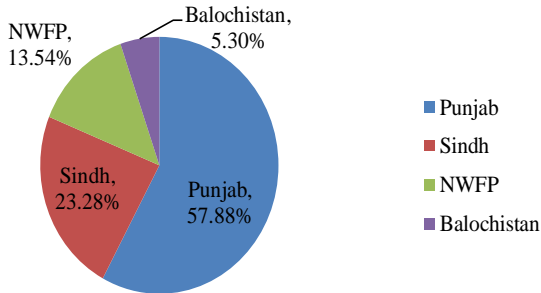
**Figure 3: Provincial shares according to 1979 NFC Award**



The third National Finance Commission was formed in 1985. Like its predecessor it also could not propose new recommendations. Therefore the distribution formula remained the same. In 1990 during Nawaz Sharif government fourth NFC award was presented in which the proposals were given to diversify the criterion regarding resource allocation but

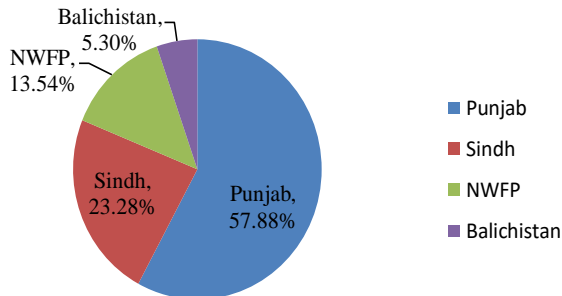
except population no other factor was considered towards this direction. Nevertheless this award increased the share of provinces by 18% to promote fiscal autonomy.

**Figure 4: Provincial shares according to 1990 NFC Award**



During 1996 care taker Prime Minister, Malik Meraj Khalid, constituted fifth NFC award which included all taxes\* in divisible pool.

**Figure 5: Provincial shares according to 1996 NFC Award**



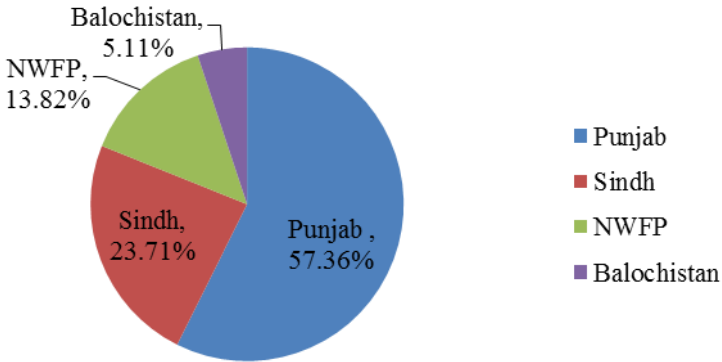
Moreover, in 2000, sixth National Finance Commission was established by President General Pervez Musharraf. Although it held several

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\* Income tax, wealth tax, capital value tax, sales tax, export duties, custom duties, excise duties.

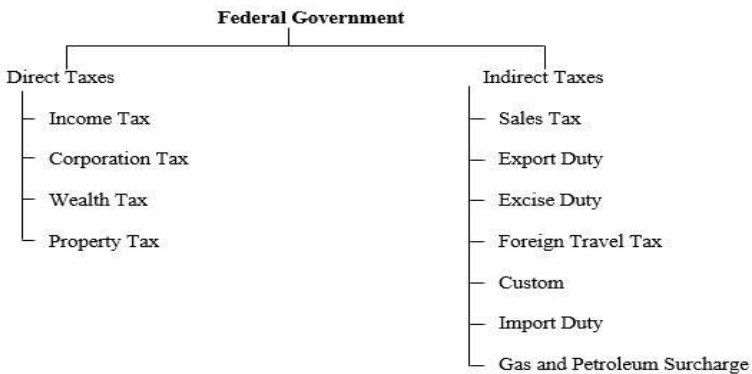
meetings but could not develop a consensus. In the same way another commission was formed in July 2005 but could not derive pragmatic results and the provincial share remained the same.

**Figure 6: Provincial shares according to 2006 NFC Award**

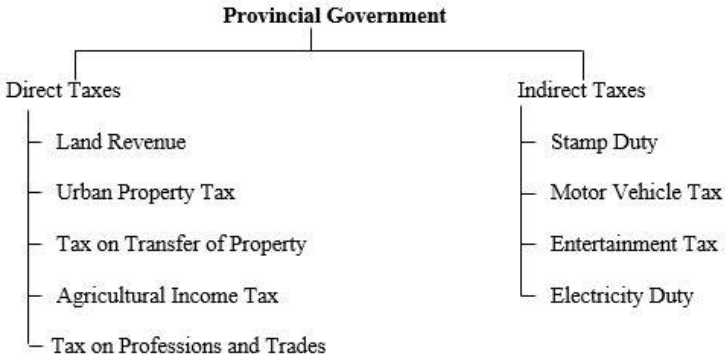


However under this award royalties on natural resources (gas, oil) were transferred to the provinces. Similarly NWFP started taking hydel power generation profit from Water and Power Development Authority (WAPDA).

**Table 7: 2006 Centre – Province tax revenue<sup>9</sup>**



<sup>9</sup> A. Shah, 'Federalism Reforms Imperatives, Restructuring Principles and Lessons for Pakistan', *The Pakistan Development Review*, 36:4 (December 1997), pp.499-536.

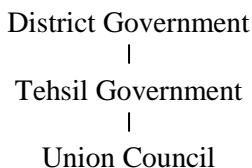


Although NFC Award has been benefiting all the provinces but there have been inter-provincial disparities and imbalances in terms of development. Smaller provinces always complain against Punjab having greater share. They demand horizontal equity among all federating units. Moreover the concurrent list was also a matter of discord between centre and provinces in which the federal law was superseded. However, it was removed under the 18<sup>th</sup> Amendment. But fiscal decentralization cannot be ensured without strengthening the local governments. Side by side transparent revenue collection system is needed to enhance the tax net.<sup>10</sup>

### **Fiscal decentralization under devolution plan 2000**

The success of democratic system particularly in multi – ethnic state depends on power sharing and its devolution to grass roots level. Therefore local government system is established to empower the people to increase their participation in decision making process. The historical analysis of the delegation of powers in Pakistan shows that local tier of government has not been very significant due to the fiscal constraints and the absence of the system of checks and balances. The ‘Basic Democracies System’ under Ayub Khan and ‘Local Body System’ by Zia – ul – Haq could not pave a way for the smooth working and regular elections of local self government. Afterwards the new ‘Local Government Plan’ was established by General Pervaiz Musharraf in 2000.

<sup>10</sup> N.B. Jaffery and M. Sadaqat, ‘NFC Awards: Commentary and Agenda’, *Pakistan Economic and Social Review*, 44:2 (Winter 2006), pp.209-34.



The distinct feature of this system was the easy access of the people to Nazims which helped to bridge a gap between the people and the government. Then the principle of ‘subsidiary function’ was applied and authorities were distributed from bottom to top. Moreover the revenue collection and expenditure were also the responsibility of local government along with the management of political representation at the local level.

### **Provincial Finance Commission: A case study of Punjab**

Punjab\* is the largest province of Pakistan in terms of population. It is the most developed region having more than forty eight thousand industrial units, cottage industries, modern road infrastructure, agriculture, mineral deposits, high literacy ratio etc. The provincial finance commission was established in 2001 to guarantee the proper working of local bodies. It was aimed that provincial finance commission was constituted to distribute financial resources fairly among all the districts according to their level of development to minimize intra – district disparities. In this connection ‘rule – based’ system to transfer fiscal resources to the district level was formulated to remove discriminations. Provincial Finance Commission was held responsible to perform budgetary functions. These budgets allocated by the (PFC) were not lapsable. Local governments could continue to retain them.

When General Musharraf introduced ‘Devolution Plan’\*\*, few economic and social services were delegated to the districts. The Provincial Finance Commission was supposed to distribute funds equitably among all districts. These arrangements were made to ensure transparency in the allocation of funds to all the part of provinces for asymmetrical development. Moreover under the PFC the deprivation index was also developed to scrutinize the level of development in all districts. This index comprised certain variables like poverty, housing, employment and literacy etc. In this back drop Ahmad, Lodhi and

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\* Capital city of Lahore. Total area is 205, 344 sq. km, population is 72,585,000. Density 353 sq. km.

\*\* Devolution plan brought certain changes in fiscal patterns and several functions were transferred to districts.

Anwar<sup>11</sup> concluded that fiscal decentralization to the district level could not overcome horizontal economic inequalities at the district level. The capital was more consumed in large cities to nurture more sophisticated infrastructure. Their per capita was increased while the deprived areas remained ignored. Then another factor created problems when the political representatives started intruding in the administrative affairs of the district. Although the regulations were defined regarding the separation of all powers but the trends of centralization resulted in the political system provoked the elected representatives to influence the state functionaries. On the other hand the local bodies have been manipulated by the military regimes to give legitimacy to non-elected representatives as under Ayub Khan, Zia ul Haq and Pervez Musharraf. In addition to it, the irregular electoral system at the local level restrained the efficiency of local bodies.

**Table 8: Year wise local bodies elections**

First Local Bodies Elections	1959
Second Local Bodies Elections	1979
Third Local Bodies Elections	2000
Fourth Local Bodies Elections	2014

Then there is a need to ensure fiscal decentralization under the Local Government Act 2013. If the local bodies do not get the required budget then they should have the authority to ask the provincial government for the reasons. In this regard the structure of Provincial Finance Commission needs to be reviewed, it must have the representation of local government. Fiscal decentralization can be guaranteed by strengthening the Provincial Finance Commission. Provincial governments should be bound by its decisions and recommendations. The 18<sup>th</sup> Amendment has, however, failed to address the issue of local government.

Furthermore, incompatibilities between local bodies and bureaucrats need to be removed. In fact it is necessary to separate powers to uphold democratic structures. Fiscal decentralization needs conducive

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<sup>11</sup> Q.M. Ahmad, A. Lodhi and T. Anwar, 'Inter – Governmental Funds Flow in Pakistan: Are They Reducing Poverty? [With Comments]', *The Pakistan Development Review*, 48:4 (Winter 2009), pp.703-14.

laws but local government provincial act give arbitrary powers to provinces regarding the dissolution of local bodies. This act restricts fiscal powers of the local bodies. In order to uplift the backward areas, fiscal resources should be allocated on the basis of the level of development and all development funds must be issued by the local bodies. The 18<sup>th</sup> Amendment\* in the 1973 Constitution abolished concurrent list and delegated more powers to provinces in terms of fiscal control of resources but this delegation has yet to go at the local level.

Appendix-2 shows that the ratio of revenue generation increased due to fiscal decentralization. Similarly it is argued that General Sales Tax (GST) can be devolved at the provincial level to overcome vertical imbalances. Although constitution has such provisions but nothing has been done so far particularly. It is generally perceived that the provincial government cannot manage GST. They do not have the capacity to fairly distribute share for expenditure.<sup>12</sup> Therefore, the historical analysis of fiscal flows in Pakistan show centralisation trend. Federal government had more share in resource mobilization than provincial government. On expenditure side, provincial governments have more responsibilities. In this connection Qureshi quotes<sup>13</sup> that the share of provinces fell in tax collection during 1987-88 from ten per cent to five per cent. The capacity of provincial governments deteriorated with the passage of time and they became more dependent on the centre.

**Table 9: Distribution criteria in Punjab**

Population	75%
Backwardness	10%
Tax Efforts	5%
Fiscal Austerity	5%
Area	5%

Source: <https://lgcd.punjab.gov.pk/>

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\* Eighteenth Amendment of the 1973 Constitution of Pakistan was passed by the parliament in 2010, removing the powers of the president of Pakistan to dissolve the parliament, turning Pakistan from a semi-presidential to parliamentary system and eliminating the concurrent list.

<sup>12</sup> I. Ara, M. Sabir and M. Khalid, 'Decentralization of GST Services and Vertical Imbalances in Pakistan [With Comments]', *The Pakistan Development Review*, 49:4 (Winter 2010), pp.479-95.

<sup>13</sup> S.K. Qureshi, 'Trends and Patterns in Federal – Provincial Fiscal Flows in Pakistan: A Preliminary Analysis', *The Pakistan Development Review*, 30:4 (Winter 1991), pp.785-98.

Tehsil Council	88.5%
Union Council	4.3%
Special Grant to Local Government	2.9%

Source: <https://lgcd.punjab.gov.pk/>

While analyzing the distribution criteria under Punjab finance commission it is generally criticized that it ignores the smaller rural areas and the working capacity of local bodies. It does not focus on evolving a framework to improve a local service delivery. Then the provincial governments have also been compromising the PFC awards. It was reported by the finance department that Punjab government deducted the funds nine billion released for the districts in order to finance their own development projects<sup>14</sup> i.e. Orange Train and Metro Bus in Lahore, while the government officials were apprehensive that these development projects were launched with the help of Chinese government. Moreover, there are also some controversies over the declining growth rate of Punjab's economy.

**Table 10: Province Share in direct tax and excise duty**

Province's share in direct tax.	2005-2007	34.2%
Province's share in direct tax.	2009-2011	33.7%
Excise duty	2005-2007	53.2%
Excise duty	2009-2011	42.9%

Source: <http://www.excise-punjab.gov.pk/>

The statistics show the downward trend of tax collection. Apart from it the industrial growth and agricultural output also represent slow rate.

**Table 11: Industrial and agricultural growth**

Economic Development	2000-2007	2007-2012
Industrial sector growth rate.	6.9%	3.3%
Agricultural growth rate.	3.3%	2.5%
Production of cotton yarn.	33% to total national production.	29% to total national production.

Source: <http://icid.punjab.gov.pk/>

The slowdown in economic growth is perceived as the provincial government has been spending development funds more on

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<sup>14</sup> Dawn, 1<sup>st</sup> January 2016.



infrastructure and roads construction instead of generating water reservoirs, irrigation system and industrialization. A survey conducted by World Bank in 2006 in three districts of the province of Punjab including (Chakwal, Bhawalpur and Sargodha). It was observed that there was no specific allocation of funds for education and health sector in these districts under Provincial Finance Commission Award. This situation leads to the imposition of local revenues on immovable property, markets, cattle markets, transportation fees etc. in order to generate more funds to facilitate the local people. Apart from this the ‘Vertical Distribution of Funds Program’ like PDSSP\*, sometimes compromises the powers of local governments and affects local planning.

Similarly the Devolution Plan delegated responsibilities to the municipal authorities to administer rural areas without increasing their resources and ignoring the local priorities. Financial constraints restrict the local bodies to undertake the local welfare schemes. For example ‘Village Development Committees’ cannot supply clean water, sanitation facilities in the rural areas due to the lack of resources. PFC also lacked appropriate allocation of resources for capacity building of municipal governments. Moreover, the provincial government kept strong hold over the appointments, transfers and the promotions of the officers working at the local level while bypassing the local bodies. Infact PFC could not be proved pragmatic because funds were used to be transferred on the basis of the priorities of the provincial governments. The fixation of MPAs quotas has also lowered the efficiency of the system. Moreover, non-democratic trends and authoritarianism has been a hurdle in the smooth functioning of the district and tehsil governments.<sup>15</sup>

Another important factor regarding working of local government is the slow response by the provincial government to conduct / hold the elections of local bodies under the ‘Punjab Local Government Act 2013’. The elections were held in three different phases but still the local governments have not been established fully in all districts. Then the role of the Punjab Provincial Finance Commission becomes pronounced to transfer funds to the local governments. In January 2017 it devised the resource sharing formula. The share was increased to 44%.

**Table 12: Distribution formula**

Formula based components	37.5%
Grants for special purposes	6.5%

\* Punjab Devolved Social Service Program.

<sup>15</sup> *Public Expenditures and Rural Service Delivery*, World Bank Report available at: [siteresources.worldbank.org](http://siteresources.worldbank.org)

Health	16.3%
Education	66.9%
Local Council	12.8%
Union Council	4%

Source: <http://lgcd.punjab.gov.pk/>

Although health and education are the most substantial entities in order to make policies to foster the social sector. But heads of these departments are nominated by the government. They are not elected. It violates the spirit of democratic local governance and people's representation. Then the provincial government has the power to remove or suspend the 'mayor' and the 'chairman' which again makes the local bodies vulnerable in front of provincial governments.

The above mentioned case study highlights the pros and cons of the working of Punjab Provincial Finance Commission. It shows the multi-dimensional analysis of fiscal decentralization in Pakistan in terms of orientation, commitment and behavior. It reflects the orientation of the Punjab provincial government to nurture the process of devolution at the grass roots after 18<sup>th</sup> Amendment but with less commitment which is evident from the authoritarian behavior.

### **Trend analysis**

The qualitative analysis of the interviews is given below to scrutinize the trends related to the case study.

### **Theme I: The role of Punjab Provincial Finance Commission in fiscal decentralization**

#### **R-I**

The first respondent expressed that PPFPC during Musharraf era has been quite functional because they were being regularly established and used to disburse funds on regular basis without any discrimination. But afterwards the system became dysfunctional. Punjab government did nothing to empower the local bodies. It did not provide any mechanism to incorporate the local units in order to achieve sustainable development growth programs. Although these programs manifest the broad vision of the provincial government but they are without effective layout plan. In this backdrop the local bodies can contribute significantly if they are channelized properly. But the ground realities are visible to all. Local units either become a victim of party politics or manipulation by the provincial government.

**R- II**

In the light of first theme the second respondent emphasized that the restoration of commissionerate system created a conflict between Punjab Police and the Punjab Administrative Services. Now the district coordination officer is replaced by deputy commissioner. DC has also the powers of district police officer. Apart from, it this system has mitigated the role of elected local bodies which is against the spirit of political and fiscal devolution. In this scenario, the role of provincial finance commission becomes ceremonial. There is a need to restructure this commission with the view to empower the local bodies.

**R-III**

Third respondent discussed about the inevitability of fiscal empowerment of the local units and to make provincial finance commission more autonomous. He focused on the deplorable conditions of most of the areas in south Punjab due to the lack of resources or negligence of the government. Moreover, this is a common grievance of southern regions in Punjab that the main focus of the provincial government is Lahore. All major investments are being made in the city of Lahore. In this connection Orange Line project consume major portion of provincial resources due to which the local government's budget was badly affected.

**R-IV**

The fourth respondent expressed reservations that the funds are not disbursed to local bodies on regular basis. He talked about the present local bodies elections (completed in dec2016) that there has not been any joint session of all elected local members till April 2017. Government has just fulfilled the condition of holding the elections to give an impression of being democratic. Provincial government has not delegated powers to the elected bodies. The PPFC gave an interim formula in January 2017 regarding the distribution of funds in social sector but practically nothing has been done.

**R-V**

The respondent from Pakistan Tehrek-i-Insaf said that under this new system the local bodies are mainly dependant on provincial governments. The sitting government occasionally gives loans to the chairman. The councilors from opposition parties are marginalized. The role of PFC is insignificant because there is no proper arrangement to mobilize resources.

**R-VI**

The sixth respondent criticized the anatomy of PFC and the non-democratic approach of the provincial government regarding institutional design. He highlighted that PFC doesn't address the issues of territorially concentrated population. It doesn't consider the deprivation index which is very important to embrace diversity and ensure fiscal decentralization.

**R-VII**

The respondent said that fiscal arrangements for the promotion of decentralization have always been a part of national discourse. It includes the criterion to evaluate the economic efficiency, equitable distribution of resources, outcomes and sustainability of developmental projects and the system of monetary checks and balances. Unfortunately the spirit of decentralization has not been established in Pakistan. As far as PPFC is concerned, it couldn't provide adequate mechanism for the empowerment of local units to avoid interventionist role of the provincial government.

**Theme II: The effectiveness of PPFC****R- I**

Regarding the second theme, the respondent said that PPFC remained effective till the devolution plan (introduced by Musharraf) kept intact. In essence the working of PPFC was greatly affected due to the change in the local bodies system. Apart from it PPFC should allocate resources while considering several indexes i.e. poverty index, deprivation index. Though infra structural development is an important pillar of urbanization but government should prefer the policies of even development to satisfy all the regions. Here the role of PPFC becomes more pronounced to diversify the provincial resources for the solidarity of the federation.

**R- II**

The respondent explained that affectivity of PPFC can be ensured only through their formation on regular basis. It can be proved as an instrumental to transform fiscal autonomy to the local governments. It will augment democratic trends to manage intra-regional discrepancies and to contain the authoritarian trends of provincial governments. Otherwise the vicious circle of vertical and horizontal centralization would continue. Therefore provincial government needs to give up her rigid approach to be more flexible.

**R- III**

The PPFC can be more effective through the distributive justice to satisfy all ethnic minorities. It should address the developmental issues of the disadvantaged segment of the population. It should opt for the principles of pluralism and mass participation to ensure devolution of power and participatory political process.

**R-IV**

The respondent recommended that PPFC should give loans to union councils to ameliorate the deplorable conditions of rural areas. They need more resources for sanitation, water filtration plants, basic education and health facilities. Provincial government should incorporate the union councils in mainstream decision making process to give them more confidence.

**R-V**

The respondent stressed that PFC should empower union councils because they are in direct contact to the people. PFC should take pragmatic steps to uplift the rural areas. PFC can also contribute to capacity building of local bodies.

**R-VI**

He recommended that PFC can be effective while strengthening the local units. It needs integration comprising 'building in' approach to guarantee that all ethnic communities are incorporated in decision-making process.

**R-VII**

PPFC can function more appropriately if the developmental projects are rationalized. Normally the provincial government launches all the projects simultaneously. Consequently few projects get accomplished while rests of them are lingered on due to budgetary constraints. PPFC can play a significant role in this regard. It should disburse development loans through a gradual process according to a planned timeframe. Hasty approach to urbanization results in asymmetrical development which sharpen economic disparities. Fiscal empowerment of local units can contribute to more responsiveness to local priorities.

**Concluding remarks**

Infact the empowered local government structure and effective provincial finance commission are indispensable to achieve the real purpose of decentralization. Above and beyond, the success of

Sustainable Development Goals (SDGs) lies in making local bodies powerful. Punjab government set SDGs (2016) need new approach to determine governance structures, transparency, resource allocation, implementation mechanism, planning and coordination. SDGs can prove striking to alleviate poverty from the underdeveloped areas if resources are equitably shared. It needs more proper budget making, austerity measures and priority setting. In this connection Punjab government has taken some initiatives like the issue of “Benevolent Fund Card” to support needy families for education. These funds would be provided by the Bank of Punjab. Then “SDGs Support Unit” has been established to institutionalize horizontal and vertical policy – making process. Here again the role of provincial finance commission becomes quite significant in terms of financial planning.

### Appendix 1: Magnitude of the tax base (Rs. in Millions)

Provinces	1989-90	1990-91	1991-92	1992-93	1993-94	1994-95
Tax for Stamp Duty Base						
Punjab	382,699	461,908	538,765	623,970	751,883	878,683
Sindh	326,812	396,185	459,057	530,283	642,602	746,665
NWFP	55,789	68,094	79,582	91,664	111,632	131,050
Balochistan	22,602	27,036	31,626	36,558	43,518	50,980
Tax Commercial Motor Vehicle Base for Tax						
Punjab	17,457	22,947	29,297	37,526	43,702	50,072
Sindh	9,638	12,618	16,043	20,465	23,702	27,083
NWFP	4,449	6,001	7,862	10,334	12,350	14,521
Balochistan	2,157	2,942	3,897	5,179	6,257	7,439
Tax for Land Revenue Base						
Punjab	119,452	141,575	172,117	182,192	216,936	266,052
Sindh	45,609	53,129	63,484	66,048	77,296	93,171
NWFP	21,719	25,768	31,359	33,229	39,607	48,625
Balochistan	10,662	12,658	15,415	16,345	19,495	23,949
Tax on Urban Immovable Property Base for						
Punjab	150,691	177,752	208,601	239,765	281,049	332,212
Sindh	111,671	132,095	155,450	178,359	209,886	249,244
NWFP	26,434	30,938	35,854	40,007	46,568	54,811
Balochistan	8,331	9,696	11,263	12,943	15,040	17,648

**Index of fiscal efforts**

Provinces	1989-90	1990-91	1991-92	1992-93	1993-94	1994-95
Stamp Duties						
Punjab	1.46	1.56	1.69	1.50	1.43	1.16
Sindh	0.56	0.48	0.35	0.55	0.61	0.86
NWFP	0.72	0.55	0.39	0.51	0.68	0.99
Balochistan	0.34	0.23	0.18	0.23	0.21	0.25
Motor Vehicle Tax Commercial						
Punjab	1.03	1.00	1.07	1.02	0.96	1.16
Sindh	0.88	0.95	0.87	1.01	1.16	0.89
NWFP	1.10	1.04	1.11	1.07	0.97	0.85
Balochistan	1.10	1.13	0.81	0.68	0.75	0.62
Land Revenue						
Punjab	1.41	1.39	1.37	1.40	1.42	1.42
Sindh	0.26	0.22	0.22	0.24	0.19	0.23
NWFP	0.65	0.91	0.77	0.71	0.67	0.57
Balochistan	0.25	0.13	0.57	0.24	0.18	0.19
Urban Immovable Property Tax						
Punjab	1.13	1.11	1.16	1.34	1.33	1.32
Sindh	0.85	0.91	0.87	0.55	0.60	0.63
NWFP	0.64	0.55	0.44	0.58	0.54	0.46
Balochistan	1.76	1.69	1.70	2.10	1.92	1.84

Sources: (i) National Income Accounts of Pakistan.

(ii) Government of Pakistan, *Economic Survey, 1994-95*

(iii) *Temporal and Regional Decomposition of National Accounts of Pakistan* by Kaiser Bengaliwala.

**Appendix 2: Provincial revenues**

Year	Tax	Non - Tax	Total (R.s Millions)
2000-01	19,100	19,900	39,000
2001-02	18,800	21,300	40,100
2002-03	21,800	25,400	47,200
2003-04	28,000	25,000	53,000
2004-05	34,710	22,404	57,114

2005-06	36,800	47,600	84,400
2006-07	36,819	45,408	82,227
2007-08	40,794	77,987	118,781
2008-09	46,084	83,789	129,873
2009-10	70,000	95,000	165,000

**Average annual**

**Growth rates (%)**

2001-05	13.68	7.59	10.46
2006-10	16.35	40.08	25.21
2000-10	15.01	23.84	17.84

*Source: GoP, Economic Survey.*