

## **The education budget in Pakistan**

**HRCP  
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The Commonwealth Education Fund (CEF) is a joint initiative of Action Aid, Oxfam and Save the Children UK. The fund aims at strengthening civil society participation into the design and implementation of national and local education plans through support to broad-based national level alliances as well as through tracking government spending on education and supporting documentation of innovative approaches that help the excluded children.



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## Abbreviations

ABD	Asian Development Bank
AGPR	Accountant General of Pakistan Revenues
APCC	Annual Plan Coordination Committee
CEF	Common Wealth Education Fund
CSO	Civil Service Organization
CCB	Citizens Community Board
DCO	District Coordinating Officer
DDC	District Development Committee
DfID	Department for International Development (UK)
EDO-E	Executive District Officer Education
EDO-F	Executive District Officer Finance
EDO-P	Executive District Officer Planning
EFA	Education for All
EMIS	Education Management Information System
ESR	Education Sector Reforms
GDP	Gross Domestic Product
LGO	Local Government Ordinance
HRCP	Human Rights Commission of Pakistan
MOE	Ministry of Education
NEC	National Economic Council
NFC	National Finance Commission
NGO	Non-Governmental Organization
NRB	National Reconstruction Bureau
NWFP	North West Frontier Province
PC	Priorities Committee
PDWP	Provincial Development Working Party
PFC	Provincial Finance Commission
PRSP	Pakistan Rural Support Program
PTA	Parent Teacher Association
PTSMC	Parent Teacher School Management Committees
SO (F&A)	Section Officer Finance and Accounts
SMC	School Management Committee
UNESCO	
UNICEF	United Nations Children Fund
WB	World Bank

This report has been produced in collaboration with the Commonwealth Education Fund (CEF) and is part of an ongoing project on primary education and budget tracking in Pakistan. HRCP is working with CEF on priority area 2 of the project which focuses on enabling local communities to monitor government spending on education at all levels of governance. The strategic focus is to support and promote mechanisms which would empower communities to track government spending to ensure affective utilization of available resources and advocate for increase in education budgets, where required.

The initiative has two objectives: a) increase awareness among communities with regard to financing of education and its place in national planning and b) to make government spending in education more responsive to educational needs of the country. This will be done by developing technical skills and mechanisms to track budget allocations and spending at national, provincial and district levels.

This report is part of a series of reports that will be produced during the course of the project focusing on various aspects of education. The purpose of this report is to briefly describe the budgetary process in Pakistan with special reference to education. The report has been produced to help focus budgetary allocations and procedures that will help to assess the utilization of funds in primary education in Pakistan.

## **Financing of education**

## **Introduction**

Of late there has been a growing recognition of the fact that the acceleration of economic progress requires an improvement in Pakistan's lagging social indicators, particularly in the education sector. The level of public spending is a key indicator of the governments' dedication and commitment to the cause of education. Pakistan ranks amongst the bottom five countries of the world, as far as public expenditure on education, as a percentage of total public spending which is close to eight percent, is concerned (SPDI, 2004).

Figures showing an increase in the number of schools and enrollment, GNP, official literacy rate and other indicators are often produced to show that the status of education in Pakistan is positively improving. However, the fact is that at least six million children of primary school-going age are still not enrolled (SDPI, 2004) and less than half of all children end up completing primary school (MOE, 2004). Despite the government's claims that education is its top priority, public spending on it during 2002- 2003 declined to 1.8 percent of the GDP from 2.6 percent in 1990<sup>1</sup>. The education sector has and continues to suffer from a persistent and acute under investment by the government since its very inception.

Political and fiscal decentralization, under Pakistan's recent governance reforms, has occurred over a remarkably short time. In brief, the local government ordinance (LGO) promulgated by provincial governments during August 2001, with amendments during 2002, assigned clear powers, responsibilities and service delivery functions to three levels of local development services.

The challenges that have risen from inadequate finance and infrastructure considerably explain the crisis in public education today. Although Pakistan has experimented with decentralization before, this is the first time fiscal decentralization has been attempted on such a large scale. The devolution plan has established elected local governments at the district and city district level, sub-district level and union council and village level. The federal government has transferred many responsibilities and authorities from provinces to the districts. Decentralization requires provinces to devise transparent mechanisms to transfer revenues to local governments in the form of formula-driven block grants which are not to be earmarked for specific uses. Nonetheless the status of the civil servants and the financial capacity of the districts remains an issue to be resolved with administrative inefficiency and claims of corruption marring working.

Apart from that, the major problems include lack of quality education, basic facilities and inadequate school resources. Inaccessibility is a problem for certain populations. Standard of education is a major factor resulting in low enrollment and high drop out rates. Moreover, lack of school infrastructure remains an issue. Special efforts are needed to rationalize resources and improve the internal efficiency of the education system.

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<sup>1</sup> Sartaj Aziz, "Role of Education in Development", Dawn, 6 January 2004.

This report aims to look at the budgetary allocations for the education sector in Pakistan and highlight some of the challenges faced under the new system.

## Resource allocations

In Pakistan the budget allocated to education is low. Pakistan is now on just twelve countries that spend less than 2 percent of GDP on education (ICG, 2004). Although education enjoys the highest priority on the social sector agenda, which as a whole is poorly funded when compared to defence, general administration and debt servicing, allocations are modest due to indispensable rigidities such as resource constraints, large establishment bills due to a large salaried-workforce and heavy debt interest repayments, arising from different priority commitments of the country in the financial system of Pakistan (MOE, 2003).

As national expenditures have always far exceeded revenue collection, fiscal deficits have remained high. Historically, there has been a heavy reliance on external borrowing to close the resource gap. In addition a much higher segment of the budget is allocated to defence. Interest payments and defence expenditures constitute the highest proportions of the expenditures (MOE, 2003).

### Distribution of national expenditure by sectors

	Percentage of Expenditures			
	1998/99	1999/00	2000/01	2001/02
DEVELOPMENT EXPENDITURES	15.5	13.5	10.5	15.8
CURRENT EXPENDITURES	84.5	86.5	89.5	84.2
-Defence	22.1	20.2	18.0	17.9
-Interest Payments	34.1	35.8	34.3	32.6
-Current Subsidies	2.3	2.7	3.2	3.0
-Gen. Administration	10.3	9.8	12.9	12.3
-Social/Eco and Community Services	13.9	13.8	17.34	15.4
-Grants	1.8	4.2	3.7	3.2
TOTAL	100%	100%	100%	100%

*Source: Economic Survey 2001/02: Finance Division: Govt of Pakistan; Islamabad*

According to the Economic Surveys, published each year, during the past four years, defence expenditures and interest payments have consumed about one fifth and one third of total expenditures respectively. The amount spent on social, economic and community services is approximately 15 percent of the total expenditure. Estimates suggest that of this, almost one-half i.e. about seven percent to eight percent is spent on education.

Since the early 1990s, provinces have placed more stress on the social sector (education, health, and water and sanitation) and made allocations accordingly. Education, too, has received an impetus and supported by donor assistance, investments have been made to improve the access to, and quality of, education.

However, national actual expenditure on education as a percentage of the GDP has remained at about 1.7 percent since 1997 (MOE, 2003). Information regarding national and provincial budgets as well as budgets allocated to the education sector during 1998/99-2002/03 shows that, in Pakistan, slightly more than seven percent of the national budget is spent on education. At the provincial level, education gets an allocation between 20 percent and 30 percent, with Punjab allocating the highest proportion of funds to education, closely followed by the NWFP.

National actual expenditure on education as a percentage of GDP (Rs in million)

Actual Expenditure	1997-98	1998-99	1999-00	2000-01	2001-02
	49083	49407	54002	57053	66022
% of GDP	1.83	1.68	1.71	1.66	1.80

Source: Ministry of Education

However, even the low budgets allocated to the education sector at the federal level are not fully spent. Except for the year 2001-02, the proportion of budgets utilized or actually spent is generally low (MOE, 2003). Out of all provinces, Balochistan spends a relatively higher proportion of the education budget.

It is also evident that the highest proportions of the education budgets are spent on recurrent heads, mainly as salaries, administration and maintenance costs.

Federal actual current and development expenditure on education (Rs in million)

	1997-98	1998-99	1999-00	2000-01	2001-02
Current Expenditure	5298	5125	5829	5851	7094
Development Expenditure	866	836	1053	855	4375
Total	6164	5961	6882	6706	11469

Source: Govt of Pakistan, Finance Accounts (1997-98 – 2001-01) and Civil Accounts (2001-02) Auditor General of Pakistan, Islamabad.

At present, this proportion ranges between 80 percent in Balochistan and 90 percent in the Punjab. Consequently, a small amount is left for development expenditure. In the Punjab only five percent of the education budget is spent on development heads. On the other hand the proportion is close to 20 in Balochistan.

Due to the devolution of education institutions to the district governments, the major spending on education is now being made by the district governments out of the share transferred to them as a one line transfer, based on the Provincial Finance Commission (PFC) award. The provincial expenditure on education consists of the current and development expenditure. The expenditure for the provision of these services is incurred both by the provincial and district governments.

The allocation of the budget among the different sectors within education is also reflective of national priorities.

### Allocation percentage to education by sub-sectors

	Total			Development			Recurring		
	Prim	Second	Others	Prim	Second	Others	Prim	Second	Others
PUNJAB	67.64	22.02	10.35	63.84	18.92	17.24	67.79	22.29	9.93
SINDH	50.05	28.70	21.24	35.37	22.26	42.36	51.34	29.46	19.19
NWFP	61.20	26.61	12.19	71.47	21.71	6.82	59.06	27.76	13.18
BALOCH.	46.05	28.98	24.96	44.79	31.33	23.98	45.49	29.77	24.74
PAKISTAN	54.54	23.23	22.22	46.67	19.00	34.33	55.41	23.74	20.86

During the current plan period<sup>2</sup>, on average, slightly more 30 percent of the education budget, at the national level, goes to primary education. Further, the remaining part is distributed evenly to secondary level and all other levels. At the provincial level, Punjab allocates the highest funds, more than 65 percent to primary level followed by NWFP, which allocates more than 60 percent. Balochistan is the only province that allocates less than half of its education budget to the primary sector (MOE, 2000).

### Financial requirements for education sector reforms (ESR 2001-05) (Rs in billion)

Programs	2001-02	2002-03	2003-04	2004-05	Total	%
Literacy campaign	0.8	2.0	2.5	3.0	8.3	8.3
Elementary education	4.0	9.0	10.0	11.0	34.0	34.
Secondary education	1.0	3.0	3.0	3.0	10.0	10
Technical education	0	3.0	5.0	7.0	15.0	15
College/ Higher education	1.0	3.0	3.0	3.0	10.0	10
Mainstreaming madrassahs	0	5.0	5.0	4.0	14.0	14
Public-Private partnership	0.1	0.2	0.2	0.2	0.7	0.7
Quality assurance	1.0	2.0	2.0	3.0	8.0	8
Total	7.9	27.2	30.7	34.2	100	100

Although the ESR plan identifies important areas for reform, currently it relies heavily on international donors and the private sector. Over dependence on external funding, despite government's pledge to increase public spending on education indicates an uncommitted desire to assume responsibility for reform.

<sup>2</sup> Education Sector Reforms (ESR) Action plan 2001 – 2005

## Devolution – a brief look

Devolution has been implemented unevenly in Pakistan. The diversity was inevitable for several reasons, including most importantly the reality that the patterns of local government, political relations, conflicts and alliances vary considerably from one province to another. Important variations among provinces and districts also characterize the devolution of the education sector. The structure of the Departments of Education in the Punjab, Sindh and NWFP include three directorates—Primary, Secondary and High—while Balochistan initially merged them into one but subsequently created a separate directorate for colleges. At the district level, Punjab has created separate departments for education and literacy, while the other provinces initially opted for single departments for both sectors and now only NWFP considers them single.

Under the LGO district rather than the provincial governments have officially become the operational tier of governance (ICG, 2004). 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. 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 (ADB/WB/DFID, 2004).

District governments have been given the 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.

Devolution of Power Plan has transferred responsibility for delivering education to local governments. The government, under the Local Government Plan 2000<sup>3</sup>, has undertaken fiscal devolution reforms to facilitate people-centered participation, and greater accountability and transparency. The plan has done little to decentralize real power or to set up effective grassroots constituencies for reform (ICG, 2004). As part of these overall reforms as stated in the Provincial Local Government Ordinance 2001 and reflected in the Education Sector Reforms Action Plan 2001-2005<sup>4</sup>, the district rather than the province, has become the operational tier of governance.

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<sup>3</sup> The Devolution Plan was implemented in the Local Government Ordinances 2000 and brought about a wholesale transformation in system of government, especially at the local level. Divisions were abolished, and instead a three-tier local government structure comprising of three categories of local government - districts, tehsils and unions - was brought in

<sup>4</sup> Comprehensive package of educational reforms in response to the Dakar framework with medium term targets finalized through a consultative process with over 600 partners and formation of the national plan of action to meet the long term goals for EFA ( universal primary education, adult literacy and early childhood education )

## Changes under devolution

Devolution has brought about major changes in terms of financial outlay and funding.

- *Fiscal decentralization* (Winkler, 2002): Prior to devolution, provincial governments received most of their revenues (82 percent in 2000-01) from a pool of shared revenues collected nationally. This revenue sharing does not change under devolution. What changes is that provincial governments are required to devise mechanisms to in turn transfer revenues to district level governments, and district level governments are empowered to share their revenues with sub-district level governments. The revenue transfers from provinces to districts are in the form of formula-driven block grants, are earmarked for specific uses.
- *Expenditure decentralization* (Winkler, 2002): Prior to devolution, education budgets and expenditures were determined by provincial officials at the provincial level. Subsequent to devolution, district officials determine education budgets and expenditures, except for those standard-setting and monitoring functions which remain at the provincial and federal levels. In addition, both the provincial and federal governments make additional transfers to the districts earmarked for specific educational uses.

Under the devolution plan, district education can be financed from three sources

- a) district governments own resources
- b) provincial non-earmarked block grants
- c) ad hoc federal education grants to provinces and districts

## Major features

Some of the other aspects in which devolution has brought a change are:

### ***Budget and expenditure management***

Local governments have been given the powers to raise some additional revenues. Provisions for the establishment of the Provincial Finance Commissions (PFCs), in addition to the National Finance Commission (NFCs), have been made to make awards for distribution of resources between the province and local governments as well as distribution among the local governments.

Local governments are now to determine budgets and expenditures for most services whereas only the policy, standard setting and monitoring functions are to remain with the provincial and federal governments. Higher level of governments can also provide additional, special purpose and conditional transfers to local governments as a means to support particular policy outcomes.

However, elected district representatives have no influence over the district government's budget and unspent funds are returned to the province (ICG, 2004).

### *New intergovernmental roles*

According to the devolution plan, there are new roles and responsibilities for different levels of government, extending from the federal level to the point at which services are delivered (such as School Management Committees (SMC)). Decentralization has created a body of elected local officials (nazims and councilors) at all three levels (district, tehsil and union). For example, the District Education Office is in place but below that level a variety of education department structures have emerged in order to encounter district-specific circumstances.

**Table 14: Management Structure after Devolution**

	Balochistan	Sindh	NWFP	Punjab	
<b>Provincial level Education and Literacy Departments</b>	Department for Education and a Directorate for Literary and Non-formal Education	Separate Departments for Education and Literacy			
<b>Provincial level Directorates</b>	1.Primary 2.Colleges	1.Primary 2.Secondary 3.High	1.Primary 2.Secondary 3.High	1.Primary 2.Secondary 3.High	
<b>District Education and Literacy Departments</b>	Killa Saifullah—joint department	Karachi—separate departments	Bannu—joint department	Faisalabad—separate departments	Bahawalpur—separate departments
<b>District Education Officers—DEO</b>	DEO-Primary DEO-Sec. DEO Admin.	DEO-EE (M) DEO-EE (F) DEO-Sec. DEO-HS DEO-Acad. DEO-Tech. DEO-Special Education DEO-Sports DO-SEMIS and Planning	DO-EE (M) DO-EE (F) DO-Sec. DEO-College DO-Special Education DO-Sports	DEO-EE (M) DEO-EE (F) DEO-Sec.(M) DEO-Sec.(F) DEO-College DEO-Special Education DEO-Sports	DEO-EE (M) DEO-EE (F) DEO-Sec. DEO-College DEO-Special Education DEO-Sports
<b>Deputy District Education Officers—DDEO</b>		DDO	DDO (M) DDO (F)	DDEOs at <i>tehsil</i> level	DDEOs at <i>tehsil</i> level
<b>Assistant District Office—AEO/ADO</b>		ADO	ADDO-E ADDO-S	AEOs at <i>markaz</i> level	AEOs at <i>markaz</i> level

Source: ADB/DfID/WBDS Dataset 1.

The senior education official at the district level is the Executive District Officer (EDO) – Education who is supposedly responsible for annual budgets and establishing primary and middle schools in the district, appointments and transfers.

### *Elected officials to control administration*

Prior to decentralization, most civil servants belonged either to the federal or provincial cadres. For instance, high level provincial education officials belonged to the federal cadre, along with the appointed chief district officer, whereas district education officers, teachers, and other education officials belonged to the provincial cadre. Decentralization has created a third, district cadre of civil servants and depending on the province arrangement, staff up to grade 16 or 17 now has to report directly to the district governments (ADB, 2002).

However, the EDO – Education’s authority extends only to staff at the BS-15 level or below. Transfers and appointments for more senior staff remain the responsibility of the provincial government. Staff at the provincial level also has the responsibility over budget, textbooks and in the Punjab approval of schemes beyond Rs. 20 million (ICG, 2004).

### *Citizen power*

In order to institutionalize bottom up demands for local development projects that have not been attended to under the centralized system, Citizen Community Boards (CCB) can be established under the Local Government Ordinance (LGO). CCBs authorized by the LGO will earmark 25 percent of the development budget for investments identified by the board as part of an effort to stimulate local civil society and build lasting citizen government relations (ADB/WB/DFID, 2004). Even though the provision for the establishment of CCBs in the LGO does mark the first formal recognition that civil society has an important role to play in development and service delivery, its actual implementation has been disappointing.

In theory 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. 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 is to make cash contribution of 20 percent in order to tap into these funds for a specific project<sup>5</sup>. Moreover, the 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 (ADB/WB/DFID, 2004).

With specific reference to education, CCBs should form and support establishment of School Management Committees (SMCs) as an attempt, under the local government ordinance, to create incentives for service providers to respond to the views and concerns of service users and encourage community participation. 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 (PTSMCs) in Balochistan. The structure of the SMCs is different from the old PTAs (whose membership was limited to

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<sup>5</sup> The guidelines issued by the government specify that in kind, contribution by the CCB will be considered as add on to the 20 percent cash required and not a replacement and will be taken into consideration in the ranking and evaluation of the project proposal.

parents and teachers) and includes in some cases representatives from NGOS as well as from the local political leadership (ADB/WB/DFID, 2004).

#### SMC Structure in the four provinces

Structural features	Punjab	Sindh	NWFP	Balochistan
Membership	11	14: parents to be elected	8: parents to be elected	7
Chairperson	Head teacher	Head teacher and parent	Parent	Head teacher
Political representation	No	Yes: union councilor	Yes: union councilor	No
NGO representation	No	Yes	No	No
Authority to hire and fire teachers	No	Yes	No	No
FY04 budgetary allocation		Rs. 450 million	Rs. 247 million	None

*Note: Punjab is in the process of experimenting with different models for SMCs*

*Source: ADB*

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 (ABD/WB/DFID, 2004)<sup>6</sup>. However this logic has not translated into any practical form and performance of SMCs on the whole continues to be dismal.

#### ***Problems with devolution (the education sector)***

The Devolution of Power Plan gives district governments lead responsibility in deciding on the location of new schools and arranging funding for their construction. Additionally, district governments are to monitor schools and carryout annual evaluations of teachers. The Executive District Officer (EDO) Education, the senior bureaucrat overseeing the

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<sup>6</sup> Two countries that have been studied in some detail are El Salvador and Nicaragua. In El Salvador, communities managed rural schools, called EDUCO, were given significant decision making 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 tradition schools, and consequently 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 decision making actually exercised and student achievement as measured by test scores (King and Ozler: 1998). Furthermore, the ability of schools to monitor teacher activities and teacher staffing had the greatest impact on student achievement.

education sector at the district level, has in principle, the power to decide on allocation of all education resources (MOE, 20043). In the light of the changes following devolution, some of the problems that persist in the education sector are:

- Due to a lack of distinct roles of the different branches and departments of the governments, political clashes continue to hamper local development projects.
- Lack of discretion over education budgets and jurisdiction over development projects, local stakeholders are unlikely to respond to particular educational needs of the communities.
- Many districts are still facing trouble switching to a performance-based expenditure system so quickly. Some district level arrangements remain in a state of flux.
- The districts are attempting to take on new responsibilities but must rely on personnel who may lack necessary skills.
- In addition, the EDO-Education does not have direct access to these funds, which are currently under the control of the District Coordination Officers (DCOs).
- In many cases, the DCOs perceive of the EDOs as officers with little capability or imagination.
- Many district governments are apprehensive about sharing their resources with the CSOs. They are worried about being held liable for unexplained expenditures

Devolution is undoubtedly a fact of life in Pakistan. It is unlikely there will be a major return to the previous arrangements that had such a poor track record. Equally, however, no certainty exists that devolution will now be developed and entrenched to maximize its potential returns. The risk at present is that by failing to deliver visible service delivery improvements in the short term, the devolution project will fall short of completion and the present hybrid arrangements, part new and part old, will become permanent.

## **The budgetary process**

## **Fiscal Transfers:**

### **Federal to 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 (*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) (ABD/WB/DFID, 2004).

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*<sup>7</sup>.

The 1997 NFC award<sup>8</sup> consisted of three components (ADB/WB/DFID, 2004):

- (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.

### **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 are 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<sup>9</sup> (ABD/WB/DFID, 2004).

All provinces have now established Provincial Finance Commissions, which have made awards for the distribution of provincial resources to local governments. According to the

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<sup>7</sup> 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

<sup>8</sup> The NFC award was renewed in 2002, changing the basis of provincial shares from the 1981 population ratios to 1998 census

<sup>9</sup> Important to note that constitutional protection of provincial rights is very strong in Pakistan

legislation establishing each PFC—containing only slight variations from the NRB’s suggested model—the PFC evolves 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. Population is the most important indicator used in all provincial awards. A backwardness index is used by three of the four provinces, and the two largest provinces incorporate tax-effort provisions.

Earlier the district departments were just de-concentrated 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. 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.

## **Budget cycle**

### **Formulation of the budget <sup>10</sup>**

The formulation of the annual budget at the federal level is a lengthy process. The Finance Division follows a time schedule for preparation of the federal budget. This generally starts in the month of November and ends in June, when the new budget is presented and approved by the National Assembly.

The process includes many stages and levels spread over a period of many months. The non-development or recurring budget is approved by the Finance Division on a case-to-case basis. The recurring budgets are prepared by the concerned organizations or departments on the basis of the strength of employees in that organization. This includes salaries of staff, provision for maintenance of building, equipment, purchase of goods, electricity, gas, water, telephone charges, publications, research items, raw materials, etc. The cost of each sub-item is justified as compared to the number of employees working

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<sup>10</sup> Information obtained from publications by the Ministry of Education, Government of Pakistan

for the purpose. The Finance Division then approves the allocation on a case-to-case basis, according to the justification provided by the organization for each item of expenditure.

The development budget is prepared sector-wise and sub-sector-wise. The education sector provides information on all development projects from all of its sub-sectors such as primary education, secondary education, technical education, teacher education, college education, scholarships, libraries, literacy & mass education, universities or higher education, etc. The project-wise financial requirements are compiled on a lengthy Performa of 32 columns for each of the projects and discussed by the Priorities Committee under the chairmanship of the Additional Finance Secretary. The recommendations of the Priorities Committee are further discussed by the Annual Plan Coordination Committee (APCC) under the chairmanship of the Deputy Chairman of the Planning Commission. The APCC meeting is also attended by the provincial Finance Ministers. The recommendations of APCC are then approved and finalized by the National Economic Council (NEC) under the chairmanship of the Prime Minister of Pakistan. Subsequently, the approved development and non-development budgets are passed by the National Assembly, and published by the Finance Division for information to all concerned and for their implementation.

### **The disbursement process<sup>11</sup>**

At the federal level, the funds are released through the Ministry of Finance. The re-appropriation of funds from one head of account to another is also done by the Finance Division with the concurrence of the Planning and Development Division, in exceptional cases. The supplementary grants, if required during the course of the financial year for some items of immediate nature expenditure, are also sanctioned by the Finance Division, that too in rare cases. The allocated funds for social sectors are not released in lump sum but according to a strategy for operation of the budget in the first and second half of the financial year, as described below.

<b>Item</b>	<b>First Half</b>	<b>Second Half</b>	
		<b>1<sup>st</sup> and 2<sup>nd</sup> Quarter (1<sup>st</sup> July to 31<sup>st</sup> Dec)</b>	<b>3<sup>rd</sup> Quarter (Jan to Mar)</b>
Current Expenditure	40 % of Budget Allocation	25 % of Budget Allocation	35 % of Budget Allocation
Development Expenditure	50 % of Budget Allocation	30 % of Budget Allocation	20 % of Budget Allocation

The funds are released in installments as mentioned above after the specific clearance of the Finance Division on a case-to-case basis and subject to resource availability. In the past the imposition of budget cuts during the course of the financial year and especially during the last quarter were also noted.

<sup>11</sup> Information obtained from publications by the Ministry of Education, Government of Pakistan

The development budget release sanction letters are prepared by the Ministry of Education and forwarded to the Financial Adviser's Organization (F.A. Org.) of the Finance Division through the Section Officer (Finance & Accounts) [SO(F&A)] of the Ministry of Education. The Finance & Accounts Section of the Ministry of Education acts as a hub or coordinating office for all matters relating to budgets and accounts. The sanction letter is endorsed by the Deputy Financial Adviser (Education) after thorough scrutiny of all related documents, performas and past utilization reports. The endorsed sanction letter is then submitted to the Accountant General of Pakistan Revenues (AGPR) for payment. A copy of the sealed authority regarding release of funds is invariably issued by AGPR to SO (F&A) of the concerned Ministry. The reconciliation of accounts, during and after the close of the financial year, is also done by SO (F&A) on behalf of the Ministry of Education. The release procedure has recently been simplified by considerably reducing the number of documents required and number of offices involved.

### **Three tier system**

#### **Funds at the provincial level**

Provincial expenditure on education is made up of the current expenditure and development expenditure. The expenditure on provision of these services is incurred both by the provincial and district governments. Primary, secondary education and colleges are the responsibility of the district governments while professional colleges are the responsibility of the provincial governments (HRCP, 2004).

Prior to the introduction of the new local government system in 2001, expenditure for these services was borne by the provincial government and was therefore reflected in the provincial budget. The devolution of functions has resulted in a massive decrease of provincial education budget in Pakistan.

From the federal divisible pool federal share is kept and provincial share is transferred to the provincial governments. From the provincial divisible pool, a certain proportion is retained and the rest is allocated to the districts.

#### **Funds at the district level**

The share of the district governments determined by the PFC award is transferred as a single line transfer to the district governments. The district governments are fully empowered to allocate expenditures to various sectors in accordance with their own spending priorities that are evident from the annual budgets approved by the zila councils. The discretion of the district governments is, however, restricted by the demand for salaries of the staff of the devolved departments which forms a major portion of the recurrent budget (HRCP, 2004).

In the education sector, the district governments now have the lead responsibility in deciding where to locate new schools and how to finance their construction, in addition to inspecting schools to ensure that they comply with the standards and in carrying out the annual evaluation of teachers and head teachers<sup>12</sup>. Under the District Coordinating Officer, the Executive District Officer Education (EDO-E) is a new position at district level with responsibility for the entire education sector as opposed to a particular branch within the sector, as was previously the case. The EDO-E is required to take decisions on allocation of resources across branches and levels of education (MOE, 2003).

With the setting up of district governments, a new Account No. IV, which is the district account, was created under the LGO. All finances generated at the district level or allocated to districts under special programs/grants are placed in this account. The ESR/EFA funds, president's program grant under the education sector and the *Khushal* Pakistan program funds<sup>13</sup> are also allocated to this account.

The National Reconstruction Bureau (NRB)<sup>14</sup> attempts to facilitate bottom-up financial planning through CCBs, which are to operate at the village and union council levels. The CCBs as explained in the last section are to be composed of non-elected citizen volunteers who come together as an organized body. Access to funds is through a matching grant scheme, whereby the CCBs must provide 20 percent of total funds in cash to receive 80 percent of the approved budget. All registered civil society organizations, including PTAs/SMCs, are to re-register as CCBs if they want access to district funds (NRB, 2002). In addition, CCB projects must go through a complicated nine-step process to receive grants.<sup>15</sup>

Usually the procedure to be followed to determine school priorities and planning processes (Shah, 2003) is that the EDO (Education) makes proposals and identifies schemes, which are submitted to the EDO (Planning/Finance). EDO (Finance) makes the budget by prioritizing schemes and sends these schemes to the District Assembly/District Development Committee (DDC) for consideration and approval. The DDC is chaired by District *Nazim* among others EDO (education) is the member of DCC. The District Coordinating Officer (DCO) presents ADP and schemes for approval in view of the District budget provision. The approval limit of schemes by the DDC varies from province to province. Usually it ranges from Rs two million up to four million. The DDC can be an effective mechanism for community participation if all funds utilized come under discussion and the District Education Department and schools are to show the evidence of the money they spent. In principle if a scheme does not come under the purview of DDC then it is usually sent to the province for consideration and approval by the Provincial Development Working Party. The PDWP can approve schemes costing up to Rs 200 million.

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<sup>12</sup> Fiscal Devolution in Education – Case Study Reflecting Responses – MOE May 2003

<sup>13</sup> Funds for local and community infrastructure schemes

<sup>14</sup> The role of the NRB is to formulate policy and strategy options for national reconstruction for approval by the National Security Council, Government of Pakistan.

<sup>15</sup> The nine steps of that process are: need identification, project preparation, submission, clearance by the council of proposals, approval, deposit of share, release of first installment, implementation, and monitoring and project progress reports.

## **Challenges**

## **Fiscal Devolution**

Fiscal decentralization remains a challenge. The fiscal year, 2002 was regarded as transition year in fiscal decentralization (ADB, 2002). The key challenge now is to fully implement new systems and procedure that articulate the governments' commitment to a people centered system of local governance based on internationally established norms and principles. For decentralization to work efficiently and for it to be sustained it is essential that there be opportunities for all citizens to voice their preferences about the allocation of resources through decisions made by elected leaders.

Successful and durable decentralization in any context requires assurance that funds transferred or spent directly will be controlled, consistent with clear standards, regular reports, and accurate accounts. Support to this process must therefore focus on both the administrative and political aspects of three dimensions of accountability: between levels of government, between administrators and elected leaders, and between councilors and the citizenry. The dual focus, administrative and political, is needed to support the permanent establishment of a set of planning and budgetary practices through which citizens, in concert with accountable, elected local governments, are given responsibility to decide on service delivery with the authority to impose taxes and fees to finance these services

## **Enhanced autonomy in preparing the budget?**

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 (ADB/WB/DFID, 2004). 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. By fiscal year 2003 to 2004, all districts had prepared their own budgets.

In practice, the districts and TMAs retain very little room for maneuver in making or amending their budgets. Despite the very few legal limitations on the local governments, a plethora of notifications, instructions and operational practices allow provincial Finance Departments to reach deeply into the local budget-making process. Despite the many rigidities and the extensive earmarking of recurrent budget funds and the equally frequent capacity problems, ownership of the budget process is gradually increasing.

### *Vertical Programs*

Vertical programs<sup>16</sup> in education also pose a challenge for district education planning. Districts have no freedom or flexibility to use these resources according to their own priorities, and no additional funding to support the recurrent cost implications of vertical programs is available. The literacy department in Karachi, for instance, receives its funding through a pipeline directly from the provincial government. This support, however, effectively frees the literacy department from the control of the district government under which it is meant to work and puts it under provincial control. The EDO Literacy establishes schools, which are often run by NGOs. The education and literacy departments do not work together with the result that schools are opened by one agency without taking account of what the other is doing. Some areas have 5 or 6 schools within a small radius, while other areas have none

Vertical programs are the main constraint on district and TMA autonomy in preparing the development budget. 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<sup>17</sup> during the fiscal year. Although MPAs have been directed to seek scheme approval through the District Development Committee (DDC), 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. Whether these schemes reflect the education needs of the community is another issue as their allocation is completely at the discretion of the MPAs.

Often the volume of funds channeled through vertical programs dwarfs the district's own Annual Development Plan (ADP) for particular sectors. Although figures are incomplete, according to a study by the ADB and WB, 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. 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.

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<sup>16</sup> Vertical programs represent allocation of funds by federal or provincial governments to particular programs that might otherwise have been left at the discretion of the local government. They may or may not entail some element of fiscal transfer to the province or to the local government outside mainstream mechanisms.

<sup>17</sup> The Provincial Allocable is the Provincial Consolidated Fund net of the Provincial Retained and the distribution of GST

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. 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.

### *Citizen Community Boards*

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, of the development budget, annually compounded. Arguably the price is worth paying if they facilitate deeper citizen engagement in planning.

With a few notable exceptions, most districts visited have no functional CCBs. In most cases CCBs have not been registered, and where they have been registered, they do not receive 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. Second, until recently the registration guidelines lacked clarity; as a result, some local governments adopted overly cumbersome processes. 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 and carry out projects. Finally, and most importantly, in many cases CCBs have not been a priority for the local government political leadership.

### *Recurrent Budget<sup>18</sup>*

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. Among further restrictions is earmarking in preparation of the non-salary recurrent budgets in NWFP and in Punjab. The transfers from these provinces to districts and TMAs are predefined by indicative proportions to be allocated to each sector.

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<sup>18</sup> Devolution in Pakistan – Overview of the ADB/DfID/World Bank Study, 2004. All analysis based on the budget figures up till 2001 – 2002

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. 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 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. 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.

### **Citizens' voice**

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*, 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<sup>19</sup>.

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<sup>19</sup> Pakistan Rural Support Plan (PSRP) however holds that complete devolution is only possible after direct elections of district and tehsil nazimeen are held. (Gov of Pak, 2003)

This study<sup>20</sup> argues that there are two necessary conditions for these relationships to hold. 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?*

One important factor is public assignment of credit or blame. While it is probably true that citizens value education and other social services, it is also likely that voters believe politicians' claims to deliver patronage and infrastructure schemes are more credible than promises to improve education. This is partly because, as the World Bank Development Report argues, education is 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. 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.

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<sup>20</sup> Study done by the World Bank, ADB and DfID, published in 2004.

### *Citizen Community Boards*

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 on 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<sup>21</sup> 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.

### *School Management Committees*

SMCs operate with varying degrees of effectiveness. Most are still largely controlled by head teachers who continue to select members, and school management remains with the staff. Most SMC members know little about their roles and responsibilities. For example, a majority of SMC members in Sindh had never received the notifications delineating their powers, and in Punjab it was observed that School Council members had never seen the proceedings register designed for supervision and management by the members.

In cases in Punjab where teachers were not from the same village, there was little interaction between them and the committee members, a fact that is not surprising since SMCs are not involved in hiring and firing. Fear of audit objections is also resulting in SMC funds being under-spent, an excess of caution primarily caused by failures to issue school managers written instructions and rules of business in relation to the use of funds.

It is too early to say whether devolution has had any impact one way or the other on SMCs. On the one hand, many anecdotal reports speak of SMCs being subjected to harmful interference by district governments in general, and union *nazimeen* in particular, frequently with regards to the use of SMC funds. It appears as well that in many districts of Sindh, locally elected officials were pushing for union *nazimeen* to be chairpersons of SMCs, or were pressuring school headmasters to make purchases from certain dealers.

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<sup>21</sup> Community Social Audit report, (NRB, Islamabad)

## Challenges

According to an analysis conducted by the Social Development and Policy Centre,<sup>22</sup> the process of shifting the burden of stabilization to the lower tiers of the government has seriously shrunk the capacity of the provincial governments to invest in education along with other social sectors. This has resulted in low social expenditure and consequently poor social conditions. It is vital that macroeconomic policy should not contradict the objectives of social-economic growth. Therefore, some alternative mechanism to support provinces on the fiscal front is needed.

The rigidities in the existing budget allocations for the district governments include:

- over dependence on the federal and provincial government for resource generation
- narrow base of own resources
- a major portion of resources going towards establishment charges
- inadequate resources for maintenance and creation of assets.

These rigidities are however, consuming and allow very little fiscal space to the district governments to undertake meaningful reforms and development initiatives. Of these rigidities centralization of resource generation and service reforms are crucial. Unless these are effectively addressed, the new tier of governance is likely to become impassive to the needs of the people.

*Large mandates versus limited resources* (ABD, 2002): The local government sector is small, measured by percentage of total consolidated expenditures, and has minimal own-source revenues, but has large responsibilities for delivery of basic services. Controls are over-centralized, yet local officials are under-regulated. There are few incentives for improved performance or better accountability. Under-resourced, local governments are responsible for spending a large proportion of their resources on priorities earmarked by provincial and Federal authorities, thus constricting the ability of elected councilors to respond to their constituents' needs. Local governments also vary greatly in their capacity to implement decentralization.

*Clarity of roles and responsibilities* In a legal and statistical sense, the role of the government at the federal level is generally well defined. However the role of other levels of government at the district and provincial level need more clarity. Hierarchical relationships among districts, tehsils, and unions are not clear (e.g., union councils lack inputs into the "higher tier" planning and budgeting systems of the district councils) and power plays between local units contribute to impulsive, changeable relationships that are not favorable to steady service delivery. The relationships between council members, particularly those representing women, peasants, and workers, and the nazims (mayors) also lack either informal norm-based conventions or formal rules to structure decision-

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<sup>22</sup> Conference Paper No 56 - Burden of Stabilization on provinces and its implication on social sectors – paper presented at the 19<sup>th</sup> annual general meeting and conference of Pakistan Society of Development Economics in January 2004, Islamabad.

making. This leads to breakdowns in communications between branches of local government over critical issues such as budget approval.

*Capacity Development:* Capacity development is broader than capacity building. It focuses on public access to information and improved political literacy among constituencies, through development of political and administrative skills and improvements in the underlying systems to which they will be applied. Access to information, suitable to a poorly literate citizenry and lower council membership, is of fundamental importance, especially in light of the traditionally secretive and exclusionary nature of the Pakistani executive. Training will need to focus on filling gaps in skills measured from a base for purposes of post training evaluation of effectiveness in imparting skills as well as improving the performance of provincial and local institutions served by selected participants. Capacity development also extends to improvements in basic systems, such as accounting and budgeting, internal communications, performance management, and procurement from efficiency, gender, and poverty perspectives.

*Budgetary certainty* Fiscal transfers represent a large proportion of revenues for sub-national governments in Pakistan. 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. Linkages between planning and budgeting and overall coverage of the budget need review and clarification. Budget coverage needs to be more clearly defined.

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.

Further clarification of the role of provincial governments in fiscal management is required. The role of the provinces in managing public finances before devolution was broadly defined in the constitution and principles and procedures were similar to those applied at the federal level. By decreasing the budget at the provincial level and increasing it at the district level, neither tier has significant authority or power to make meaningful changes.

*Public availability of information* The budget documents provide a comprehensive and detailed coverage of the federal, provincial and district budget in various forms. These include the economic survey, ADP, provincial budgets etc. However the timeliness and reliability of the accounts data need to be improved for useful comparisons to be made with past years. Projections at the moment are not included in the budget documents. General government information is available but actual date is provided with a long time lag (SDPI).

There should be open budget preparation, execution and reporting. The annual budget presentation of the federal government primarily focuses on central government and the current financial year. Detailed projections of possible future trends are not given. Especially with three tier system, the transfer of money from one level to the other needs to be discussed in detail.

## **Recommendations**

*Higher budget:* More resource generation and higher budgetary allocation to education is needed. Public expenditure on education must be raised to at least 4 percent of the GDP, as recommended by UNESCO. Public expenditure on social sector development must also be increased to make schools more accessible especially in rural areas.

*Open budget preparation and reporting:* There should be open budget preparation, execution and reporting. The transfer of finances, from one level of governance to the other, needs to be discussed in detail. Detailed projections of possible future trends of budget allocation and utilization can enable a more focused and directed effort towards the education sectors. Timeliness and reliability of the budget documents (ADP, economic surveys, provincial budgets etc.) must be improved to make valuable comparisons.

*Clarity in fiscal powers:* There is a need to put in place a proper procedure to ensure adequate finances for education. The new system under LGO does not ensure enough finances for education and lack of clarity regarding the fiscal aspect of the devolved system requires a clear demarcation of financial powers among the different levels of the government.

*Fiscal transfers linked to performance:* Fiscal transfers to district governments for education should be linked to performance indicators such as enrollment rates, student and teacher attendance, gender balance etc. Any effective transfer of responsibility to local government must be accompanied by provincial oversight mechanisms. Provincial education departments must be restructured to achieve greater mobility and monitoring capacity.

*Higher proportion for development spending:* The proportion of development spending in education must be increased. An extremely high portion of the education budget is spent on recurrent heads mainly comprising of salaries and negligible amount on development schemes. The allocation of budget must be prioritized, placing more emphasis on quality improvements such as teachers training, curriculum development, supervision, monitoring etc.

*Develop accountability:* There is a need to develop real accountability and the beneficiaries of the educational services (including parents, teachers and students) and those who supply the financing for education (government and parents) require information on the outcomes and uses of funds and need mechanisms to provide

incentives for good performance Lack of accountability in the bureaucratic process has been a major burden on the public school system. They need to express their views and mechanisms to reward good performance and penalize bad ones. SMCs if properly implemented are a means to retain accountability.

*Role of stakeholders:* Communities must have a greater say in the important functions of the schools. As key stakeholders, parents of school children must assume a greater role in the policy process, serving in an electorate with other stakeholders, such as teachers and other civil society actors, to select education department's top officeholder for a three or four year term.

*Ghost schools and teachers:* The widespread phenomenon of 'Ghost' schools and teachers that exist only on paper, consume a significant portion of the limited budget. Provincial and district education departments must be enabled to effectively monitor resources and personnel to reduce level of corruption in this sector.

*Availability of data:* A proper system must be in place to compile data regarding financing of education, budgetary allocations to various projects, schemes etc, through a management information system. It would be useful if the scope of the EMIS is expanded to collect and compile financial information pertaining to school expenditure and funding, besides physical and enrollment data.

*Increase capacity:* The national and provincial education ministries must develop permanent programs for increasing capacity and work with the district government to develop district level training programs for district staff and citizens involved with management. At the district level there is a need to create the capacity to plan and manage budgets and human resources that their new functions require. At the level of school there is the need to create the capacity for citizens to effectively participate in governance and in some cases management of the schools.

## **Conclusion**

Local governments now determine budgets and expenditures for most services, whereas the policy, standard-setting, and monitoring functions remain with the provincial and federal governments. In the end, the success of devolution will be measured by the public by improvements made in services. Under devolution, the aim is for local governments and communities to take responsibility for social services. District governments and TMAs need to build links with communities, especially the community citizen's boards.. Social service delivery must be seen as a cooperative venture between all levels of government, communities, and the private sector, in support of low cost quality services and priorities at the federal level need to be redefined in accordance with the needs at the lower levels.

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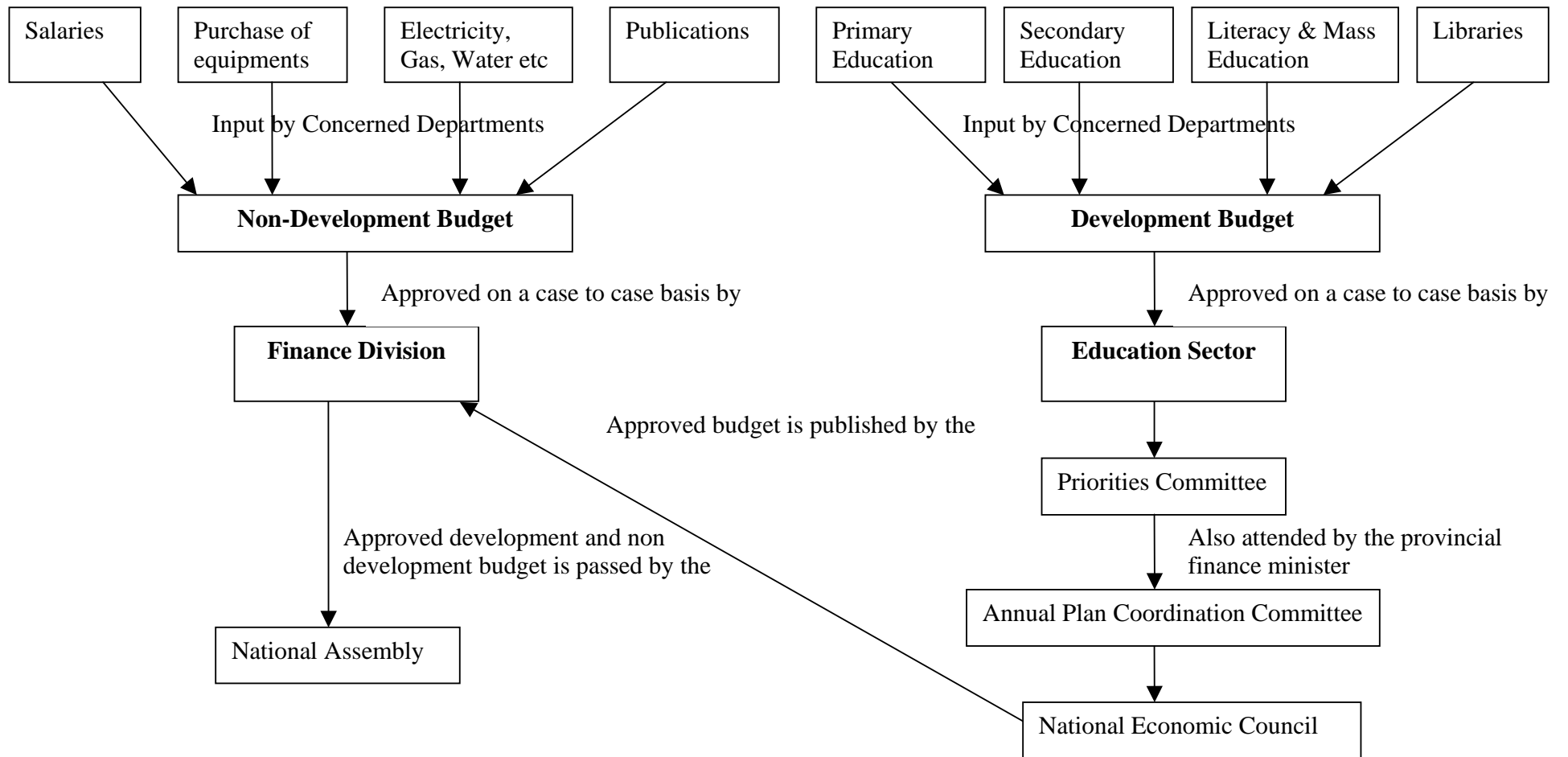
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## **Appendix**

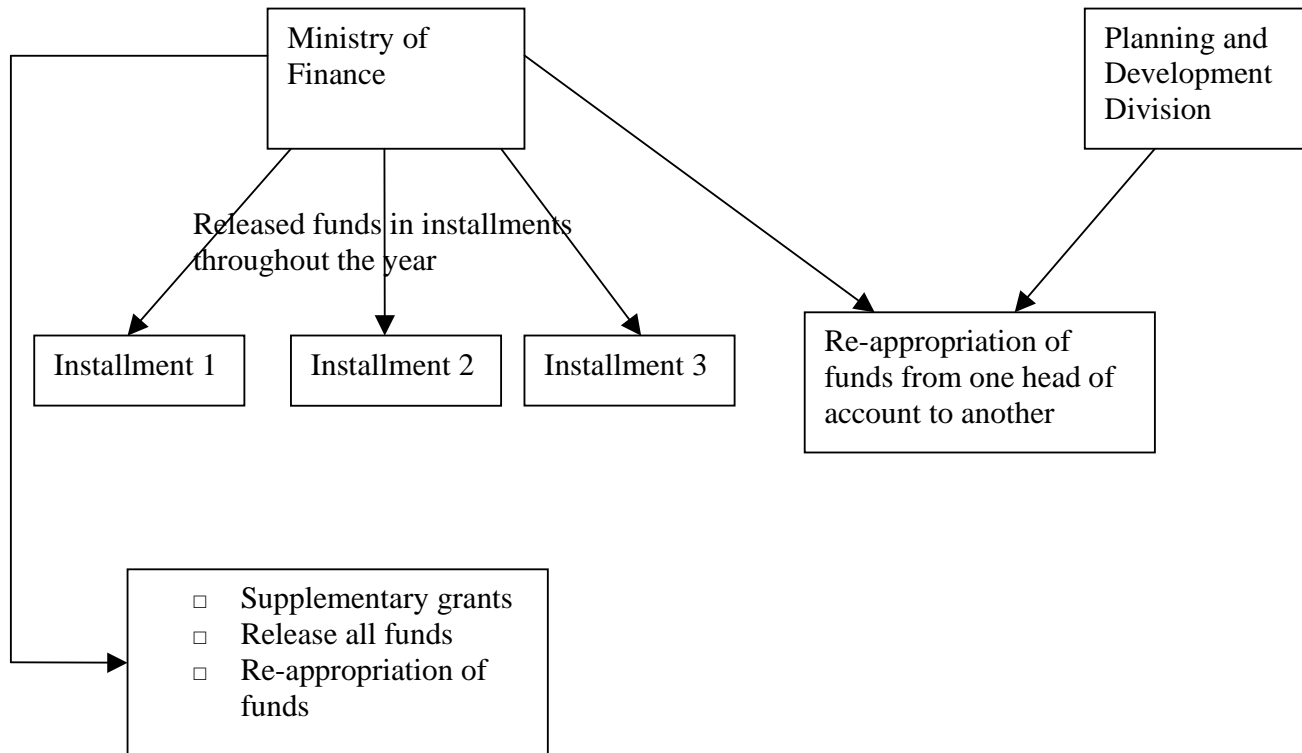
**National actual expenditure on education as a percentage of GDP (Rs in million)**

# Approval of budget

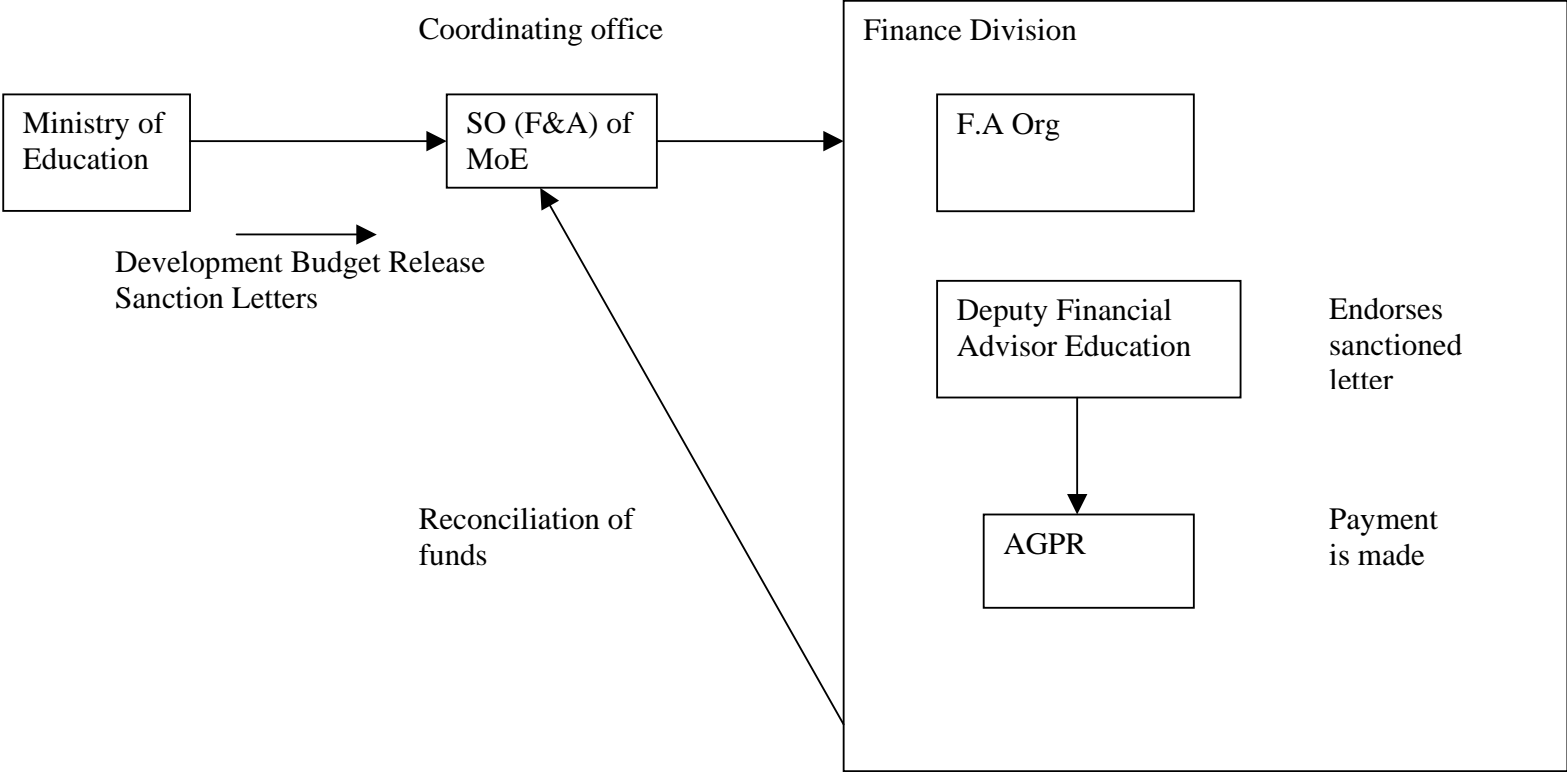




## Disbursement of funds



# Release of funds



# Districts Structure for Financial Decision-making

