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Pakistan Devolution in Pakistan

Main Report: An Assessment & Recommendations for Action

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Table of Contents

Methodology	v
Acknowledgments	vii
Acronyms and Abbreviations	x
Executive Summary	1
Context.....	1
This Study.....	3
Service-delivery Improvements Are Essential.....	3
Why Might Devolution Offer a Way Forward?.....	4
Key Findings.....	6
New Incentives for <i>Nazimeen</i> and Senior Staff.....	6
New Incentives for the Service Providers.....	8
Assessment.....	9
A Milestone Passed.....	9
The Glass is More than Half Full.....	11
Recommendations.....	15
Key elements of the Suggested Strategy.....	15
Strategic Goals and Practical Actions.....	16
Supporting Material.....	18
1. Service Delivery and Devolution	19
Service-delivery Improvements are Essential.....	19
How Can Devolution Assist in Service-delivery improvements?.....	21
A Framework.....	21
Unpacking the Incentives.....	23
Assessing the Impact of Devolution on Service Delivery.....	25
2. Assessment	27
Key Findings.....	27
New Incentives for <i>Nazimeen</i> and Senior Staff.....	27
New Incentives for the Service Providers.....	31
The impact of the changed incentives on service delivery: a preliminary assessment.....	33
Health.....	33
Education.....	37
Water and Sanitation.....	42
Access to Justice.....	45
Visible Wins When Politics Allow.....	48
<i>Nazimeen</i> and Senior Staff Can Make a Difference.....	50
A Decisive Break from the Past.....	51
Visible Losses.....	51
Civil Servant Morale.....	52
Law and Order.....	53
A Challenging Time for Devolution.....	54
Managing Inequity Between and Within Provinces.....	55
Re-emergence of private goods strategies.....	57
The Key Challenges Facing Devolution.....	58
3. Recommendations	60
A Strategy from Here.....	60
Seize the Opportunity Presented by the NFC Award.....	60
Enforce the Core Principles—and Accommodate Local Differences.....	63
Transmit National Policy Priorities More Effectively.....	64
Practical Actions toward the 7 Goals.....	70
Completing Devolution Accepted as Inevitable.....	74
Demonstrable Federal Government Commitment to Strengthened Role of the Provinces.....	76
Demonstrable Provincial Government Commitment to Strengthening Local Government.....	79
Local Governments Challenged to Demonstrate that they Merit Confidence.....	86
Judicious Selection from a Menu of Conditional Grants.....	90
Local Governments Held to Account.....	95
Further Clarify the Separation of Executive and Judicial Powers.....	100

Appendix 1: Background to ADB/DfID/WB DSD Dataset 2	102
Appendix 2: Assessment Frameworks Developed for the Study	105
Glossary	107
References.....	108

Tables

Table 1: Districts and TMAs Studied.....	v
Table 2: Progress to Date in Political, Administrative, and Fiscal Reforms	2
Table 3: Gender Profile of Union Councilors by Province	10
Table 4: Progress in Creating New Incentives for <i>Nazimeen</i> and Senior Staff	12
Table 5: Progress in Creating New Incentives for the Service Providers.....	13
Table 6: Impact of Changed Incentives on Sector Service Delivery	14
Table 7: Timetable of Proposed Key Actions	17
Table 8: Pakistan’s Social Indicators in International Perspective.....	19
Table 9: Key Indicators in SAP Focus Areas	21
Table 10: Key Incentives in the Devolved Structures	24
Table 11: Proportions of Total Funding Transferred to Local Governments on a Formula Basis	28
Table 12: Vertical Programs as a Percentage of the District ADP	29
Table 13: Ownership of the Structural Reforms.....	36
Table 14: Management Structure after Devolution	38
Table 15: SMC Structure in the Four Provinces	39
Table 16: Per Capita Resource Flows (FY 2003/04).....	55
Table 17: Cumulative Provincial Revenues (Normalized).....	56
Table 18: Potential Increase in District Budgets with New NFC Award	63
Table 19: Characteristics and Impact of Vertical Programs and Conditional Grants.....	66
Table 20: Principles and Better Practices in Grant Design.....	67
Table 21: Benchmarks in Moving from Vertical Investment Programs to Conditional Grants	67
Table 22: Conditional Grants in Major Federations.....	69
Table 23: Actions to Bring Some Relief Now—and to Prepare for the Future	71
Table 24: Total Outstanding Debt Against Provinces, July 2003.....	78
Table 25: Devolution-Friendliness of ADB and World Bank Projects in the Current Lending Program.....	93
Table 26: Possible Future for the Staff in District Governments	97
Table 27: Steps Toward Provincialization of Accounts	99
Table 28: State of the Provincial Accounting Records.....	103
Table 29: Data Sources for Tables in DSD2	104
Table 30: Assessing Institutional Changes within Local Government.....	105
Table 31: Assessing the Location of the Employer Function.....	106
Table 32: Assessing “Verticalness” of Conditional Grants.....	106

Figures

Figure 1: Key Incentives in Devolution	4
Figure 2: Growth and Female-male Literacy Gap in Pakistan and Comparison Sample, 1970–2000 ...	20
Figure 3: Growth and Infant Mortality in Pakistan and Comparison Sample, 1970–2000	20
Figure 4: Interpreting Education Data.....	26
Figure 5: Interpreting Health Data	26
Figure 6: Non-salary as a Percentage of Total Expenditure (districts).....	31
Figure 7: DMG Staff by Grade.....	52
Figure 8: Distribution of Positions by Grade for FUG and APUG Staff.....	53
Figure 9: Provincial Consolidated Funds under New and Old NFC Scenarios.....	61
Figure 10: The Spectrum of Autonomy in Tax Revenues	77

Boxes

Box 1: The Sets of Incentives Tracked in this Report.....	5
Box 2: Vertical Programs—Health	35
Box 3: Citizens Using Private Medical Care.....	36
Box 4: School-Based Management	39
Box 5: Vertical Programs in Education.....	41
Box 6: Vertical Programs in Water and Sanitation	43
Box 7: Provincial Interventions at the District Level	50
Box 8: Celebrate Modest Diversity	64
Box 9: Incentives for Restructuring in Intergovernmental Transfers in the Russian Federation and Uganda	68
Box 10: Fine-Tuning Devolution in the PRSP	70
Box 11: Fostering Debate on Decentralization	74
Box 12: Selling Decentralization in Uganda	75
Box 13: Technical Capacity Available to Other Intergovernmental Finance Commissions	78
Box 14: The PRSP Recognizes the Need to Resolve Jurisdictional Rivalries	79
Box 15: “Debt Write-Off for Performance” in Punjab.....	80
Box 16: The PRSP Recognizes the Need for Further Tax Devolution.....	83
Box 17: Potential Short Term Gains from AIT Devolution	84
Box 18: Potential Revenue Gains for TMAs in Transferring UIPT Collection Responsibility to the Districts	84
Box 19: Local Innovation: Property Tax Enhancement through Self-Assessment in Hyderabad	85
Box 20: Reducing the Throw-Forward in NWFP	86
Box 21: The Scale of the District Throw-Forward Problem	87
Box 22: Multiagency Planning in West Bengal and Kerala	89
Box 23: Donor-Supported Transitional Vertical Program/Grants	91
Box 24: Data Needs for Equalization or Conditional Transfers.....	94
Box 25: Administrative Devolution in Indonesia and Uganda.....	95
Box 26: Conflicting Lines of Management	96
Box 27: Key Features of a Local Government Service	97
Box 28: Improving Union-Level Police, Court and Local Government Relations	100

Methodology

The Devolved Service Delivery Study (DSD) is the product of an agreement between the World Bank, ADB, and DfID, in response to a request from the Government of Pakistan that the agencies review progress toward improving service delivery through decentralization. The government has emphasized that it is looking for feasible, practical recommendations that add value to a devolution process that is well advanced. It requested a range of robust technical analyses that provide a summary of the emerging lessons and implications for both policy and operational practices. The government made the point strongly that this should not be an assessment of larger legal or political arrangements, rather that the focus of the review must be on pragmatic actions for service delivery improvements at district (*zila*) and *tehsil* level, based on reasonable assumptions about the likely preconditions for service delivery.

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

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

District Studies—new, largely qualitative, data gathered from six districts (and a selection of *tehsils* within them) on their experiences to date gathered through the use of a series of sector-specific templates systematically reviewing experience to date with sectoral concerns including public expenditure, civil service, politics, water and

Table 1: Districts and TMAs Studied

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

sanitation, health, education, and access to justice issues (see Table 1). The districts identified by government for this study were Faisalabad and Bahawalpur (Punjab); Karachi and Khairpur (Sindh); Bannu (NWFP); and Killa Saifullah (Balochistan).

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

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

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

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

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

The fiscal data from this fieldwork are cited in this report as “ADB/DfID/WB DSD Dataset 2.” Background to the dataset and the methodology used to construct it are provided in the appendix to this volume.

Acknowledgments

This report was prepared by Jackie Charlton (DfID), Musharraf Cyan (ADB), Zahid Hasnain (World Bank), Nick Manning (World Bank), Douglas Porter (ADB) and Hamid Sharif (ADB). Manuela Ferro, Hanid Mukhtar, Jeffrey Rinne, Anwar Shah and Salman Zaidi (World Bank) provided additional contributions on public sector institutional issues. Raja Rehan Arshad and Shahnaz Arshad (World Bank) led the work on TMA-level reforms and on water and sanitation. Inaam Haq (World Bank) led the work on health sector reforms, and Mark Poston (DfID) on education sector reforms. Further inputs were provided by Ismaila Ceesay (World Bank) on accounts and audit, by Mohammad Sarwar Khan (ADB) and Raza Ahmad (ADB) on legal and judicial reforms, by Richard Slater (ADB consultant) on South Asian experiences, and by Louis Crouch and Dana Weist (World Bank) on vertical programs and conditional grants. Ghulam Qadir prepared the socioeconomic background data on the districts. Kai Kaiser provided particular assistance on behalf of the World Bank Decentralization Thematic Group in reviewing experiences in conditional grants and in ensuring consistency with the World Development Report framework. Additional helpful comments were provided by Ahmad Ahsan, Ijaz Nabi, and Tara Vishwanath.

The study was conceived and planned by a Steering Committee made up of representatives of the Government of Pakistan Finance and Planning departments, the NRB and three bilateral and international lending agencies: the World Bank, Asian Development Bank and the UK Department for International Development (DfID). Additional financial support was provided by the Canadian International Development Agency (CIDA).

A study as complex and focused as this would not have been possible without extensive support and cooperation in each of the districts studied. The DSD team thanks the DCOs, the administrative officers and the district mayors (*nazimeen*) of all six districts visited for the hospitality and the access that they kindly afforded: Haji Naimutallah of Karachi, Ms. Nafisa Shah of Khairpur, Mr. Iqbal Khan of Bannu, Chaudhry Zahid Nazir of Faisalabad, Mr. Tariq Bashir Cheema of Bahawalpur, and Nawab Hassan Khan Jomezai of Killa Saifullah. They were all generous with their time, valuable information, and insights on the administrative challenges and successes of their districts.

The officials interviewed during the fieldwork included:

District:

District *Nazim*
District *Naib Nazim*
DCO
EDOs for F&P, Health, Education, W&S, Revenue, Community Development, as well as staff of these offices
District Accounts Officer (DAO) and staff of DAO office
DO F&B, DO Planning, DO/DDO HRM, DO Coordination (Punjab districts), ACO (NWFP), DO
Excise and Taxation
DPO
Commissioner FCR, Bannu
District and Sessions Judge
Civil Judge (and Senior Civil Judge where present)
Judicial Magistrates, Special Judicial Magistrates (Punjab)
PPOs, DPOs, and SHOs of various police stations
Probation Officers
Parole Officers
Superintendents Of Jail

TMA:

Tehsil Nazim in each of the TMAs visited
TMA *Naib Nazim*
TMO of each TMA
TOs of each TMA (I&S, Planning, Finance, Regulation)

Provincial Government:

Home Secretary, Government of Sindh, NWFP
Staff of Local Government Board (all provinces)
Deputy Secretaries, Finance Department, Government of Sindh, Punjab
MD, KSWB (Karachi) MD, WASA (Faisalabad)
Staff of PHED (all provinces)
DIG Police (Karachi, Faisalabad, Bannu, Bahawalpur)
Treasury Accountant (and other officers), Karachi
Deputy Secretary, Local Government Department, NWFP
Members of the Provincial And District Election Commissions

Civil Society:

Journalists, members of NGOs and other civil society organizations including CCBs
Members of the District Bar Association
Members of the CPLC (Karachi, Faisalabad)
Members of *Insaaf* Committees

Preparation of the report was assisted by valuable comments received from government and from others on an earlier version of this paper prepared for the “Forum on Intergovernmental Relations and Service Delivery in Pakistan,” hosted by the National Reconstruction Bureau and held in Bhurban in July 2003. Peer reviewers for the workshop paper were Bert Hofman (World Bank), Dana Weist (World Bank) and Clay Wescott (ADB). Informal comments were made by Daniyal Aziz (Chairman NRB). Other very valuable comments on the workshop paper were provided by Ahmad Ahsan (WB), Benjamin Loevinsohn (WB), Inaam Haq (WB), Luis Constantino (WB), Manuela Ferro (WB), Mark Poston (DfID), Naved Hamid (ADB), Pablo Saavendra (WB), Raja Rehan Arshad (WB), Shahnaz Arshad (WB) and Tahseen Sayed (WB). Administrative and logistical support has been provided throughout by Juliet Teodosio (World Bank) and Shaista Hussain (ADB). Copyediting was undertaken by Alfred Friendly and Rebecca Kary.

The initial findings of the Devolved Service Delivery Study were discussed with all participating *nazimeen* and other senior district staff, and Ministry of Finance Staff, at a workshop held in September in Islamabad. Comments were also received following the circulation of a summary note on the interim findings of the study in October 2003.

The conclusions were further reviewed at a PFC Workshop on “Concepts and Practices in Intergovernmental Finance” held on December 16–18, 2003, organized by the Government of the Punjab, Finance Department and the Provincial Program Support Office, DSP.

An internal pre-review meeting held within the World Bank on December 19, 2003, and chaired by Shanta Devarajan, Chief Economist (South Asia) endorsed the logic and the structure of the report. A summary paper was presented at a retreat of the National Steering Committee (comprising representatives of Federal finance, Social Welfare And Women’s Development, the NRB and all provinces, a range of districts, and civil society organizations) held January 10–11, 2004.

Further useful comments were provided on behalf of the National Steering Committee.

The study builds on an array of previous analytic and operational reports prepared by the World Bank and ADB—very particularly including:

- Asian Development Bank. 1999. "Pakistan Legal and Judicial Reform Project: Integrated Report." ADB. Manila
- Asian Development Bank. 2001. "Fiscal Decentralization Technical Assistance Project : Fiscal Transfers Report (Volume II)." ADB. Manila
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- World Bank. 2003. "Pakistan Public Expenditure Management: Strategic Issues and Reform Agenda." World Bank. Washington DC.

Acronyms and Abbreviations

ACR	Annual Confidential Reports	DSD	Devolved Service Delivery Study
ADB	Asian Development Bank	DSSP	Devolved Social Services Program
ADP	Annual Development Plan	DTCE	Devolution Trust for Community Empowerment
AEO	Assistant Education Officer	EDO	Executive District Officer
AG	Accountant General	EPI	Expanded Program for Immunization
AGP	Auditor General of Pakistan	ESR	Education Sector Reform
AGPR	Accountant General Pakistan Revenues	FBS	Federal Bureau of Statistics
AIT	Agriculture Income Tax	FCF	Federal Consolidated Fund
APT	Appointment, Promotion and Transfer	FIR	First Information Report
BHU	Basic Health Unit	FJA	Federal Judicial Academy
BKN	Badan Kepegawaian Negara (Civil Service agency in Indonesia)	GDP	Gross Domestic Product
BPS	Basic Pay Scale	GFS	IMF Government Finance Statistics
CBR	Central Board of Revenue	GoWB	Government of West Bengal
CCB	Citizen Community Board	GRAP	Gender Reform Action Plan
CDL	Cash Development Loans	GST	General Sales Tax
CDMD	City Development and Municipal Department	HIPC	Highly-Indebted Poor Countries
CED	Central Excise Duty	HMIS	Health Monitoring Information System
CEDAW	Convention on Elimination of All Forms of Discrimination Against Women	IMF	International Monetary Fund
CFAA	Country Financial Accountability Assessment	IT	Information Technology
CGA	Controller General of Accounts	JM	Judicial Magistrate
DA	Development Authority	KMA	Kolkata Metropolitan Area
DAO	District Account Officer	KPP	Khushal Pakistan Program
DC	Deputy Commissioner	KWSB	Karachi Water and Sewerage Board
DCJCC	District Criminal Justice Coordination Committee	LG	Local Government
DCO	District Coordination Officer	LGC	Local Government Commission
DDC	District Development Committee	LG&RDD	Local Government and Rural Development Dept.
DDEO	Deputy District Education Officer	LFO	Legal Framework Order
DEO	Deputy District Education Officer	LGO	Local Government Ordinances
DERA	Drought Emergency Relief Assistance	LHC	Lahore High Court
DfID	UK Department for International Development	LHW	Lady Health Worker
DM	District magistrate	MICS	Multi-Indicator Cluster Survey
DMG	District Management Group	MCP	Malaria Control Program
DoF	Department of Finance	MIT	Member Inspection Teams (of the High Court)
DO	District Officer	M&R	Maintenance and Repair
DPO	District police officer	MMA	Muttahida Majlis-i-Amal (political party)
DPR	Development Policy Review	MNA	Member of National Assembly
DPSC	District Public Safety Commission	MoE	Ministry of Education
DRTA	District Regional Transport Authority	MoWD	Ministry of Women's Development, Social Welfare and Special Education
DS	Deputy Secretary	MPA	Member of Provincial Assembly
		MQM	Muttahida Qaumi Movement (political party)

MVT	Motor Vehicle Tax	PSC	Public Service Commission
NAM	New Accounting Model	PSDP	Public Sector Development Program
NBP	National Bank of Pakistan	PTA	Parent Teacher Association
NFC	National Finance Commission	PTSMC	Parent-Teacher School Management Committee
NGO	Nongovernmental organization	RoB	Rules of Business
NIH	National Institutes of Health	RTA	Regional Transport Authorities
NPA	National Plan of Action	RWSSP	Rural Water Supply and Sanitation Program
NPSC	National Program Steering Committee	SAP	Social Action Program
NRB	National Reconstruction Bureau	SBP	State Bank of Pakistan
NWFP	North West Frontier Province	SDM	Sub-Divisional Magistrate
OPD	OutPatients Department	SE	Superintendent Engineer
OSR	Own Source Revenue	SHO	Station House Officer
OZT	Octroi and Zila Tax	SJM	Special Judicial Magistrate
P&D	Planning and Development	SLGO	Sindh Local Government Ordinance
PCA	Police Complaints Authority	SWAP	Sector Wide Approach
PCF	Provincial Consolidated Fund	SMC	School Management Committee
PCP	Pakistan Centre for Philanthropy	TAO	Tehsil Accounts Officer
PERI	Punjab Economic Research Institute	TB DOT	Tuberculosis Directly Observed Treatment Scheme
PFC	Provincial Finance Commission	TMA	Tehsil Municipal Administration
PHED	Public Health Engineering Department	TMO	Tehsil Municipal Officer
PIFRA	Pakistan Improvement to Financial Reporting and Auditing Project	TO	Tehsil Officer
PIHS	Pakistan Integrated Household Survey	UA	Union Administration
PLA	Personal Ledger Account	UC	Union Council
PML	Pakistan Muslim League (political party)	UIPT	Urban Immovable Property Tax
PO	Police Order	W&S	Works and Services
PPO	Provincial Police Officer	WAPDA	Water and Power Development Authority
PPP	Pakistan People's Party (political party)	WASA	Water and Sanitation Authorities
PPSC	Provincial Public Service Commission	WB	World Bank
PRGF	IMF Poverty Reduction and Growth Facility	WDD	Women's Development Department
PRSP	Poverty Reduction Strategy Paper	WDR	World Development Report
		XEN	Executive Engineer

Executive Summary

CONTEXT

Pakistan's far-reaching devolution initiative has been designed with three broad and inter-related objectives in mind:

- To inject new blood into a political system considered to be the domain of historically entrenched interests;
- To provide positive measures enabling marginalized citizens—women, workers, peasants—to access formal politics; and
- To introduce a measure of stability into a turbulent political scene by creating a stronger line of accountability between new politicians and local electorates.

Underpinning the political strategy were other technical objectives: improved delivery of social services; better determination and enforcement of property and labor rights and regulation of economic activities; and access to justice in the form of improved performance by local administrations, courts and police, with greater awareness of basic human rights protected under devolution.

Remarkable progress has been achieved. New local institutions with new structures for local government, new arrangements for intergovernmental sharing of resources, new electoral arrangements, new rules for government formation and dismissal and new opportunities for citizens to participate in the affairs of government have all been created. Installing this array of new structures and accountability arrangements is an achievement that can hardly be overstated. The process is all the more remarkable given the other far reaching reforms that government undertook in parallel. At the same time as the devolution initiative was being implemented, the government also implemented significant reforms in tax, trade, deregulation and privatization, the banking sector, anticorruption, restructuring federal and provincial legislatures and responding to gender concerns.

Table 2: Progress to Date in Political, Administrative, and Fiscal Reforms

Political changes	<p>Pre August 2001</p> <ul style="list-style-type: none"> • Constitution entrenches the Federal and Provincial governments only. • The four provinces were divided into three deconcentrated levels for administration and service delivery. • Unstable and unpredictable local government system without commitment of the higher tiers to strengthen or sustain it. <p>Post August 2001</p> <ul style="list-style-type: none"> • Cross-cutting reforms. • 6,458 new, directly and indirectly elected Local Governments. • Methods established for both the internal and external recall of the <i>nazimeen</i> in local government. • Citizen Community Boards (CCBs) conceived with a broad governance mandate. • Responsibilities for regulating the activities of civil society devolved to district governments. • Particular emphasis on access to justice • New institutional framework for checking police conduct introduced. • Power triad of local politicians, district commissioner and head of district police abolished. • Emerging issues. • Of the 126,462 new union councilors, 25 percent of the reserved (one-third) seats for women were filled. Elected positions have in the main been won by people with previous political backgrounds, although some new blood is evident. • Slow progress in the new oversight bodies. • Progress in establishing the District Public Safety Commissions (DPSCs) has been patchy. • District, province, and federal political representatives want greater control over administration and the police.
Administrative changes	<p>Pre August 2001</p> <ul style="list-style-type: none"> • Significant presence of federal civil servants in the provincial administrations. • Local administrations largely led by federal staff from the District Management Group. • Mismanagement of the police by the executive authority of the state at every level. • The District Deputy Commissioner role combined magisterial and administrative powers. <p>Post August 2001</p> <ul style="list-style-type: none"> • Cross-cutting reforms • District governments divided into 11 departments. • District Coordination Officer (DCO) established as the highest-ranking civil servant in the district. • Some federal staff remain in the districts, but former rural district council employees now are district employees. However, some ambiguity persists about reporting arrangements for the large numbers of staff from provincial employment groups. • Particular emphasis on access to justice. • Office of deputy commissioner abolished: powers divided between District and Sessions Judge, District <i>Nazim</i> and the DCO. • Judicial powers exercised only by the judiciary. • Emerging issues. • Shifting the employer function to coincide with the new levels of functional responsibility is proceeding slowly, resulting in some competing lines of control. • Determination of the wage envelope takes place at the provincial level when salaries are still paid from the provincial Account I rather than the district-controlled Account IV. • Useful preparatory steps have been taken toward transferring employer functions to the school level, but this remains more an ambition than a reality. • Autonomy of the police enhanced without establishment of the new systems of accountability. • Need to review allocation of quasi-judicial powers to make local administration more effective.

Fiscal changes	<p>Pre August 2001</p> <ul style="list-style-type: none"> • Constitution specifies the functions of the federal government and the areas of shared responsibility, primarily treated as federal responsibilities. Centralization of taxes by agreement with the provinces. • Most buoyant taxes with significant revenue potential assigned to the federal government or ceded by the provinces on efficiency grounds. • Main source of provincial revenues is a transfer based on a share of federal tax collections determined by the National Finance Commission. • The importance of federal transfers to provinces has significantly increased over time.
	<p>Post August 2001</p> <ul style="list-style-type: none"> • Cross-cutting reforms. • District governments given responsibility for delivering services related to elementary and secondary education, primary and secondary health, agriculture, and so forth. Towns and <i>tehsils</i> have relatively unchanged responsibilities. Union administrations have not been assigned any significant service-delivery responsibilities. • Local governments given the rights to raise some additional revenues. • Provincial Finance Commissions established which have made awards for the distribution of provincial resources to local governments. • NB: No shifts of responsibility from the federal to the provincial governments. • Particular emphasis on access to justice. • Additional funding provided to subordinate courts and police services. • Emerging issues. • Progress in creating the necessary secretariats and establishing the required analytic support for the PFCs has been slow. • For the majority of districts, the provincial finance departments support budget-making. • Budget execution procedures made it difficult for the district governments to control general development expenditures. • The cash flow position of the province has become a factor obstructing the smooth flow of funds to the districts.

THIS STUDY

Based on an empirical study of 6 districts and 12 TMAs, this paper evaluates the extent to which the new structure has succeeded in creating the incentives necessary for local governments to achieve at least some of the service delivery objectives.

The study uses a framework drawn from the World Development Report 2004 to integrate the analysis of fiscal, administrative and political dimensions of devolution with sectoral concerns: health, education, water and sanitation and access to justice.

The paper addresses three notional readers. First, the “*nazim* of good intention”—the recently elected local politicians who are keen to make improvements in service delivery despite the ambiguities in their present situation. It invites them to comment on a set of new incentives and challenges and opportunities that devolution appears to have introduced. Second, government—inviting senior officials who have worked long and hard in introducing these radical reforms to agree, or not, with the views expressed, the lessons learned and the recommendations offered for the next key steps. Third, donors—who, while overwhelmingly sympathetic to devolution and frequently strongly supportive, can nevertheless by their actions occasionally undermine the process.

SERVICE-DELIVERY IMPROVEMENTS ARE ESSENTIAL

Cross-country comparisons illustrate that, in Pakistan, growth is associated with fewer improvements in key health and education outcomes than in comparable developing countries. The link between increased funding and better education or health indicators is equally weak. Thus, as devolution began, Pakistan faced a dilemma. Its public institutions for social service delivery were demonstrably failing, and the evidence suggested that neither economic growth nor increased public expenditures were likely to have significant remedial impact.

The Social Action Program represented an earlier attempt to find a way through. Ultimately SAP failed—perhaps overwhelmed by the deteriorating macroeconomic position that squeezed public expenditures in the social sectors, but more likely because it did not adequately prioritize

institutional reform and did not tackle the thorny issues related to the incentives for staff to improve outcomes either at the policymaking level or at the service-provider level.

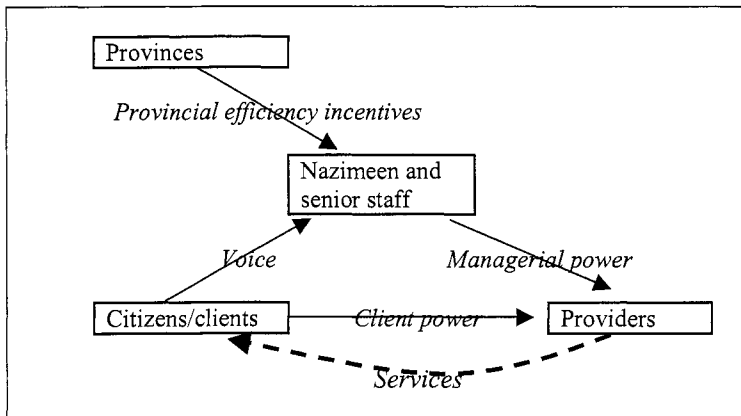
WHY MIGHT DEVOLUTION OFFER A WAY FORWARD?

The changes introduced by devolution were summarized in Table 2 above. This report puts into perspective what these imply for service delivery.

Devolution changes the accountability relationships between the actors involved in service delivery. The study focuses on the changed situation that *nazimeen* find themselves in - and the degree to which this provides incentives for making services work at the district and TMA level. Whether the incentives really will in turn lead to better services in health, education, infrastructure, and access to justice across local governments remains an empirical question.

Figure 1 summarizes these assumptions in a simplified framework for thinking about the prospect for making services work under Pakistan’s devolution, centered on the *nazimeen* and their senior staff.

Figure 1: Key Incentives in Devolution



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

First, there is the set of incentives that might make *nazimeen* want to see service delivery improvements for citizens at reasonable cost. The report considers whether *Nazimeen* are influenced by citizen power, in the form of “voice,” so that they have an

incentive to direct those providers to achieve service delivery improvements (although as Figure 1 illustrates, this assumes that they are in a position to direct the behavior of the staff that provide the services—motivated *nazimeen* with no ability to direct their front line staff will not be able to improve services). It also considers whether voice is accompanied by *provincial efficiency incentives*, so that service-delivery improvements are not simply obtained through increased spending.

Second, the report reviews the incentives on those who provide the services—for example, the staff of schools and clinics—addressing the question of whether they are likely to want to see improvements. More specifically, it looks at *managerial power*, the arrangements that ensure that the *nazimeen* and senior staff have authority over the front line workers and, again, citizen power (this time in the form of “*client power*”) that provides providing potential service recipients with some direct means to have an impact on the conduct of service providers.

The methodology used in this report is to identify the components of these four sets of incentives and to track changes that can be attributed to devolution. Box 1 summarizes these incentives.

Box 1: The Sets of Incentives Tracked in this Report

Incentives on *nazimeen* and senior staff:

- **Provincial efficiency incentives** derive from the structure of the revenue base, including transfers and own source revenues available to meet the new local expenditure responsibilities. If well structured, these fiscal arrangements promote the efficient use of resources in meeting local preferences. Since *nazimeen* will typically face expenditure demands that exceed available resources, budgetary certainty in the form of predictable resource flows and a hard budget constraint, coupled with adequate autonomy in resource allocation, will encourage them to use public resources responsibly and efficiently. With these arrangements in place, *nazimeen* will more likely attempt to make the best trade-offs, for example, in allocations between sectors, between recurrent wage and development expenditures, and attain value for money (for example, through effective procurement arrangements).
- **Voice** offers a channel for citizens to make their demands for better services heard—the most obvious form is elections. However, voting may be based on other criteria than service delivery, as owing to years of bitter experience voters may not see commitments on the part of politicians to provide broad-based public goods over time as credible. Hence, voters and politicians may emphasize directly visible and narrowly targeted projects such as school infrastructure. These schools may not be staffed or maintained, but voters have learnt that they cannot hold politicians to their promises beyond the short term.
- Voice is likely to be stronger, with councilors motivated to listen to citizens, if there is public assignment of credit or blame and if there are obstacles to councilors providing private goods targeted at a few influentials rather than public goods that benefit many. To influence *nazimeen*, citizen voice must compete with the pressures from the provinces on *nazimeen* to serve their political interests. That “pull” from the provinces is reduced when the councilors have independent political legitimacy and when provinces themselves have fewer incentives to intervene in local affairs.

Incentives on the providers:

- The local governments, as represented by the *nazimeen*, engage with service delivery providers (for example, schools and contractors) through **managerial power**, which reflects their ability to require service providers to adhere to particular standards of behavior and service. Again, as is explored in more detail in the second volume (*Annex 1—Recent History*), managerial power is strengthened if the staff that work in the district are employed by the district, with hire and fire authority available to local managers, subject to suitable safeguards. Recognizing that this is unlikely to be the case for senior staff, *nazimeen* need distinctive authority over their behavior including input into their performance evaluations, and a credible threat to transfer them if the relationship is not productive. Managerial power is strengthened by the external oversight provided by bodies such as Accounts Committees, Monitoring Committees and District Public Safety Commissions. It also assumes that staff with appropriate skills are available in sufficient numbers and that those staff have the skills and sufficient technical sanction powers to undertake their tasks.
- A shorter route of accountability, **client power**, directly connects citizens with service providers, such as schools. Client power includes more formal mechanisms as functioning agencies that assist in dispute resolution (Departmental Grievances Redressal and Complaint Cells and Citizen Police Liaison Committees) and bodies that provide direct citizen inputs into the management of facilities (Citizen Community Boards and School Management Committees).

If, on balance, these changing incentives are in fact having some impact on service delivery, then, in principle, improvements could be measured directly. However, there are two difficulties. First, devolution is recent and it would be premature to attribute any change (positive or negative) in social sector outputs to new arrangements for service delivery. Second, in Pakistan there is no consensus on which data sources to use to measure intermediate and outcome indicators and little robust district disaggregated data, and it would be dangerous to judge the utility of devolution on the basis of any apparent trends in these indicators.

KEY FINDINGS

New Incentives for Nazimeen and Senior Staff

Provincial efficiency incentives

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

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

The scorecard on the creation of provincial incentives for fiscal efficiency is mixed. On budgetary certainty, as the report shows, most funding for local government is in effect negotiated rather than formula-based. All negotiated revenues provide opportunities for gamesmanship—basing current policy decisions on their likely impact on future resource transfers, rather than on their merits. The proportions of the Provincial Consolidated Fund that ultimately are transferred on formula basis are small. Less than 25 per cent of all transfers mandated by the Local Government Ordinances (LGOs) are calculated on a formula basis.¹ However, while these transfers are negotiated, the data also reveal that there is considerable predictability in the transfers at the district level, with in most cases districts receiving only slightly less than what was budgeted.

The district studies also revealed that local governments have limited autonomy in preparing their budgets. Vertical programs are the main constraint on district and TMA autonomy in preparing the development budget, with often the volume of funds channeled through vertical programs dwarfing the district's own Annual Development Plan (ADP) for particular sectors. In the study districts, more than half of the ADP is under the effective control of the federal and provincial agencies controlling the vertical programs. Local governments also have 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, in Sindh and NWFP, districts must seek approval from the province for the release of the funds from Account I (the provincial account) for their salary payments.²

Local governments are hugely dependent on intergovernmental fiscal transfers. This degree of vertical imbalance can lead to inefficiencies in both the levels and quality of public expenditure—specifically, it creates incentives for local governments to overspend as well as reduces the incentives to spend these resources efficiently. The logic in both cases is that intergovernmental transfers lower the costs to local residents of getting services. Arguably, the disconnection between expenditure and taxation encourages “free-riding,” as well as reducing 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.

Thus it is at least arguable that local revenues contain intrinsic incentives for efficiency, as local taxpayers might be more vigilant than distant ones and so efforts to improve own source revenues

¹ It is important to note that transfer has a precise meaning and refers to funds that are non-lapsing and within the re-appropriation authority of the district or TMA.

² In Punjab and Balochistan, the salary budget is transferred directly in District Account 4.

can imply incentives for efficiency. Incentives for local revenue effort are linked to the buoyancy and potency of taxes assigned to local government, and the clarity of such assignments. Effort will be deterred if there is no credible connection to likely revenue results and if it is not evident which level of government is to benefit from which tax. While districts have been given rights to raise additional revenues, their tax base is weak, and some district taxes and user charges are very difficult to impose in practice. In the six study districts, for example, for 2003/04 own source tax revenues ranged from 0 percent to 8 percent of total revenues. Therefore, even a large tax effort may bring only modest results in total revenue.

In addition, although the district and TMA taxes are clearly assigned in theory, administrative confusions in the collection arrangements blur the assignments in practice, further reducing incentives to increase collections. Administrative complexity is most clearly evident in the case of property tax (UIPT).

Citizen Power (Voice)

This study argues that there are two necessary conditions for the local political leadership to have incentives for service delivery improvements. First, local councilors themselves must have an interest in serving the needs of their constituents and in particular the poor. Second, since the relationship between *nazimeen* and councilors is a critical intermediate step in the linkage to citizens as *nazimeen* are indirectly elected by councilors, *nazimeen* must find the pull from the councilors more demanding than the pull from other political powerbrokers, particularly the provincial governments.

On this basis, devolution has, on balance, created distinct incentives for *nazimeen* to listen to citizens. However, jurisdictional overlap makes it 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. This overlap weakens incentives to perform well on service delivery and could encourage 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.

The anecdotal evidence from the study districts also suggests the strong incentives working on councilors to focus on private goods, such as patronage or locality-specific projects.³ However, the evidence from the study districts suggests that while the pressures to focus on private goods are strong, devolution has at least not exacerbated this problem. For example, the data shows that there is no obvious reduction in operations and maintenance expenditures between the allocations in 2003/04, the first year local governments prepared their own budgets, and that of earlier years. Similarly, the data suggests that there has not been a significant shift from large to small development schemes, or that councilors are abandoning existing schemes to gain political glory by starting new ones.

The importance of the political relationship between the *nazim* and the ruling provincial political coalition emerges strongly from the study. In two of the six districts visited—Bahawalpur and Faisalabad—the District *Nazim* is allied to the Chief Minister and the ruling provincial political coalition, while in the other four the District *Nazim* is in opposition. This relationship has a

³ This paper's references to private goods include both pure private goods (that is, individual-specific) as well as narrow public goods (for example, locality-specific projects). Local infrastructure projects often encompass both—that is, only the local community benefits, and the contractors for the projects reap the private rewards.

significant impact on the flow of funds between the province and local governments, on the implementation of local development schemes and on the manipulation of appointments and transfers of personnel. Effectively, the relationship with the province determines the extent of political control that the District *Nazim* can exercise within local government as well as the freedom local policymakers have to act to meet their constituents' demands.⁴

New Incentives for the Service Providers

For service delivery to improve, the service providers—and not just their elected superiors—must want to see improvements. This motivation is provided either by ensuring that the service providers have an incentive to listen to the policymakers—managerial power—or by providing potential service recipients with some direct means to have an impact on the conduct of service providers—client power, in the terminology of the World Development Report (World Bank: 2003c).

Managerial power over service providers

In reviewing the changed incentives for front line staff and other service providers to “listen to *Nazimeen*,” the study examines three key dimensions:

- The extent to which staff working in the district are employed by the district.
- The adequacy of the *nazim*'s authority over senior staff, including inputs into the performance evaluations for senior staff and ability to require their transfer.
- The extent of external oversight, including a review of the effectiveness of bodies, such as Accounts Committees, Monitoring Committees, and District Public Safety Commissions, which are mechanisms for the monitoring of front line staff.

Managerial power over service providers is weak. Administrative devolution remains incomplete and, as yet, has given district staff few reasons to respond to the authority of the *nazimeen*. The transfer of functions and the physical relocation of staff have not been fully matched by the transfer of the employer role. While the LGO provides for a sophisticated sharing of control over posting of civil servants based on norms which clearly delineate responsibilities, informal provincial controls are clearly evident in the area of Appointment, Promotion and Transfer (APT) authorities. The result is that although physically located in the districts, most senior district staff do not consider themselves as district employees and therefore are likely to accommodate provincial pressures to transfer subordinate staff. This attitude has considerably weakened the accountability of senior staff to local elected representatives. In fact, politically motivated inter- and intra-district staff transfers are a main area of conflict between provincial and local governments and are most severe in districts that are not politically aligned with the province. Since TMA staff largely belong to local government cadres or are the council's own employees, the problem of low institutional allegiance and weak accountability is less acute.

These problems of accountability were clearly evident in the relationship between the District *Nazim* and the senior staff in the district, particularly the District Coordination Officer (DCO) and the District Police Officer (DPO). It was generally observed that the authority of the *nazim* to write the Annual Confidential Reports (ACRs) of DCOs was an insufficient mechanism for enforcing accountability since it was an ineffective tool for measuring the performance of an officer and tended to be viewed as a routine matter to be placed on an officer's file at the time of promotion to fulfill a legal or administrative requirement. Officers tended to be given postings

⁴ See the second volume (*Annex 1—Recent History*) for a full treatment of the political relationships between the provinces and local governments.

regardless of their performance in previous tenures. *Nazimeen* also have very little authority over the DPO. Formally, at the time of the study, only in Punjab had the District *Nazim* been given the initiating authority for the ACR of the DPO, although it has been reported that this authority will be extended to the *nazim* in all provinces. However, in practice in none of the districts studied were these performance evaluation reports completed in this manner. Some *nazimeen*, in fact, considered that removing the authority of the former district magistrate in completing the ACR of a former district Superintendent of Police had contributed to deterioration in law and order in general.⁵

The LGOs provide for a number of institutional arrangements—Monitoring Committees, and District Public Safety Commissions—for the oversight of service providers by elected representatives.⁶ However, it was generally observed that these mechanisms have either not been established, or have been introduced to only a limited degree. For example, the field visits revealed that, with some notable exceptions and for several reasons, Monitoring Committees were not performing as the regulations envisioned. Similarly, Public Safety Commissions where formed, were generally unable to elicit compliance from the police in its investigations.

Citizen power (client power)

Service delivery can also be improved by improving client power, that is, strengthening the direct linkage between citizens and service providers. In principle, such an approach can be more effective than focusing on efforts to make service providers more accountable to policymakers and then making policymakers, in turn, more accountable to citizens. The LGOs and Police Orders call for the creation of various bodies, such as Citizen Community Boards and Citizen Police Liaison Committees, which can serve to improve this client power. The overall conclusion from the field visits is that it is too early to tell whether or not devolution has had any impact on client power for the better or the worse. While in general participatory mechanisms, such as Citizen Community Boards and School Management Committees (a pre-devolution initiative) have yet to achieve their full potential, there are numerous examples that suggest that innovative local leadership has had a positive impact on community mobilization and in turn on service delivery.

ASSESSMENT

A Milestone Passed

Devolution has brought a decisive break with the past in two important respects. First, local government now has unambiguous constitutional protection. The agreed changes to the constitution enacted on 30 December 2003, has placed the local government system, as prescribed by the provincial LGOs, in the sixth schedule of the 1973 Constitution and thus they cannot be altered, repealed or amended without the sanction of the President. Second, as a result of the LGO provisions, the reservation of 33 percent of local council seats for women in all three levels of local government has proven the most strategic step ever undertaken by government toward women's political empowerment. Most directly, despite the significant number of vacant seats, it has enabled over 30,000 women to enter into formal politics at the local government level (see Table 3).

⁵ Press reports of a high level meeting held on 14 April 2004 involving the Prime Minister, Provincial Chief Ministers, the NRB and other federal and province officials indicate that significant changes will be introduced to the Police Order 2002 and that a new target date of December 2004 has been set for complete implementation of these new arrangements. Until these are officially confirmed and clarified, this report will make only passing reference to what has been reported, but will not speculate on their likely impact.

⁶ It is noted that the DPSCs include non-elected members, but that these are appointed from a list provided by the *nazimeen*.

Table 3: Gender Profile of Union Councilors by Province

Province	Women <i>nazimeen</i>	Women union councilors	Total union council seats	Women union councilors as a percentage of total seats
Punjab	9	20,007	72,513	27.6
Sindh	2	5,878	22,974	25.5
NWFP	—	3,963	20,097	19.7
Balochistan	—	2,374	10,878	21.8
TOTAL	11	32,222	126,462	25.4

Source: (Mirza: 2002).

Devolution marks a decisive departure from the previous arrangements that became associated with persistent failures in service delivery. This study reaffirms the government's view that devolution offers the best prospect for improved service delivery and access by the poor to public entitlements, including not just health, drinking water and education, but much needed improvements in policing and local justice. While it is too soon for the proponents of devolution to point to an overall improvement in service delivery, the study does reveal significant achievements. For instance, anecdotal evidence suggests that doctors and teachers are now more likely to be at their post and drugs are more often available in clinics. Citizens undoubtedly appreciate the improved access they have to their political representatives. Councilors, both directly and through new dispute resolution arrangements at local level, are now seen to be responding to people's needs and concerns. This change suggests that devolution may deliver on its larger political objectives to create a better match between what governments do and the public's ability to hold them accountable for performance. This study is therefore modestly optimistic about the future of devolution.

The transformation underway through devolution nevertheless faces significant challenges. Detractors argue that in fact devolution has made matters worse. In some respects opponents of devolution are in the same position as proponents; the evidence is indeed mixed. Yet, while morale has deteriorated for some civil servants, and law and order is thought by many to have worsened due to a failure to reestablish oversight of the police, no one consulted during this study saw any merit in a return to the old systems. Moreover, while many are concerned about the possible re-emergence of "private goods strategies" under which local politicians resume the time-honored practice of rewarding their constituents with private benefits at the expense of public goods the study suggests this is not in fact a fair representation of what is occurring.

The key variable in promoting successful devolution would appear to be the strength of the provincial incentives to intervene in the districts. The province has few incentives to intervene when:

- The Chief Minister and/or the main provincial coalition and the district *nazim* are from the same political alliance.
- The Provincial Assembly constituencies within the district are filled with politicians from the same political alliance as the *nazim*.
- The *nazim* has sufficient independent political standing to resist provincial interventions.

When the province has few incentives to intervene, the *nazim* gains a fairly free hand to direct district staff and, despite the inevitable resource constraints, can achieve results. However, when the provincial incentives for intervention are high, *nazimeen* often finds their hands tied.

The Glass is More than Half Full

Table 4 and Table 5 summarize the degree to which the incentives for the key actors are changing. Dark cells indicate little progress; lighter cells suggest more forward movement. Overall, the study finds that some appropriate new incentives have indeed been created and that they are undoubtedly promising as they directly address the institutional weaknesses that the failure of SAP highlighted—weak inter-sectoral allocation of expenditures, low emphasis on non-salary recurrent expenditures and few incentives for efficient utilization of these expenditures (World Bank: 2002a).

Table 4: Progress in Creating New Incentives for *Nazimeen* and Senior Staff

		District	TMA		
Provincial efficiency incentives	Budgetary certainty	Hard constraints	<ul style="list-style-type: none"> • Greater reliance on OZT replacement tax and own-source revenues provides harder constraints 		
		Predictable transfers	<ul style="list-style-type: none"> • Greater reliance on OZT replacement tax and own-source revenues provides greater predictability 		
	Enhanced autonomy in preparing the budget	Autonomy in preparing the development budget	<ul style="list-style-type: none"> • Generally limited by “indicative proportions”^b imposed by the provinces—but very variable • Further limited by Tameer schemes and other vertical programs and by the throw-forward 	<ul style="list-style-type: none"> • Undermined by the confusion over PHED responsibilities 	
		Autonomy in preparing the non-salary recurrent budget	<ul style="list-style-type: none"> • Limited by indicative proportions imposed in some provinces 	<ul style="list-style-type: none"> • Greater reliance on OZT replacement tax and own-source revenues provides more autonomy 	
		Autonomy in preparing the salary budget	<ul style="list-style-type: none"> • Negligible autonomy when salaries are transferred through Account I^c 	<ul style="list-style-type: none"> • More autonomy 	
	Incentives for local revenue-raising	Buoyancy and potency of taxes assigned	<ul style="list-style-type: none"> • Weak tax base • Some tax assignments hard to utilize 	<ul style="list-style-type: none"> • UIPT is a buoyant tax, but its utility is limited by administrative problems 	
		Clarity of revenue assignments	<ul style="list-style-type: none"> • Reasonably clear 	<ul style="list-style-type: none"> • Confusion of assignments for ratings undermines UIPT 	
		Additional incentives for revenue raising	<ul style="list-style-type: none"> • Some PFC awards offer additional incentives—but these are very limited 	<ul style="list-style-type: none"> • Jurisdictional confusion over water and sanitation undermines incentives for user fees 	
	Citizen power	Councilors motivated to listen to citizens	Public assignment of credit or blame	<ul style="list-style-type: none"> • Councilors now far more public figures • Increased contact between citizens and policymakers • Jurisdictional confusion resulting from Tameer schemes and other vertical programs undermines accountability 	<ul style="list-style-type: none"> • Councilors now far more public figures • Increased contact between citizens and policymakers • Jurisdictional confusion in water and sanitation undermines accountability
			Constraints on the substitution of private goods for public ones.	<ul style="list-style-type: none"> • At the very least, no deterioration 	<ul style="list-style-type: none"> • At the very least, no deterioration
The pull from councilors is stronger than that from the provinces		Political legitimacy of councilors	<ul style="list-style-type: none"> • Voter turnout and political contestation generally good 	<ul style="list-style-type: none"> • Voter turnout and political contestation generally good 	
	Incentives for provinces to intervene in the districts	<ul style="list-style-type: none"> • Generally, provinces feel that they stand to gain politically from undermining district performance 	<ul style="list-style-type: none"> • Very variable • Some active interference by provinces in TMA domains 		

a. Gaming means basing current policy decisions on their likely impact on future resource transfers, rather than on their merits.

b. This refers to the earmarking of transfers by some PFCs.

c. Account I is a provincial account and funds provided through this can not be regarded as a transfer to the districts.

Table 5: Progress in Creating New Incentives for the Service Providers

		District	TMA	
Managerial power	Staff working in the district are employed by the district	Autonomy in preparing the salary budget	<ul style="list-style-type: none"> Mixed in terms of account I/IV Autonomy undermined by the inability to dismiss surplus staff 	<ul style="list-style-type: none"> More autonomy
		Local control over the establishment	<ul style="list-style-type: none"> Weak control over staff numbers and over disposition of staff within the district 	<ul style="list-style-type: none"> More control
		Locally determined recruitment	<ul style="list-style-type: none"> Hiring constraints imposed by the provinces 	<ul style="list-style-type: none"> More local control
		Local determination of career paths	<ul style="list-style-type: none"> Promotion is mixed Transfers subject to intensive provincial interference 	<ul style="list-style-type: none"> Less provincial interference in transfers
		Local management of performance	<ul style="list-style-type: none"> Limited ability to discipline or dismiss 	<ul style="list-style-type: none"> Limited ability to discipline or dismiss
		Autonomy in pay policy	<ul style="list-style-type: none"> No autonomy 	<ul style="list-style-type: none"> No autonomy
	Nazimeen authority over senior staff	Nazim input into the performance evaluation for the DCO/TMO and DPO	<ul style="list-style-type: none"> Weak 	<ul style="list-style-type: none"> Very variable
		Credible threat to transfer the DCO	<ul style="list-style-type: none"> Can be very difficult when the DCO has provincial support 	<ul style="list-style-type: none"> Variable
	External oversight	Accounts Committees	<ul style="list-style-type: none"> Formed but not functional 	<ul style="list-style-type: none"> Formed but not functional
		Monitoring Committees	<ul style="list-style-type: none"> Formed but only partly functioning 	<ul style="list-style-type: none"> Formed but only partly functioning
		District Public Safety Commissions	<ul style="list-style-type: none"> Formed in some cases, but inadequately trained and resourced. Generally ineffective 	<ul style="list-style-type: none"> Not applicable
		Village and Neighborhood Councils	<ul style="list-style-type: none"> Not formed in any district 	<ul style="list-style-type: none"> Not formed in any TMA or union
		Insaaf committees and Musalihat Anjuman	<ul style="list-style-type: none"> District <i>insaaf</i> committees have been established but are generally ineffective Musalihat Anjuman have been established at the union level and generally have been found effective 	<ul style="list-style-type: none"> Some progress at union level Musalihat Anjuman have been established at the union level and generally have been found effective
	Adequate deployment of staff	Adequate numbers and skills	<ul style="list-style-type: none"> Shortage of senior management staff, particularly in health, finance and planning, community development and women's affairs 	<ul style="list-style-type: none"> Severe shortage of senior management staff
		Adequate technical sanction powers	<ul style="list-style-type: none"> Weak and inappropriate notification of technical sanction powers 	<ul style="list-style-type: none"> Weak and inappropriate notification of technical sanction powers
Citizen power	Citizen Dispute Resolution	Departmental Grievances Redressal and Complaint Cells	<ul style="list-style-type: none"> Poorly developed in all districts 	<ul style="list-style-type: none"> Not applicable
		Citizen Police Liaison Committees	<ul style="list-style-type: none"> Formed but not yet effective 	<ul style="list-style-type: none"> Not applicable
	Community management of facilities	Citizen Community Boards	<ul style="list-style-type: none"> A few isolated successes, but the initiative is generally stalled 	<ul style="list-style-type: none"> A few isolated successes, but the initiative is generally stalled
		School Management Committees	<ul style="list-style-type: none"> Improvement on previous PTAs — as yet their role is uncertain 	<ul style="list-style-type: none"> Not applicable

Table 6 below provides a summary of the changed incentives by sector. Again, dark cells indicate little progress; lighter cells suggest more forward movement, and again the picture is decidedly patchy—but with significant progress made.

Table 6: Impact of Changed Incentives on Sector Service Delivery

	<i>Provincial efficiency incentives</i>	<i>Citizen power: voice</i>	<i>Managerial power</i>	<i>Citizen power: client power</i>
Health	Lack of ownership and oversight over vertical programs.	Some examples of monitoring committees reducing staff absenteeism.	Districts took advantage of the change to restructure comprehensively—and most posts are now filled.	
			Limited local staff ownership of the reforms.	
			Reporting lines and managerial relationships not finalized.	
			Districts unprepared for the regulation of the private sector.	
Education	Vertical programs creating problems in district education planning.		Effective regulation of the private schools and <i>madrassahs</i> remains a challenge.	Some evidence of devolution having positive impact on community based management of schools.
Water and sanitation	Limited resource bases posing financial constraints on <i>tehsils</i> .		The continuation of the provincial PHED restricting the resources and personnel available to the TMAs.	Some examples of CCBs improving service delivery.
	The independent and freestanding nature of each <i>tehsil</i> constraining common planning or equalization.		Lack of dissemination of the Rules of Business, provincial departments re-appropriating the responsibilities of local governments.	
	Vertical programs contributing to the pressure from the provinces to undermine devolution.			
Access to Justice			Lack of <i>nazimeen</i> authority over police resulting in decline in rate of prosecutions.	
			The <i>nazimeen</i> and the judiciary unable to check police abuses.	
			DPSCs largely ineffective in controlling the police.	
			District Criminal Justice Coordination Committees succeeding in increasing interaction among agencies of the district criminal justice system.	

Devolution is undoubtedly a fact of life in Pakistan. It is implausible that there will be a major return to a discredited set of institutional arrangements with a proven track record of failure. Equally, however, no certainty exists that devolution will now be developed and entrenched to maximize its potential returns. The risk 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, part old—will become permanent.

RECOMMENDATIONS

The government emphasized the need for a robust technical analysis of emerging lessons and feasible, practical recommendations that add value to a devolution process that is well advanced. With the principle of practicality very clearly in mind, the study sets out an agenda for furthering devolution. It suggests both a strategy and some practical actions that will offer some relief now to hard-pressed *nazimeen* and senior staff in local governments who are attempting to make the system work.

Key elements of the Suggested Strategy

1. Seize the opportunity presented by the NFC Award to conduct a well-targeted, strategic information campaign using a variety of media—print and electronic media
 - *Note the successes.* Now is the time for a public information campaign, setting out both progress and challenges.
 - *Look for opportunities* that are offered to local governments following the NFC award and the improved financial position that this gives to provinces. Ensure that citizens understand what this means for local government budgets and priorities.
 - *Take advantage of the opening up of the electronic media* to the private sector—in particular local radio.
2. Enforce the core principles—and accommodate local differences. NRB, whilst ensuring that the core principles of devolution are not diluted, should be willing to allow some marginal local variations to meet the needs of different areas.
 - *Implementation requires new strategies that recognize Pakistan's diversity while keeping devolution on track.* The March 2000 announcement of the devolution plan and the subsequent August 2000 Local Government Plan presented a broad strategic vision. Since then, the focus has been on the technical, fiscal and administrative aspects of implementation, superintended by the NRB. Underlying this emphasis has been concern to ensure compliance with the local government and associated ordinances. Now might be the time to reassert the broad goals of devolution.
 - *Allowing diversity would promote wider support.* The range of actors has grown exponentially. The basic structures for devolution have been put in place. Some local diversity in implementation is now feasible, and accepting marginal differences will avoid needless federal-provincial conflict. It would demonstrate that the federal government will hold fast to the core principles, while at the same time allowing local institutions to reflect local circumstances.
3. Transmit national policy priorities more effectively.
 - *Move from an over-reliance on vertical programs.* A large share of financing for health, education, water supply and sanitation is delivered in ways that systematically undermine local government accountability. Vertical programs represent attempts by higher tiers of government to influence the policy and behavior of lower levels of governments by direct intervention. Retaining some influence over sub-national policy is sensible. Federal and provincial governments need some levers to influence local performance to support national

objectives. In practice, though, vertical programs have a poor track record and they now risk damaging the credibility and nascent accountability of local governments.

- *Create incentives to encourage local governments to buy into national priorities.* Grants coordinated through the mechanism of NFC and PFC and conditioned on outputs, outcomes or processes are an important part of a strategy through which to promote nationwide standards and priorities. Conditional grants can interfere with the accountability of local representatives to their constituents. They must not be used excessively. But they do offer a pragmatic instrument through which federal and provincial governments can maintain a legitimate interest in the institutional reforms and service-delivery arrangements at the sub-national level.

Strategic Goals and Practical Actions

The study identifies 7 strategic goals and practical steps that are achievable given the impressive progress made to date. The goals, along with the immediately operational, implementing measures, include:

1. Achieve public consensus that completing devolution is inevitable
 - Issue a White Paper on strategic options for adjusting legal, administrative, political, and fiscal arrangements in support of devolution.
2. Demonstrable federal government commitment to strengthened role of the provinces
 - Timetable for the PRSP commitment on functional devolution with a review of the relative roles and responsibilities of Federal and Provincial levels in the context of service delivery.
 - Set preparations in motion for the 7th NFC Award now.
3. Demonstrable provincial government commitment to strengthening local government
 - Complete reassignment of province-administered functions to local governments.
 - Incorporate the Lessons of Transition in Revisions to the LGOs.
 - Major Commitment to Capacity Development.
 - Undertake provincial-local tax reassignments.
4. Local governments challenged to demonstrate that they merit confidence.
 - Reduce development throw forward.
 - Increase coverage of user charges.
 - Strengthen inter-jurisdiction planning and coordination.
 - Local governments to regulate and engage with private sector service providers.
5. Judicious Selection from a Menu of Conditional Grants in PFC/NFC Transfer Systems
 - Use conditional grants—cautiously.
 - Review existing vertical programs and redesign proposals.
 - Broaden available array of social indicator data and capture district data.
6. Hold local governments to account
 - Districts employ their own staff.
 - Districts maintain their own accounts.
7. Clarify the separation of executive and judicial powers.
 - Restructure reporting obligations between the District Police Officer and the District *Nazim*.
 - Assign non-adjudicatory powers to the local government executive.
 - Train judicial magistrates in new jurisdictions under criminal and local laws.
 - Provide High Court protection for judges interdicting unlawful action by officials.
 - Establish separate civil and criminal courts, and appoint Senior Judicial Magistrates in each district
 - Establish independent prosecution service at district level.

Table 7 suggests the sequence with which these steps might be initiated.

Table 7: Timetable of Proposed Key Actions			
	FY05	FY06	FY07
Federal government	<ul style="list-style-type: none"> Issue a White Paper on strategic options for adjusting legal, administrative, political and fiscal arrangements in support of devolution.¹ Establish High Level Expert Group on federal-provincial tax reassignment (including possible debt-for-performance swaps). 		
Provincial governments	<ul style="list-style-type: none"> PFC announcements of framework under which the provincial governments might use conditional grants, selectively, within the PFC awards, to achieve overarching policy goals. Develop and promulgate local government public-private partnership rules (as under LGO Schedule 5, Part A). Provide districts with full APT authority over all staff at grades 19 and below. Make three major policy announcements: <ol style="list-style-type: none"> Proposed reassignment of province-administered functions to local governments complete. Might reasonably include: <ul style="list-style-type: none"> TMA debt-for-performance swaps Transfer of PHED staff and budgets to the TMAs Formal reviews of provincial-local tax reassignment, to report within 2 years. Major commitment to capacity development. 	<ul style="list-style-type: none"> Review of the Rules of Business, the constitution of the Local Government Commission and the facilities and authorities provided to the local government Monitoring Committees. Prepare and notify the Rules of Business detailing the reporting obligations between the District Police Officer and the District <i>Nazim</i>. Assign non-adjudicatory powers and supervision of pretrial detention¹ to the local government executive. Establish the Independent Prosecution Service and ensure its extension to the district level. 	
Local Gov't	<ul style="list-style-type: none"> Reduce development throw-forward. Increase coverage of user charges. Empower the Mushawarat Committees to provide a platform for district-wide, medium-term planning. 		
Other	<ul style="list-style-type: none"> Train judicial magistrates in new jurisdictions under criminal and local laws 	<ul style="list-style-type: none"> Enhance High Court protection for subordinate judges interdicting unlawful action by officials. 	<ul style="list-style-type: none"> Establish separate criminal and civil courts established at district level and appoint Senior Judicial Magistrates in each district
<p>1. Such a White Paper might reasonably include:</p> <ul style="list-style-type: none"> Plans for functional reassignment to provinces. Proposals for joint Federal-Provincial funding for standing NFC secretariat. Framework under which the federal government might use conditional grants, selectively and if necessary outside of the NFC initially, to achieve overarching policy goals. Proposals for federal incentives for provincial governments to meet benchmarks towards the provincialization of accounts. Proposals for a review of existing vertical programs. Proposed benchmarks and specifications for the Federal Bureau of Statistics to report on the data that will be available for the 7th Award. Options for the creation of a Provincial Local Government Service and a Local Government Career Service. <p>2. This refers to the <i>nazim</i>'s power to visit police stations and demand release of persons illegally detained and not the judicial powers pertaining to grant of custody or remand of the accused to police.</p>			

SUPPORTING MATERIAL

The appendixes to this volume set out details of the fiscal dataset that was prepared for the study, and describe three “assessment frameworks” that were developed. These frameworks (for assessing: institutional changes within local government; the location of the employer function; and the “verticalness” of conditional grants) could provide the basis for extended studies and for more regional comparisons.

This assessment and recommendations is accompanied by two other volumes:

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

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

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

1. Service Delivery and Devolution

SERVICE-DELIVERY IMPROVEMENTS ARE ESSENTIAL

The track record of social sector service delivery in Pakistan is so poor that it is tempting to assert that almost any reform in governance arrangements would produce better results. Many reports, including the government's PRSP, point out that Pakistan's social indicators lag behind those of countries with comparable per capita incomes. According to one estimate, Pakistan's gross female primary enrollment rate is 33 percentage points below and its infant mortality rate 20 per thousand above that of countries with the same per capita income (see Table 8).

As devolution began, Pakistan faced a double dilemma of long standing. Its public institutions for social service delivery were demonstrably failing, and the evidence suggested that neither economic growth nor increased public expenditures were likely to have significant remedial impact. Cross-country comparisons illustrate that, in Pakistan, growth is associated with fewer improvements in key health and education outcomes than in comparable developing countries. For example, the female-male literacy gap increased in Pakistan with growth while it declined in a sample of comparator countries (Figure 2); infant mortality declined by 56 percent in the comparator countries, compared to only 27 percent in Pakistan (Figure 3).⁷

Table 8: Pakistan's Social Indicators in International Perspective

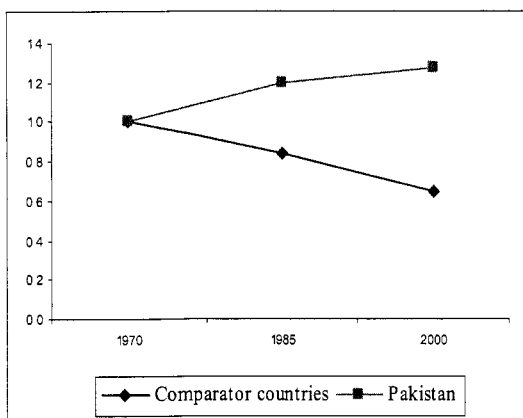
Indicators	Actual values for Pakistan (2001/02) ^a	Predicted values for countries with similar incomes (2002) ^b	Difference between actual and predicted
Fertility	4.5	3.8	0.7
Adult illiteracy ^c	49.5	29	20
Adult illiteracy—female	62	35	27
Gross primary enrollment	72	98	-26
Gross primary enroll—female	61	94	-33
Infant mortality rate	82	62	20
Under-5 mortality ^d	105	91	14

Notes and sources:

- a. PIHS 2001/02, unless otherwise indicated.
- b. The predicted values column is derived from a cross-country regression aimed at explaining the indicator in question by per capita GDP (PPP). Data are from the World Development Indicators (World Bank).
- c. PRSP, based on 1998 Population Census.
- d. Ministry of Health.

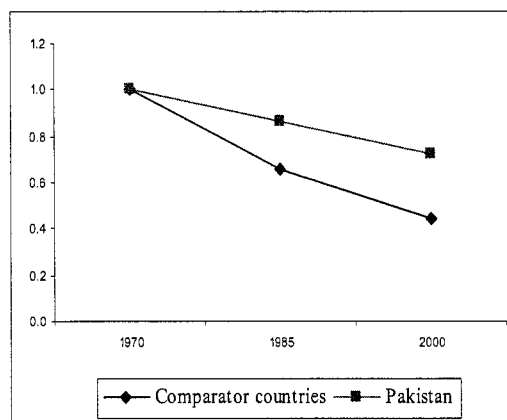
⁷ The comparator countries are 22 low- and middle-income countries that on average had the same growth rate as Pakistan. It should be noted that these are 30-year growth averages and may mask modest year-to-year progress at the country level.

Figure 2: Growth and Female-male Literacy Gap in Pakistan and Comparison Sample, 1970–2000



Source: World Development Indicators.

Figure 3: Growth and Infant Mortality in Pakistan and Comparison Sample, 1970–2000



Source: World Development Indicators.

The link between increased funding and better education or health indicators is equally weak. The Social Action Program has to date been the Government of Pakistan’s most concerted effort at improving its pro-poor social expenditures. During the two phases of the program (SAP Project 1, 1993/94–96/97, and SAP Project 2 1997/98–99/00), a total of approximately \$9 billion was spent, with 80 percent being contributed by the government. The program aimed at increasing the physical availability and improving the quality and efficiency of services, especially for the poor and for women, in elementary education, basic health care, family planning and rural water supply and sanitation. Outcomes were disappointing, particularly in education, which received roughly two-thirds of this allocation (Table 9) (Easterly: 2003; Operations Evaluation Department: 2002). Overall net enrollment rates declined from 46 percent in 1991/92 to 42 percent by 2001/02, while net enrollments in rural areas—a SAP focus—fell from 41 percent in 1991–92 to 38 percent in 2001/02 (PIHS data). There was however, some provincial variation around this declining national trend—the situation in Sindh, and especially Balochistan, was particularly disturbing, while NWFP showed some moderate progress.

There was similarly little progress in rural water supply and sanitation. The percentage of households with access to indoor piped drinking water, in fact, declined slightly from 25 percent in 1995/96 to 22 percent in 2001/02. There were however, some positive achievements in health as indicated by a significant decline in the infant mortality rate (mortality rate among infants under age 1) and incidence of diarrhea (a significant cause of infant death) and modest improvement in prenatal care as measured by the immunization rate of children from 12 to 23 months of age.

The roots of SAP's failure are of course complex and have been well explored.⁸ On the one hand, it may be that SAP was overwhelmed by the deteriorating macroeconomic position that squeezed public expenditures in the social sectors—for example, public expenditures in education declined from 2.1 percent of GDP in 1991/92 to 1.7 percent by 1998/99 (World Bank: 2003a).

On the other hand, however, the program failed to improve the composition of public expenditures, and non-salary inputs failed to keep pace with development expenditures, resulting in poor maintenance of new infrastructure. Most importantly though, the program failed to adequately prioritize institutional reform and did not tackle the thorny issues related to the incentives for staff to improve outcomes either at the policymaking level or at the service-provider level.⁹

Table 9: Key Indicators in SAP Focus Areas

Indicator	1991/92	1995/96	1998/99	2001/02
Net primary enroll. rate (percent)	46	44	42	42
Punjab		45	44	45
Sindh		45	41	40
NWFP		35	39	41
Balochistan		45	36	32
Net primary enroll. rate, rural (percent)	41	39	37	38
Infant mortality rate (per thousand)	121	101	89	82
Immunization rate, 12–23 months (percent) ^a		45	49	53
Indoor piped drinking water (percent) ^b		25	22	22

a. Based on record and recall.

b. Percentage of households with access to indoor piped drinking water.

Source: PIHS, various years.

HOW CAN DEVOLUTION ASSIST IN SERVICE-DELIVERY IMPROVEMENTS?

A Framework

As noted, the existing institutional arrangements for social sector service delivery in Pakistan deliver ineffective services and neither growth nor additional investment expenditures offer a ready cure. Devolution offers a new set of institutional arrangements that, arguably, can produce effective solutions. It is important however, to emphasize that government policy statements did not regard service delivery and responsiveness as ends in themselves. In some respects, in fact, the architects of policy saw the pitfalls of measuring the success or failure of devolution by a narrow emphasis on efficient service delivery. Pakistan's devolution initiative has been designed with three broad and inter-related objectives in mind:

- To inject new blood into a political system considered to be the domain of historically entrenched interests;
- To provide positive measures enabling marginalized citizens—women, workers, peasants—to access formal politics; and

⁸ (World Bank: 2002a) notes that one largely ignored achievement of the SAP was that it placed social development center stage among both government and citizens. Thus it undoubtedly contributed to the political prioritization of poverty reduction approaches and undoubtedly contributed to the view among senior political leaders that it is far more efficient in the short term to allocate the new fiscal space to debt retirement than increasing social service spending.

⁹ The magnitude of this problem of unresponsive staff can be gauged by the fact that the number of complaints filed against key government departments more than tripled between 1985 and 1998 and that the proportion of complaints that concern arbitrary decisions has risen very significantly (Asian Development Bank: 1999). Complaints are categorized as delay, inattention, neglect, arbitrary decisions and corruption.

- To introduce a measure of stability into a turbulent political scene by creating a stronger line of accountability between new politicians and local electorates.

Improvements in service delivery were one of several technical objectives, but as the overarching aims of devolution were political, it can not be said to stand or fall on the basis of its impact on service delivery.

The changes introduced by devolution were summarized in Table 2 above. Full details are provided in the second volume (*Annex 1—Recent History*). Given the multitude of political, administrative, and fiscal changes, it is important to try to put into perspective what these might imply for service delivery.

Devolution changes the accountability relationships and the relative importance of various actors—most notably politicians and policymakers—associated with service delivery, as cast by the 2004 World Development Report (World Bank: 2003c).¹⁰ The study focuses on the capacity and incentives faced by *nazimeen* for making services work at the district and TMA level. Whether the incentives really will in turn lead to better services in health, education, infrastructure, and access to justice across local governments remains an empirical question. Cross-national studies find no clear evidence that decentralization has led to better governance and improved service delivery (Azfar: 2002; Blair: 2000; Smoke: 2001).¹¹

Figure 1 summarized these assumptions in a simplified framework for thinking about the prospect for making services work under Pakistan’s devolution, centered on the *nazimeen* and their senior staff.

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

First, there is the set of incentives that might make *nazimeen* want to see service delivery improvements for citizens at reasonable cost. As will be seen, in a context of indirect elections for *nazimeen* and complex intergovernmental relationships and political career paths, it is far from self-evident that service delivery improvements for the poor will be a priority for them. *Nazimeen* must be influenced by citizen power, in the form of “voice,”¹² so that they have an incentive to direct those providers to achieve service delivery improvements (although as Figure 1 illustrates, this assumes that they are in a position to direct the behavior of the staff that provide the services—motivated *nazimeen* with no ability to direct their front line staff will not be able to improve services.). Voice must be accompanied by *provincial efficiency incentives*, so that service-delivery improvements are not simply obtained through increased spending.

¹⁰ The 2004 World Development Report (World Bank: 2003c) presents an accountability framework focused on service delivery. At its simplest, the WDR sets out an “accountability triangle,” where the nodes represent actors (citizens, politicians-policymakers, and service providers—departments) and the sides represent accountability relationships (voice, compact-management, client-power). The approach in this paper takes these principal-agent relationships as given, and does not seek to re-run the arguments that are well set out in the World Development Report. The approach here essentially converts these relationships into qualitative checklists or sets of incentives.

¹¹ Some studies are more sanguine about the impact of local governments. For example, in Bolivia it appears that devolution has resulted in changes in investment patterns in the country, putting a greater focus on education and water and sanitation, as well as to a more geographically equitable distribution of public expenditure (Faguet: 2001).

¹² “Voice is the relationship of accountability between citizens and politicians, the range of measures through which citizens express their preferences and influence politicians” (World Bank 2003).

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

Unpacking the Incentives

Examining the incentives that devolution might provide for *nazimeen* and senior staff, then the *provincial efficiency incentives* derive from the structure of the revenue base, including transfers and own source revenues available to meet the new local expenditure responsibilities. If well structured, these fiscal arrangements promote the efficient use of resources in meeting local preferences. Since *nazimeen* will typically face expenditure demands that exceed available resources, budgetary certainty in the form of predictable resource flows and a hard budget constraint, coupled with adequate autonomy in resource allocation, will encourage them to use public resources responsibly and efficiently. With these arrangements in place, *nazimeen* will more likely attempt to make the best trade-offs, for example, in allocations between sectors, between recurrent wage and development expenditures, and attaining value for money (for example, through effective procurement arrangements). As is explored in more detail in the second volume (*Annex 1—Recent History*), some argue that own source revenues automatically contain more incentives for efficient use than transfers, as local taxpayers are more likely to demand results.

Citizens would be able to make their demands for better services heard through the *voice channel*, the most obvious form of which is elections. However, voting may be based on other criteria than service delivery, as owing to years of bitter experience voters may not see commitments on the part of politicians to provide broad-based public goods over time as credible. Hence, voters and politicians may emphasize directly visible and narrowly targeted projects such as school infrastructure. These schools may not be staffed or maintained, but voters have come to know that they cannot hold politicians to their promises beyond the short term.

Voice is likely to be stronger, with councilors motivated to listen to citizens, if there is public assignment of credit or blame and if there are obstacles to councilors providing private goods targeted at a few influentials rather than public ones which benefit many. As an influence on councilors, voice must compete with the incentives that the provinces can provide for *nazimeen* to serve their political interests. That “pull” from the provinces is likely lessened when the councilors have independent political legitimacy and when provinces themselves have fewer incentives to intervene at district level.

The local governments, as represented by the *nazimeen*, in turn engage with service delivery providers at the local level (for example, schools and contractors) through *managerial power*, their ability to require service providers to adhere to particular standards of behavior and service. Again, as is explored in more detail in the second volume (*Annex 1—Recent History*), managerial power is strengthened if the staff that work in the district are employed by the district—with hire and fire authority available to local managers, subject to suitable safeguards. Recognizing that this is unlikely to be the case for senior staff, *nazimeen* need distinctive authority over their behavior including input into their performance evaluations, and a credible threat to transfer them if the relationship is not productive. Managerial power is strengthened by the external oversight provided by bodies such as Accounts Committees, Monitoring Committees and District Public Safety Commissions. It also assumes that staff with appropriate skills are available in sufficient numbers and that those staff have sufficient technical sanction powers to undertake their tasks.

A more direct route of accountability, *client power*, directly connects citizens with service providers, such as schools. Client power includes more formal mechanisms as functioning agencies that assist in dispute resolution concerning service delivery (Departmental Grievances Redressal and Complaint Cells and Citizen Police Liaison Committees) and bodies which provide direct citizen inputs into the management of facilities (Citizen Community Boards and School Management Committees).

Although this is seemingly a more direct route of accountability, as the World Development Report underscores, there may be a variety of reasons why client power might be insufficient by itself. Citizens may find particular services hard to monitor. What constitutes good health care may be difficult to assess, and require other forms of accountability relationships (for example, oversight from health authorities or professional associations).

Table 10 summarizes the variables that are fundamental to these incentives being put in place.

Table 10: Key Incentives in the Devolved Structures

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

As will be seen, a number of crosscutting devolution changes have transformed these various incentives that are likely to affect service delivery. However, the study findings suggest that while many of the elements for better decentralized service delivery are in place, significant challenges for reform remains. Local governments have been provided with additional resources under the PFC awards and their own revenue bases. These resource flows are proving relatively predictable, but allocations across local governments may be insufficient and inadequately distributed across local governments given new expenditure assignments, and in many cases setting poor incentives for own source revenue mobilizations.

Some of the biggest challenges remain in the area of administrative decentralization. The relationships between *nazimeen* and core senior staff (for example, DCOs) remain complicated, as these staff are still largely beholden to the province.

Various reforms to enhance citizen power have yet to prove themselves. Citizens were able to exert voice through the election of their UC representatives, but *nazimeen* at the district and TMA level remain indirectly accountable through the system of local councils. The Citizen Community Boards have the potential of enhancing voice through direct involvement in the planning and implementation of development funds, but are confronting many teething problems. Reforms in school management committees have the potential to enhance client power.

In the judicial sector, a number of changes in accountability relationships appear to be both strengthening and weakening the prospects of service delivery in terms of security and access to justice, meriting special treatment.

Assessing the Impact of Devolution on Service Delivery

If, on balance, these changing incentives are in fact having some impact on service delivery, then, in principle, improvements could be measured directly. However, there are two difficulties. First, devolution is recent and it would be premature to attribute any change in social-sector outcomes to new arrangements on service delivery. Second, in Pakistan there is no consensus on which data sources to use to measure intermediate and outcome indicators, and it would be dangerous to judge the utility of devolution on the basis of any apparent trends in these indicators. Furthermore, there is no obvious relationship in the data between intermediate indicators that can be impacted by policies—such as percentages of schools with facilities like toilets and electricity—and outcomes.

Figure 4: Interpreting Education Data

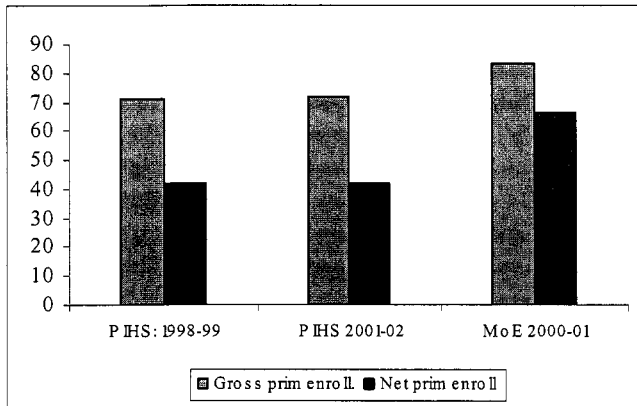
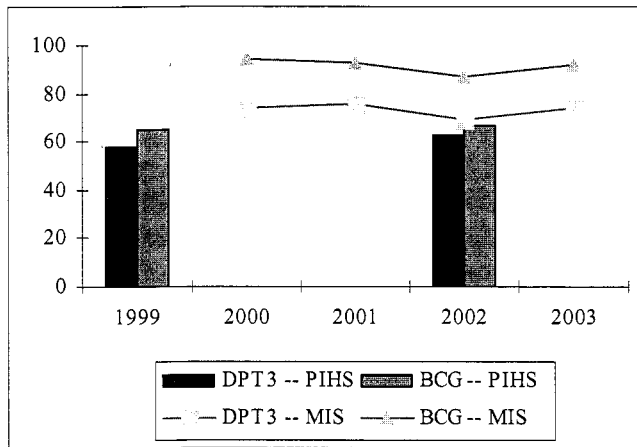


Figure 5: Interpreting Health Data



This problem of data can be seen in the discrepancies in education-and-health intermediate and outcome indicators. In education, the two major sources for data are the Pakistan Integrated Household Survey (PIHS) and the Ministry of Education (MoE). While the PIHS is a household survey, the Ministry of Education constructs enrollment numbers from (a) the Educational Management Information System (EMIS), which gives data only on enrollment in government educational institutions and (b) estimates of private enrollment, based on a census of private schools conducted by the Federal Bureau of Statistics (FBS) in 1999–2000 and estimates of enrollment in *madrassahs*.

Given these different modes of collection, it is not surprising that the two sources produce very different results. Overall, the PIHS data on enrollments are considerably below that of the Ministry of Education—the PIHS shows net primary enrollment to be 42 percent as compared to 66 percent for the MoE (Figure 4). These discrepancies have created such controversy that the government has

called into question the methodology used in the PIHS.¹³

In health, at the national level, the EPI MIS (management information system) and the PIHS, the two main sources for the state of immunization coverage, both show a recent improvement, but starting from very different bases (Figure 5). Data from the EPI MIS shows that immunization coverage in children for a number of diseases was declining until very recently. For example, DPT 3 immunization declined from 74 percent nationally in 2000 to 69 percent in 2002, before returning to 74 percent by September of 2003. PIHS data on the other hand, shows a much lower percentage of children immunized but also suggests a rising trend between the last two sample years.

¹³ As a result of these controversies, the release of the 2001-02 report was delayed, and when it was released it included an “Explanatory Note” warning the reader that specific sections of the report were wrong, thus calling into question the accuracy of the entire report as well as the previous PIHS rounds. While non-sampling errors are a problem in the PIHS, the MoE data are generally believed to be more problematic as the mode of collection of the MIS creates many sources for errors, and the estimates of enrollment in private schools and *madrassahs* are problematic. In general, EMIS is best suited for collecting important administrative information like salaries, transfers and retention of teachers, for example, and not for tracking outcomes and performance indicators.

2. Assessment

KEY FINDINGS

This study proceeds from a basic understanding that two preconditions produce improvements in service delivery. First is the requirement that the incentives motivating *nazimeen* make them want to see such improvements and, as a corollary, that they want to see these achieved—at least in part—by the more efficient use of existing resources. The second precondition is that those who provide the services—for example, the staff of schools and clinics—must also want to see improvements. Their motivation is a response to managerial power—ensuring that the *nazimeen* and senior staff have authority over the front line workers—or, again, to citizen power that gives potential service recipients some direct means to guide the conduct of service providers. Figure 1 earlier set out the assumed chain of connections between the new incentives and the likelihood of improved services. This section synthesizes the discussion of these changed incentives set out in detail in the second volume of this report (*Annex 1—Recent History*).

New Incentives for *Nazimeen* and Senior Staff

Provincial efficiency incentives

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

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

On budgetary certainty, as Table 11 shows, most funding for local government is in effect negotiated rather than formula-based. All negotiated revenues provide opportunities for gamesmanship, basing current policy decisions on their likely impact on future resource transfers, rather than on their merits. The proportions of the Provincial Consolidated Fund that ultimately are transferred on formula basis are trivial (less than 8 percent in all provinces). However, the more significant measure is the proportion of transfers that are, or should be, transferred to local government that are transferred on a formula basis. It is important to note that transfer has a precise meaning and refers to funds that are non-lapsing and within the re-appropriation authority of the district or TMA. On this basis, the formula-based proportion of de facto transfers (transfers made in practice) ranges from 71 percent (NWFP) to 17 percent Punjab. However, again this is a somewhat misleading figure, as NWFP and Sindh do not, formally, transfer funds for salaries as these remain in Account 1. If the proportion is taken from de jure transfers—the transfers mandated by the LGOs—then all provinces come in at less than 25 percent.

Table 11: Proportions of Total Funding Transferred to Local Governments on a Formula Basis
(Rs. million)

Province	Provincial Consolidated Fund (PCF)	Local government revenues (excluding own source)				Formula based transfers		
		Salary	Non-salary	Development	GST ^a	% of PCF	% of de facto transfers ^b	% of de jure transfers ^c
Balochistan	36,750	6,654		1,380		3.76	20.74	17.18
NWFP	55,458	12,183	1,093	867	799	3.53	71.04	13.12
Punjab	177,235	42,600 ^d		8,259 ^e	6657	4.66	14.36	14.00
Sindh	104,785	20,644	2,476	5,717	5,500	7.82	59.83	23.86

Note: Formula-based transfers are shaded.

a. For Sindh and NWFP, GST was paid out to districts, TMAs and UAs first to meet baseline shares and then additional funds were distributed to new units. Punjab paid GST to TMAs and UAs alone, first to meet baseline shares and then on population basis to new units. In Balochistan GST was distributed on formula basis and was used for financing local development as well. No transfers for capital budget were made otherwise.

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

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

d. Punjab transferred Rs. 50,859 in revenues to districts as lump sums without specifying salary, non-salary and development allocations. Non-salary and development allocations were formula-based district shares while the salary transfers were in accordance with historical baseline, although in some cases negotiated increases were given.

e. No disaggregation is possible from the budget data, however, the DSD2 shows that Rs. 42,600 were booked as salary and non-salary expenditure in FY 2003 in the 34 districts and hence the development expenditures can be calculated.

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

While these transfers are negotiated, the data also reveals that there is considerable predictability in the transfers at the district level, with in most cases districts receiving only slightly less than what was budgeted.

The district studies also revealed that local governments have limited autonomy in preparing their budgets. Vertical programs are the main constraint on district and TMA autonomy in preparing the development budget, with often the volume of funds channeled through vertical programs dwarfing the district's own ADP for particular sectors.¹⁴ In the study districts, more than half of the ADP is under the effective control of the federal and provincial agencies controlling the vertical programs (Table 12). This practice undermines the sovereignty of local governments in planning the development of their districts according to their own priorities.

¹⁴ See Table 19 below for a summary of the institutional impact of vertical programs.

Table 12: Vertical Programs as a Percentage of the District ADP

District	2001-02				2002-03			
	Recurrent Budget (Rs.)	District ADP (Rs.)	Total VP Outlay (Rs.)	VP as % of ADP	Recurrent Budget (Rs.)	District ADP (Rs.)	Total VP Outlay (Rs.)	VP as % of ADP
Killa Saifullah	202.42	—	—	—	167.86	71.79	23.42	32.60
Karachi	7275.90	—	—	—	11631.19	—	—	—
Bannu	520.30	131.90	51.12	38.80	586.94	189.73	—	—
Bahawalpur	1368.92	239.01	177.78	74.40	1486.22	462.89	281.67	60.90
Khairpur	1637.95	293.52	145.86	49.70	1637.95	192.00	—	—
Faisalabad	2630.75	164.93	150.00	90.90	2630.75	710.00	358.70	50.50

— Not available.

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

Source: District budgets.

Local governments also have limited freedom in preparing the salary budget. Neither local nor provincial governments are, in practice, able to determine pay scales, which are set at the federal level. In addition, in Sindh and NWFP, salaries are transferred through provincial Account I rather than the district-controlled Account IV. The districts must seek approval from the province for the release of the funds from Account I for their salary payments. Thus, the salaries effectively are still paid from the provincial budget.

Local governments are hugely dependent on intergovernmental fiscal transfers as taxes assigned to local governments lack sufficient revenue potential. This degree of vertical imbalance can lead to inefficiencies in both the levels and quality of public expenditure—specifically, it creates incentives for local governments to overspend as well as reduces the incentives to spend these resources efficiently. The logic in both cases is that intergovernmental transfers lower the costs to local residents of getting services. Arguably, the disconnect between expenditure and taxation encourages “free-riding,” as well as reducing 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.

Thus it is at least arguable that local revenues contain intrinsic incentives for efficiency, as local taxpayers might be more vigilant than distant ones and so efforts to improve own source revenues can imply incentives for efficiency. Incentives for local revenue effort are linked to the buoyancy and potency of taxes assigned to local government, and the clarity of such assignments. Effort will be deterred if there is no credible connection to likely revenue results and if it is not evident which level of government is to benefit from which tax. While districts have been given rights to raise additional revenues, their tax base is weak, and some district taxes and user charges are very difficult to impose in practice. In the six study districts, for example, for 2003/04 own source tax revenues ranged from 0 percent to 8 percent of total revenues. Therefore, a large tax effort brings only modest results in total revenue.

In addition, although the district and TMA taxes are clearly assigned in theory, administrative confusions in the collection arrangements blur the assignments in practice, further reducing incentives to increase collections. Administrative complexity is most clearly evident in the case of property tax (UIPT). In Sindh, for example, where the province has control over various aspects of tax policy, collection is meant to be the responsibility of the district, while TMAs determine

rating areas. This sharing of responsibility is likely to reduce the potential for a revenue source that could make up a significant proportion of the fiscal gap in the TMA budgets.

Citizen Power (Voice)

This study argues that there are two necessary conditions for the local political leadership to have incentives for service delivery improvements. First, local councilors themselves must have an interest in serving the needs of their constituents and in particular the poor. 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.

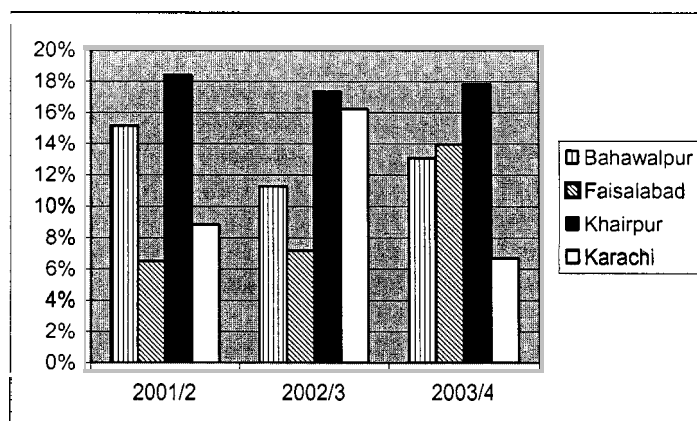
On the first point, the study notes that while it is probably true that citizens value education and health services, it is also likely that voters believe politicians' claims to deliver patronage and infrastructure schemes are more credible than promises to improve health and education. In the context 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.

The anecdotal evidence from the study districts also suggests the strong incentives working on councilors to focus on private goods. In all the districts visited, The District and *Tehsil* Councils had reserved significant portions of their development budgets to be distributed equally among their respective councilors. The councilors in turn have used these allocations mostly for neighborhood-specific schemes, such as water and sewerage network extensions.¹⁵ This focus on union-specific development has meant that union *nazimeen* are not paying adequate attention to their other important role as district council members. The important council budget sessions were largely perfunctory, with budgets being passed in a matter of minutes, suggesting that district-wide issues had not received the attention that they deserve. Monitoring Committees, while formed, are generally not functional, in part because councilors lack capacity and generally deal with a frustratingly non-responsive bureaucracy, but also because councilors' priorities lie elsewhere, and their attention is focused on their particular constituency.

While these incentives to focus on private goods are strong, the study did not find that devolution had exacerbated this problem. For example, the evidence in Figure 6 shows no obvious reduction in operations and maintenance expenditures between the allocations in 2003/04, the first year local governments prepared their own budgets, and that of earlier years. The argument in favor of continued earmarking—that non-salary budgets will be raided to finance new, greenfield projects—therefore does not appear justified. Similarly, the data suggests that there has not been a significant shift from large to small development schemes, or that councilors are abandoning existing schemes to gain political glory by starting new ones.

¹⁵ As was noted earlier, this paper refers to private goods to include both pure private goods (that is, individual-specific) as well as narrow public goods (for example, locality-specific projects). Local infrastructure projects often encompass both—that is, only the local community benefits, and the contractors for the projects reap the private rewards.

Figure 6: Non-salary as a Percentage of Total Expenditure (districts)



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

On the second point, the study found that although elected by them, *nazimeen* have few incentives to take notice of the district or TMA councilors. They feel some need to maintain their support, as indicated by the equal allocation of development funds to each councilor. However, it is striking that no district *nazim* faced effective opposition in any of the districts visited, in large part because the electoral college is often more dependent on the *nazimeen* than vice versa.

On the other hand, a clear connection that emerges from the district visits is the importance of the political relationship between the *nazim* and the ruling provincial political coalition. Effectively, this relationship determines the extent of political control that the District *Nazim* can exercise within local government as well as the freedom local policymakers have to act to meet their constituents' demands. In two of the six districts visited—Bahawalpur and Faisalabad—the district *nazim* is allied to the Chief Minister and the ruling provincial political coalition, while in the other four the district *nazim* is in opposition. This relationship has a significant impact on the flow of funds between the province and local governments, on the implementation of local development schemes and on the manipulation of appointments and transfers of personnel.

New Incentives for the Service Providers

For service delivery to improve, the service providers—and not just their elected superiors—must want to see improvements. This motivation is provided either by ensuring that the service providers have an incentive to listen to the policymakers—managerial power—or by providing potential service recipients with some direct means to have an impact on the conduct of service providers—client power in the terminology of the World Development Report (World Bank: 2003c).

Managerial power over service providers

In reviewing the changed incentives for front line staff and other service providers to “listen to *nazimeen*,” the study examines three key dimensions:

- The extent to which staff working in the district are employed by the district
- Adequacy of the *nazim*'s authority over senior staff, including inputs into the performance evaluations for senior staff and ability to require their transfer.
- Extent of external oversight, including a review of the effectiveness of bodies, such as Accounts Committees, Monitoring Committees, and District Public Safety Commissions, which are mechanisms for the monitoring of front line staff.

The overall conclusion from the district studies is that administrative devolution has been partial and, as yet, given district staff few reasons to respond to the authority of the *nazimeen*. The transfer of functions and the physical relocation of staff have not been fully matched by the transfer of the employer role. Local governments have limited ability to create fiscal space by dismissing surplus staff, and in two of the four provinces (Sindh and NWFP), salaries continue to be paid from Account 1. In other cases, while the formal authority rests with the local government, the province continues to exercise informal control. While the LGO provides for a sophisticated sharing of control over posting of civil servants based on norms which clearly delineate responsibilities, informal provincial controls are clearly evident in the area of Appointment, Promotion and Transfer (APT) authorities. In many cases, provinces have reduced the control of local political executives over their civil service through unilateral orders of postings.

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

These problems of accountability were clearly evident in the relationship between the district *nazim* and the senior staff in the district, particularly the DCO and the DPO. It was generally observed that the authority of the *nazim* to write the ACRs of DCOs was an insufficient mechanism for enforcing accountability since it was an ineffective tool for measuring the performance of an officer and tended to be viewed as a routine matter to be placed on an officer's file at the time of promotion in fulfilling a legal or administrative requirement. Officers tended to be given postings regardless of their performance in previous tenures. *Nazimeen* also have very little authority over the DPO. Formally, only in Punjab has the District *Nazim* been given the initiating authority for the ACR of the DPO, although it has been reported that this authority will be extended to the *nazim* in all provinces. However, in practice in none of the districts studied were these performance evaluation reports completed in this manner. Some *nazimeen*, in fact, considered that removing the authority of the former District Magistrate in completing the ACR of a former district Superintendent of Police has contributed to deterioration in law and order in general.¹⁶

The LGO provides for a number of institutional arrangements—such as Monitoring Committees, and District Public Safety Commissions—for the legislative oversight of service providers. However, it was generally observed that these mechanisms have either not been established, or have been introduced to only a limited degree. For example, the field visits revealed that, with some notable exceptions and for several reasons, Monitoring Committees were not performing as the regulations envisioned. Similarly, Public Safety Commissions where formed, were generally unable to elicit compliance from the police in its investigations.

¹⁶ Press reports of a high level meeting held on 14 April 2004 involving the Prime Minister, Provincial Chief Ministers, the NRB and other federal and province officials indicate that significant changes will be introduced to the Police Order 2002 and that a new target date of December 2004 has been set for complete implementation of these new arrangements. Until these are officially confirmed and clarified, this report will make only passing reference to what has been reported, but will not speculate on their likely impact.

Citizen power (client power)

As the WDR argues, service delivery can also be improved by improving client power, that is, strengthening the direct linkage between citizens and service providers. In principle, such an approach can be more effective than focusing on efforts to make service providers more accountable to policymakers and then making policymakers, in turn, more accountable to citizens. The LGO and Police Order call for the creation of various bodies, such as Citizen Community Boards and Citizen Police Liaison Committees, which can serve to improve this client power.

The overall conclusion from the field visits is that it is too early to tell whether or not devolution has had any impact on client power for the better or the worse. While in general participatory mechanisms, such as Citizen Community Boards and School Management Committees (a pre-devolution initiative) have yet to achieve their full potential, there are numerous examples that suggest that innovative local leadership has had a positive impact on community mobilization and in turn on service delivery.

THE IMPACT OF THE CHANGED INCENTIVES ON SERVICE DELIVERY: A PRELIMINARY ASSESSMENT

As discussed above, it is too early to determine the effect of devolution on service delivery outcomes. This section therefore focuses on the effect of the changed incentives for *nazimeen* and service providers on the four key sectors impacted by devolution—health, education, water and sanitation, and access to justice.

Health

The structural changes

The overall picture for the health sector under devolution is encouraging. The transition was relatively smooth and the transfer of staff and facilities was accomplished without major disruption to services. Some districts took advantage of the changes to restructure more comprehensively, and devolved procurement seems to be working well.

The post of executive District Officer Health (EDO-H) has been created and is filled in all districts. All the health facilities, including district headquarters hospitals but not tertiary (teaching) hospitals, have been placed under this office. Training and staff development institutions that were earlier under the divisional headquarters are now largely under the EDO-H.¹⁷ However, only in Punjab are training institutions fully devolved (except medical colleges which remain with the provincial government). In some provinces, like NWFP and Punjab, this transfer provided an opportunity to carry out an extensive rationalization of the health facilities and to obtain data on utilization, citizen access and missing staff.

Different provincial requirements have produced a number of structural models for health district departments. Some predate devolution and were part of the previous district decentralization plan. In NWFP, for example, there are three district types identified on the basis of size, and structures are tailored to these different types. Thus the number of posts and the specialties within a district depend on the type of district. Type A, Peshawar, is the largest district with a wide range of posts, departments and specialties. In Type B, medium-size districts, the number of specialties and

¹⁷ There are exceptions, for example, in Killa Saifullah and Bannu, where in the earlier district there were no such institutions and the district health development center and nursing schools remain under the direct control of the provincial health services academy.

departments decline, and smaller Type C districts that do not cover the full range of health care rely more on provincial expertise.

The procurement of medicines and purchase of biomedical equipment have been devolved to the districts, and purchase committees headed by the District Coordination Officer (DCO) have been constituted. The committees are responsible for technical scrutiny, standardization and purchase of medicines, capital goods and medical equipment. For Balochistan, NWFP and Punjab, a provincial committee performs prequalification, and a system of rate contract eliminates the role of intermediaries. In Sindh, the absence of a system for rate contract or prequalification by the provincial government has led to complaints relating to the purchase of medicines. Additionally, in Karachi *Tehsil* responsibility for health has been relinquished to the city district, and different purchase procedures are in effect for health facilities that had been municipal rather than provincial units. Some of the outstanding issues in harmonizing procurement practices and rules are still not resolved as the Rules of Business are not yet in place.

As argued earlier, while the anecdotal evidence suggests that there are strong incentives on local politicians to focus on private goods, the study did not find that devolution had exacerbated the problem, as evidenced by the protection of operations and maintenance allocations in the district budgets. Specifically in the health sector, the picture that is emerging suggests that the new powers to procure are being used well, and citizens are increasingly finding that health facilities have medicines available for them. Not only is the supply picture undoubtedly improved, but it is also noteworthy that the press has publicized few reports of corruption in contracting for medicines.

Citizen power (voice)

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

Provincial efficiency incentives

Devolution has not yet produced district ownership and the consequential district oversight over vertical programs (Box 2). As outlined in more detail in the second volume (*Annex 1—Recent History*), vertical programs are in general problematic because they limit local government's autonomy in preparing the budget, and limit public assignment of credit and blame, thus distorting relations between local service providers and councilors by reinforcing vertical relations with higher governments. This lack of local ownership is most marked in relation to the Lady Health Workers, but similar problems of delays in the release of funds from the province and weak supervision and monitoring by the districts beset the EPI, MCP, and TB DOTS programs. While lack of capacity and training are clearly important factors, lack of full district ownership is a binding constraint. Districts do not allocate funds or other resources for monitoring and supervision, and without this involvement program targets are unlikely to be met.

Box 2: Vertical Programs—Health

The National Program for Family Planning and Primary Health Care, better known as the Lady Health Worker (LHW) program is the main federal program, while others, such as the Extended Program for Immunization (EPI), the Malaria Control Program, and TB DOTs, are primarily provincial programs with varying degrees of district involvement.

The LHW program is the government's flagship health program as well as a major focus of donor interventions, primarily because it has developed a reputation for overall effectiveness. The program is highly vertical, in the sense that the most important policy decisions, such as the number of LHWs to be employed, as well as financing, rest with the federal government. On the other hand, key operational responsibilities, such as decisions on the allocation of LHWs within a district, as well as overall recruitment and supervision of the LHWs, are district functions. Currently, the program employs 70,000 LHWs, with an I-PRSP target of 100,000 by 2004/05.

A DfID-funded evaluation is one of the few data sources available on the program (Oxford Policy Management: 2002) although this was undertaken prior to devolution. The results of the study are mixed. In terms of outcomes, the study reveals that use of prenatal care and delivery services, use of contraceptives, immunization coverage and prevention and treatment of common illnesses in children under five are all better in LHW areas than in control groups. For example, it found 56 percent full immunization coverage in LHW areas as compared to 38 percent in control areas, and 20 percent modern CPR in LHW areas vs. 14 percent in control areas. For the most part, this difference is due to the fact that LHWs tend to serve more economically developed areas.¹ Once socioeconomic variables are statistically controlled for, LHWs impact is positive but much more moderate.²

In terms of processes, the study finds that in general LHWs are recruited according to the criteria established by the federal government and are also adequately trained. However, there were major problems with the timely payment of LHW salaries and serious undersupplies of medicines and contraceptives. For example, only a third of the LHWs surveyed had been paid in the month preceding the survey; a third had not been paid for four months or more; and more than 20 percent of LHWs had run out of essential medical supplies in the last three months. Despite their extensive training, the knowledge of the LHWs was limited, especially in curative care. Fewer than 25 percent knew the correct dose of antibiotic needed to treat pneumonia. Supervision was weak, primarily because supervisors lacked adequate access to vehicles, but this weak supervision had more to do with quality than frequency, as 70 percent of the LHWs had been supervised in the last month, and 82 percent in the last two months.

Some of the main problems with the program—delayed release of salaries, poor supervision—have primarily to do with its vertical nature. Release procedures from the federal level to the LHWs in the case of salaries and to the districts in the case of non-salary inputs are cumbersome and need streamlining. As the study revealed, LHW performance is closely linked to the quality of supervision, which in turn implies that the role of district governments is vitally important. However, since political leadership in the districts is largely unaware of the program, a crucial incentive for improving the quality of supervision is lacking.

1. This is in part due to the federally-determined LHW selection criteria a) stipulating that LHWs be relatively educated women and b) requiring a functioning health facility in the area from which the LHWs are to be recruited.

2. Specifically, the presence of LHWs increases the probability of a child's being vaccinated and of the use of prenatal care during pregnancy. However, LHWs appear to have no impact on contraceptive use once socioeconomic factors are controlled for.

Managerial power

Local ownership of the reforms remains very limited. Table 13 documents the absence of organizational structure and some key job descriptions for district health offices in four of the six study districts. Implementation plans, though, were available in four of the districts.

Table 13: Ownership of the Structural Reforms

District	Organizational structure of the district health offices	Job descriptions	Implementation plans
Killa Saifullah	Available—but only with the province	Available—but only with the province	Available
Karachi	Available	Available	Available
Bannu	Not available	Not available	Available
Bahawalpur	Not available	Not available	Not available
Faisalabad	Not available	Not available	Not available
Khairpur	Available	Available	Available

Source: ADB/DfID/WB DSD Dataset 1.

In addition, personnel anomalies have developed in the process of allocating staff to the new district structures. In particular, former hierarchical relationships have become distorted. For example, the doctor in charge of the district headquarters hospital has been placed under the supervision of the EDO (H), whereas previously the District Health Officer and the DHQ doctors would all report to the Divisional Director Health Services. Also, the Medical Superintendent of the hospital, a grade 18 employee, supervises doctors in grades 19 and 20.

Box 3: Citizens Using Private Medical Care

Killa Saifullah	29 percent
Karachi	75 percent
Khairpur	81 percent
Bahawalpur	55 percent
Faisalabad	37 percent
Bannu	21 percent

Source: (CIET: 2003).

An emerging picture in the 6 districts, one borne out by the CIET social audit reports, shows more and more citizens migrating from the public to the private sector for health care (Box 3). Predating devolution, this movement demonstrates dissatisfaction with existing public sector health provision at the local level and presents a challenge for district health departments. As the private provision of health grows, district health departments must provide not only government

services but oversight and regulation of the private sector as well. Currently, most such departments maintain no record of private sector services, and no legal registration requirements exist except in one district.¹⁸ Providing regulatory oversight—a key future task for district health departments—will require new legal frameworks and effective monitoring by trained district health teams. The issue, however, does not yet seem to be on district planning agendas.

In sum

The key impacts of the changed incentives in the health sector are as follows:

- Citizen power (voice)
 - While in general Monitoring Committees have failed to achieve their potential, there are isolated examples of these committees reducing staff absenteeism and improving operations and maintenance
- Provincial efficiency incentives

¹⁸ Bannu was the only district where all clinics and hospitals were registered and paid fees that, while collected by the district, were submitted to the provincial government.

- There is complete lack of district ownership and corresponding lack of district oversight over vertical programs.
- Managerial power
 - Local staff ownership of the reforms is, as yet, very limited
 - Reporting lines and managerial relationships are not quite finalized
 - Districts are unprepared for regulation of the growing private sector

Education

The structural changes

In education, the new district structures have evolved further and are more settled than in the health sector. This is probably because, prior to devolution, provincial education departments were already a long way down the road of decentralization and appropriate management structures had been established at the sub-provincial level. The sector has seen considerable experimentation at the district level—thus, although in all districts the basic structure of the District Education Office is in place, below that level a variety of education department structures are emerging to meet district-specific circumstances (see Table 14).

Important variations among provinces and districts characterize the devolution of education management. 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 have opted for single departments for both sectors. In Karachi, the district government has not yet achieved uniformity in managing its own schools and those that were formerly under the *tehsils*. Procedures for *tehsil* schools—such as procurement rules—are still in place and so although schools are all now nominally under the Karachi Education Department, different rules and procedures allow former *tehsil* schools latitude denied to district schools. These parallel service delivery arrangements have resulted in jurisdictional conflicts and overlapping and confusion among the concerned stakeholders in local government.

Table 14: Management Structure after Devolution

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

Source: ADB/DfID/WB DSD Dataset 1.

In staffing the new structures, Punjab and NWFP districts are typical in that District Education Officers have been appointed for Secondary Education, Male Elementary Education, Female Elementary Education, Colleges, Special Education and Sports under the EDO (Education). A gender consequence of devolution, most clearly observable in NWFP, is that the district structure reduced the management posts available for women education officers. Prior to devolution, there were both women and men district education officers. Following devolution this post has been merged and, in the majority of cases, filled by men.

Table 15: 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
Authority for school construction	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.

Provinces also differ in their arrangements for school-based management (Table 15). School Management Committees predate devolution but have come to be associated with it, and in recent years have been revived, largely because of donor engagement at the provincial level (Box 4).¹⁹ Sindh has gone the furthest, with SMCs being given powers, in addition to those for maintenance and repair and procurement of school materials, to recruit primary teachers on contract and to undertake construction of shelterless schools.²⁰ Sindh is also the only province that has formally incorporated the local political leadership within SMCs and therefore given councilors a direct stake in the affairs of the local schools.

Box 4: School-Based Management

School-based management was a key feature of the Social Action Program, and School Management Committees and Parent Teacher Associations (PTAs) were established in 1994 in all provinces as part of this project. These committees were to perform certain school-based functions, such as procurement of teaching materials, repair and maintenance of the school facility, increasing enrollment, reducing teacher absenteeism and raising funds or generating other resources for school improvement. Overall, studies reveal that these committees failed to meet these objectives.¹

Of the many reasons for this failure, the most important was a general lack of understanding about the complexity of achieving true community-based management in rural societies marked by considerable socioeconomic inequality. Most PTAs were formed by a process of selection rather than election, with the head teacher determining membership and controlling the bodies. Parents in general lacked interest or were unaware of their roles and responsibilities. Even motivated ones had no formal mechanism for disciplining teachers, and were limited to sending complaints to line-department officials who in turn had little incentive to act on these complaints.

The PTAs also lacked adequate funding. One survey revealed that in one district about a quarter of SMCs had received funds since their formation, while in the other district none had received any money since they

¹⁹ Names vary with the provinces—SMCs in Sindh, School Councils in Punjab, Parent Teacher Associations (PTAs) in NWFP, Parent Teacher School Management Committees (PTSMCs) in Balochistan.

²⁰ Sindh Department of Education, notification no. PA/AS/MISC-II/2002, dated October 13, 2002. This notification states that only female teachers will be appointed to primary schools and that teachers' salaries will be fixed at a rate of Rs. 40 per month per student, but may not exceed Rs. 2,000 per month.

were formed (Department of Education and Multi-Donor Support Unit: 1998). Moreover, the funds were delayed, primarily due to complicated release procedures that released funds first into the PLAs of the then Deputy Commissioners and then onward to the SMC accounts. The survey also found that in a number of cases committee members, particularly co-signatories (who were to be nonteaching members of the SMCs) on SMC accounts, were relatives of the school teachers or head teacher, ties which raised questions about corruption and greatly reduced the SMC's ability to monitor school staff. As a result of these problems, the SMCs/PTAs became defunct. In 1999 all government funding was halted.

1. For example, according to one survey of SMCs in two districts of Punjab, in many cases these committees existed only in name, with roughly two-thirds holding either no meeting or fewer than 5 meetings in the past year (Department of Education and Multi-Donor Support Unit: 1998). Other surveys reveal similar results. For example, the Pakistan Rural Household Survey, 2001 (conducted by the World Bank) showed that while 52 percent of the sampled schools possessed a PTA/SMC, only 68 percent of these had received government funds, and a quarter had not met with the head teacher in the past month.

Citizen power (client power)

SMCs operate with varying degrees of effectiveness. In most cases, head teachers still largely control SMCs, continue to select members, and school management remains de facto with the staff. Most SMC members, moreover, know little if anything 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 (Indus Resource Center: 2003; World Bank: 2002b). 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 (World Bank: 2002b). Fear of audit objections is also resulting in SMC funds being underspent. This is primarily because school managers have not been issued written instructions and rules of business in relation to the use of funds. In Balochistan, for example, over 1,000 audit objections are currently pending against school heads.

It is too early to say whether devolution has had any impact one way or the other on SMCs. On the one hand, there are many anecdotal reports of SMCs being subjected to harmful interference by district governments in general, and union *nazimeen* in particular, particularly with regards to the use of SMC funds (Indus Resource Center: 2003; World Bank: 2002b). It appears 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.²¹

In other cases, active encouragement of SMCs by district and union *nazimeen* has resulted in significant improvements in school quality. The example of the Khairpur Shelterless school is a case in point: innovative district and union leadership has resulted in the construction of cheaper and higher quality schools. Similarly, in district Rahim Yar Khan, the National Rural Support Program, in collaboration with the district government, has attempted to revitalize SMCs in one particular union council, and preliminary results show a positive impact on enrollments. The district government has ensured that where this experiment is taking place, the teachers posted in the relevant areas are all from the same village, an expedient that increases the communities' ability to discipline nonperforming staff. In large part, the district government has been able to achieve this reallocation of the teaching staff because of its close alliance with the provincial government.

²¹ The notification clearly specifies that chairpersons have to be members of the community. Union councilors are to be members of the SMC.

Provincial efficiency incentives

Vertical programs in education also pose a challenge for district education planning (Box 5). 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.

Box 5: Vertical Programs in Education

The Education Sector Reform program (ESR) (2001—2005) is the lynchpin of the federal government's reform strategy in education. It carries a projected cost of Rs. 100 billion over and above current annual national expenditures on education. Its largest component aims at rehabilitation of primary schools; other priorities include technical education, higher education, literacy, quality assurance, promoting public-private partnerships and mainstreaming *madrassahs*. The federal government determines not only the size of the program, but also the specific allocation to be made for each area of emphasis. Funds go to the provinces as development grants and then onwards to district Account IV. In the past, in an apparent attempt to prevent re-appropriation, these funds were then immediately shifted from Account IV into the PLAs of DCOs.

The largest component of ESR is the rehabilitation of facilities in existing primary schools. While districts are to identify the beneficiaries, it is possible that political pressure will cause MPAs to be involved as well. Since the operational and maintenance responsibilities for these schemes rest with the districts, if the districts do not fully own the projects, it is not clear that they will accord the operations a high priority.

These problems of district ownership worsen when some ESR programs bypass the districts altogether. For example, the literacy stream and the early childhood education program are being managed at the district level by the EDO Literacy through post-devolution, separate Literacy Departments rather than, as before, within the Education Department. For these programs, Federal funds go to the provincial government, which channels them onward—without any involvement of the district government—to the EDO Literacy, an office supposedly subordinate to district officials.

Managerial power

A key challenge for the districts is to put in place adequate monitoring and oversight mechanisms in respect of the private sector, whilst at the same time not discouraging the growth of this increasingly important profit and nonprofit sector. The private sector is of increasing importance in the urban areas of Pakistan, but is insignificant in rural Sindh and Balochistan where private schools account for only 3 percent and 1 percent of overall enrollment, respectively. In Punjab and NWFP the private sector accounts for 42 percent and 59 percent, respectively, of schools in rural areas (Federal Bureau of Statistics: 2000). The growth of religious schools is particularly pronounced in Balochistan and NWFP. In all provinces, in lower-income groups enrollment in NGO schools has increased—between 1991 and 1995–96, enrollment in private schools increased by 70 percent as opposed to 4 percent in public schools.²²

²² PIHS Round I and Round II.

In sum

The key impacts of the changed incentives in the education sector are as follows:

- Citizen power (client power)
 - While it is too early to tell whether devolution has had any impact one way or the other on SMCs, there are cases of innovative leadership resulting in significant improvements in school quality
- Provincial efficiency incentives
 - Vertical programs are creating problems in district education planning
- Managerial power
 - Effective regulation of the increasing numbers of private schools and *madrassahs* remains a challenge

Water and Sanitation

The structural changes

Before devolution, the provincial Public Health Engineering Department (PHED) had the main responsibility for the development and maintenance of water and sanitation services, particularly for large-scale projects and particularly in rural areas. In addition, Development Authorities (DAs) and Water and Sanitation Authorities (WASAs) were providing similar services in large, urban centers. Although in legislative terms water and sanitation are now clearly assigned to *tehsils* or towns (except in the case of city districts, where they are district responsibilities), the emerging implementation arrangements tell a messy story of uneven retention of provincial control. Each province has devolved PHED in a different way, even though the pre-devolution structure of the department was the same in all four provinces and the same clause of the LGO governed devolution in all provinces.

In Balochistan, the PHED department remains at the provincial level, with the Secretary and Chief Engineer operating from Quetta. The office of Superintending Engineers (SE), located before devolution at the divisional level, has been replaced by that of the Executive Engineer (XEN). Not district offices in any formal sense, they are instead deconcentrated arms of the provincial department. As a result, TMAs are only providing solid waste management, street lighting and street soling projects.²³ Water supply development, operations and maintenance (only in urban areas) remain with the district PHED offices.

Sindh oversaw the most faithful interpretation of the LGO. The province PHED office was abolished and merged into the Local Government and Rural Development Department (LG&RDD), and the staff was devolved at the TMA level. However, in Karachi, the KWSB has continued as an autonomous body leaving little responsibility for water and sewerage with the 18 towns. XENs work with the TMA staff but report to the KWSB management and are not accountable to the TMA. This lack of devolution of the KWSB is a highly political issue given the demands from the population. As a result of nonperformance, TMAs and Unions are investing in distribution networks and other small-scale projects in a piecemeal style.

Punjab has also devolved PHED to the TMAs but has preserved the PHED structure with SE circles being maintained in four areas of the province. Additionally, DAs and WASAs in large cities, such as Faisalabad, have been devolved to one *tehsil*, without appropriate reorganization. Therefore, while the WASAs' service network spreads in neighboring TMAs as well, those TMAs are denied a role in decisions on the quality or coverage of service provision.

²³ Soling refers to the paving of streets and open drains with bricks.

Finally, NWFP provides an example of the recentralization of the PHED. Initially, PHED had been devolved to the district, not TMA, level. However, in May 2003, the provincial government divided the province into six circles, each headed by a Superintending Engineer (SE) of W&S department, a newly established post with jurisdiction over 4–5 districts.²⁴ These divisions, or circles, now have responsibility for water and sanitation services.

Administratively, TMAs have acquired a much-strengthened structure under devolution. There are separate posts for Planning, Infrastructure and Services, Finance and Regulation, in addition to a Chief Officer, who is a remnant of the former Municipal Committee. However, the failure to complete the devolution of PHED has deprived *tehsils* of the quantity and quality of technical expertise they need. The burden on TMAs has been increased with more UCs added to the jurisdiction of each TMA. The Municipal Committees (MCs) in districts and *tehsils* that used to provide municipal services to the urban populations are now required, with little increase in staffing or resources, to deliver these services to a much wider jurisdiction, includes sizable rural areas not previously part of their mandate.

Provincial efficiency incentives

Former municipal authorities have continued as before in their delivery of municipal services and, in some post-devolution cases, have been innovative in their approaches. The new, primarily rural, *tehsils*, however, lacking an existing resource base from which to operate services or make new investments to expand coverage, have faced major problems. Furthermore, the independent and freestanding nature of each *tehsil* does not allow any equalization across the *tehsils* of any one district. There are no mechanisms for prioritizing resources within a district to ensure that the relatively deprived rural areas begin to build services equal to those of the former municipalities. Apart from Karachi, which as a city district is able to plan for its whole area, other districts have no legal mechanism under the legislation for undertaking cross-TMA water and sanitation schemes. Without that option, they have difficulty planning urban infrastructure.

The continuation of vertical programs in water and sanitation in all districts, funded either by the federal or provincial government and often supported by donor agencies, represents a challenge to district ownership (Box 6). NWFP presents an extreme example of the distortions these programs can cause, as the move to established SE circle offices was made at the behest of MPAs and some senior W&S department officials in order to win control of the DERA and DIMRC programs that are funded by the World Bank and ADB, respectively. In Bannu district, these programs were considered by the district government to be redundant or politically motivated, and indicative of the provincial government's interference in district matters, as project sites are identified by MPAs or MNAs but not by local councilors and there is no local input in determining the programs' priorities.

Box 6: Vertical Programs in Water and Sanitation

The Khushal Pakistan Program (KPP) and the Provincial Tameer Programs are two of the main vertical programs in the Water and Sanitation sector. While neither specific to this sector and are broadly aimed at generating employment through public works, such as construction of roads, electricity and schools and basic health units, water, sewerage and sanitation schemes form a significant proportion of these programs.

The two programs are, however, quite different in the degree of district control over planning and

²⁴ A Circle is an administrative division (for technical departments such as PHED) that clusters several districts together. As an example, SE Bannu has jurisdiction (scheme identification and Technical Sanction power) over four districts: Bannu, Lakki Marwat, D I Khan, and Tank.

implementation. In KPP, the federal government provides the broad criteria, while local governments, in particular union councils, identify the specific schemes that are then approved by the DDC. By contrast, the Tameer Programs in the four provinces are highly vertical; districts have very little say in planning, budgeting, or expenditure control. In these programs, members of the provincial assemblies (MPAs) can each identify development schemes of up to Rs. 10 million for any sector in the provincial domain. In Punjab, the District Development Committee has to give the technical sanction to these schemes, thereby providing district governments with a modicum of influence. In Sindh, the MPAs have the choice of seeking technical approval from the district or provincial P&D departments.

The pronounced political visibility of water and sanitation schemes has made them a serious cause of conflict between provincial and local governments. With regards to the Tameer programs, findings from the district visit suggest that districts were opposed to many of these schemes, an attitude that calls into question their long-term sustainability. In some cases even the KPP projects have become a tool in conflicts between provincial and local governments, with informal provincial controls over the DCO and EDOs being used to approve schemes over the objections of the district political leaders.

Managerial power

Overall, the survival of PHED and related structures in all provinces hampers the delivery of services by TMAs by restricting the resources and personnel available to them to plan and execute large schemes. In Bannu, for example, the acting EDO has a technical sanction limit of Rs. 2 million, whereas the superintending engineer—still within a provincial circle—can sanction schemes of up to Rs. 10 million. It is feared that TMAs may become graveyards of small, nonfunctional infrastructure projects instead of being able to address health and hygiene issues in water projects, or drainage in soling projects—work for which integration is essential.

Some of the teething problems could be alleviated if the provincial governments disseminated the Rules of Business (RoBs) more actively. Their delays, however, appear to have prompted local bodies to evolve their own division of responsibilities and their own processes and procedures. Of greater concern, provincial departments have been able, in effect, to re-appropriate the responsibilities of local governments, as observed in the case of rural water and sanitation

Citizen power (client power)

While in general CCBs have yet to become fully functional, as explained in detail in the second volume (*Annex 1—Recent History*), there are some success stories where active involvement of councilors and community organizations has had a positive impact on service delivery. In Bahawalpur, for example, the work of an active CCB greatly improved the sewerage system of a neighborhood—a new sewerage line was built by the members, which was of a higher quality and built at a lower cost than as compared to those constructed by the Works and Services department. The key ingredients of this success story were support from the union government, as exemplified by the regular release of funds, and an educated and proactive membership. Another success story comes from district Jhelum in Punjab, where the district government, in partnership with a union government and the National Rural Support Program (NRSP), has launched a pilot project under which CCBs have been created and are being provided on-the-job training through the implementation of physical infrastructure schemes, including sewer-drain and reservoir construction.

In sum

The key impacts of the changed incentives in the water and sanitation sector are as follows:

- Provincial efficiency incentives

- Limited resource bases are posing financial constraints on the new, primarily rural *tehsils*
- The independent and freestanding nature of each *tehsil* is constraining common planning or equalization across the *tehsils*
- Vertical programs are contributing to the pressure from the provinces to undermine devolution.
- Managerial power
 - The continuation of the provincial PHED and related structures is restricting the resources and personnel available to the TMAs
 - The Rules of Business have not been disseminated, and provincial departments have been able to effectively re-appropriate the responsibilities of local governments.
- Citizen power (client power)
 - While in general Citizen Community Boards have failed to meet their potential, there are some examples of community management resulting in improved service delivery

Access to Justice²⁵

The structural changes

The key reforms in access to justice are the abolition of the executive magistracy and the changes introduced in the Police Order 2002 aimed at establishing an institutional framework that replaced extra-departmental checks (the district magistrate) with arrangements to make police answerable to citizens and the rule of law, and increasing the efficiency and competence of the police. Devolution in the justice sector rests on complete separation of the judiciary from the executive and began in 1996 following a Supreme Court judgment. This entailed reassigning criminal trials under major criminal statutes to judicial magistrates. The executive magistrates were, however, still left with some judicial functions under the Police Act 1861, Police Rules, and local and special laws. In some cases the Executive Magistrates could still pass sentences of up to three years imprisonment. With the abolition of the office of the District Commissioner, who was also the District Magistrate, all judicial powers of the executive magistracy are now vested in the judiciary. In addition, the executive functions relating to law and order and local regulation have been either transferred to the police, or the judiciary, or have not been reassigned. Each Civil Judge now acts also as a Judicial Magistrate, while the District and Session Judge exercises the judicial powers of the erstwhile District Magistrate. The centerpiece of the police reforms is the creation of District Public Safety Commissions (DPSC) to institutionalize community monitoring of the police. Together with the judiciary, DPSCs are the bodies to prevent and punish police excesses and ensure that the police function in accordance with law.

Managerial power: nazimeen authority over police

Executive officers in all the districts associate the end of the executive magistracy with weak implementation, regretting that they must now prosecute and prove every alleged violation before an independent judicial magistrate. More profoundly, the vesting of the former District Magistrate's powers in the district and session judge has fundamentally changed the relationship between the district executive and the police. While overall responsibility for law and order is given to the District *Nazim*, *nazimeen* generally do not feel that the law adequately defines their relationship with the district or city police officer, nor do they have access to the legal and regulatory knowledge within their executives, such as was characteristic of the executive

²⁵ Details of the police and judicial reforms are provided in the third volume (*Annex 2—Technical Considerations*).

magistrates. Where there is functional and constructive relationship between the police and *nazim*, it is generally because of a personal relationship rather than defined institutional roles and responsibilities. The immediate impact of friction between the two has been a decline in the rate of prosecutions under local laws. There are four major reasons for this decline.

First, the judiciary, which is now required to enforce municipal regulations that executive magistrates previously oversaw, has not been oriented in its new jurisdiction under the local laws, and Judicial Magistrates do not effectively use the summary procedure available to them under the law. The increase in the number of cases handled by the courts has further exacerbated delays.

Second, the executive generally lacks the capacity and awareness to enforce local laws before independent courts. Improvements in disposal of cases can arise from more specialization within the judiciary by creating separate civil and criminal courts. All four high courts have agreed in principle to put such arrangements in place, but the pace of implementation is not uniform. Weak enforcement by the executive is also tied to old patterns of patronage that are particularly endemic where violation of local laws can bring substantial economic benefits, as in encroachments on local government property.

Third, no municipal authority can now direct police to take action and enforce local laws at the district level. Formerly the police were obliged to obey the summons of the executive magistrate who usually accompanied the district officers to enforce local and special laws which tended, typically, to be 'politically difficult' to implement. The executive magistracy was seen by the executive as being responsible for implementation of these laws in a way that allowed politicians to remain away from the fray. Abolition of the executive magistrate is now perceived to have left the various departments, concerned with breeches in these laws, in disarray.. Now it is the police who decide when to come and in what strength. When assistance was provided promptly it was usually on request of the districts' *nazimeen*. More often, assistance was provided with considerable delay. District staff also explained that the police did not provide adequate security, and—without executive magistrates as buffers—they had to face threats of violence that reduced their zeal for enforcement.

Fourth, and most worryingly, it seems that political interference contributes to weak enforcement of local laws. Several DCOs for instance, noted that direct interference by the *nazimeen* or simply lack of interest by them in enforcement of local laws impeded enforcement. Yet where *nazimeen* took an interest in enforcement, as in the case of price control laws in Bahawalpur, enforcement rose above pre-devolution levels.

In principle all four provinces have ordered the separation of investigation from the watch-and-ward function. However, the situation in the six districts was far from uniform. Investigative activity had not been separated at all in Killa Saifullah, while such separation held only at the *thana* level in Bahawalpur and had been implemented in only half of Faisalabad. In most districts the investigating officers reported to the Station House Officer (SHO) who heads the police station and is in charge of its watch-and-ward policing. This dual responsibility has blurred the distinction between the two ostensibly separate police functions. Furthermore, the police station watch-and-ward staff was still investigating local and special laws.²⁶

Where it has occurred, the separation has not had any demonstrable, positive effect such as an increase in conviction rates nor led to improved citizen perceptions of police performance.

²⁶ The Police Order (Article 18(4)) allows such investigations by police station staff where the punishment for an offence does not exceed three years imprisonment.

Instead the general belief is that since citizens now have to pay bribes to two police forces and that corruption has increased. Any efficiency resulting from this internal reorganization is unlikely until an independent prosecution service is established.

It is also generally perceived that the judiciary has been unable to effectively control police excesses. Even before the abolition of the district commissioner/magistrate and the executive magistracy, there was growing disquiet about the ability of the executive and the courts to control the police. However, before devolution, citizens could approach the executive magistrate to redress grievances against the police. Now, the process is more complicated. The citizen must either approach the DPSC, which is not presently regarded as a viable option, or seek judicial intercession, which is a lengthy and expensive process. The separation presents an opportunity for a more independent judiciary to put a stop to unlawful police behavior. However, judicial magistrates do not appear to be sufficiently conversant with the relevant provisions of the Criminal Procedure Code under which they can hold the police accountable. Moreover, the lower judiciary lacks protection against reprisals by police or other officials whose conduct is penalized and many feel they are insufficiently supported by the high courts when this occurs. Many judges reported a worrying correlation between criminal acts against them and disciplining of unlawful police behavior.

Traditionally, illegal detentions by the police have been a major cause for citizen complaints against the police. The Police Order seeks to curb this abuse by empowering the *nazim* to inspect police stations and by criminalizing the failure to produce arrested persons before magistrates as required by the Criminal Procedure Code. However, supervision of the police through regular inspections of police stations was almost nonexistent. Under the previous system, the District Magistrate was empowered to visit police stations under the Police Rules issued under the now defunct Police Act. Although by law, the District and Session Judge is empowered to inspect police diaries and to order the release of persons illegally detained, such officials were not prepared to inspect police stations for this purpose. There is clearly a need for better inspection by a third party independent of the police. DPSCs could play this role but, as discussed above, are not fully functional.

Managerial power: external oversight

As outlined in detail in the second volume (*Annex 1—Recent History*), in general institutional mechanisms for external oversight of service providers have either not been established, or have been introduced to only a limited degree. This problem is especially evident in the case of DPSCs. Effective DPSCs that enjoy public confidence do not exist in any of the six districts studied. Only in the two districts of Punjab and Khairpur in Sindh have DPSCs been notified and some preliminary meetings held. In no district has the DPSC approved a police plan as required by law.²⁷ The DPSC in Khairpur had no budget, while those in Bahawalpur and Faisalabad did. In all districts there is a widespread perception that DPSCs will be ineffective in controlling the police.

A success of the new system is the establishment and functioning of the District Criminal Justice Coordination Committees (DCJCC) designed to enhance interaction among various agencies of the district criminal justice system. These committees, made up of representatives of the prisons, judiciary and police services, are supposed to deal with the irritants in the working of that system. Despite its role in enforcing municipal offenses, the committee surprisingly lacks a representative

²⁷ More recently, policing plans have been completed and approved by DPSCs in many districts of Balochistan.

of the district government.²⁸ DCJCC also acts as a horizontal accountability mechanism for the institutions involved.

The DCJCC has been established in Khairpur, Bahawalpur, Faisalabad and Bannu, but not in Killa Saifullah because the officers who are supposed to be its members are not posted in the area. Similarly in Karachi it was not clear who would sit on the committee, as Karachi is still divided into five Judicial Districts. In the districts where the committee had been established, it was reported that communication and coordination among the various actors in the criminal justice system had improved.

In sum

The key impacts of the changed incentives in the access to justice sector are as follows:

- Managerial power: *nazimeen* authority over police
 - The end of the executive magistracy, and the lack of *nazimeen* authority over police, has resulted in the decline in rate of prosecutions under local and special laws
 - The *nazimeen* and the judiciary are unable to check police abuses
- Managerial power: external oversight
 - DPSCs have in general failed to carry out their mission, and there is growing public perception that the police are out of control. The lack of improvement in the public perception of police is exacerbated by the continuation of police abuses such as non-registration of First Information Reports (FIRs) and illegal detentions.
 - No arrangement exists to replace the Executive Magistrate in each police station jurisdiction. The power to inspect places of pretrial detention has been assigned to the *nazim*.²⁹
 - District Criminal Justice Coordination Committees (DCJCC) have succeeded in enhancing the interaction among various agencies of the district criminal justice system.

VISIBLE WINS WHEN POLITICS ALLOW

Judgments about the success or failure of devolution do not depend solely on its impact on service delivery, but anecdotal evidence suggests some progress. Reports are common, for instance, that doctors are more often present in health facilities and teachers in schools than was the case before devolution. This increasing availability of staff may also be related to the increasing likelihood that local facilities, particularly for health, will actually have medicines available for treating patients. Where procurement is fully devolved, as in Punjab, evidence suggests that public medical facilities are now well-stocked and therefore more used. Some provinces and districts have rationalized facilities. Punjab rationalized Basic Health Units, many of which did not meet local needs. Other achievements that might be attributable at least in part to devolution include community participation fostering reduction in school-building costs and some increases in enrollment and retention. Significantly, at the union level, there is considerable evidence of councilor involvement in local dispute resolution and redressal of grievances against service providers.

²⁸ In some districts (for example, Sargodha and Attock) representatives of the district government, in both cases EDOs for law, have been invited to attend.

²⁹ The executive magistrate's jurisdiction was coterminous with the territorial jurisdiction of the police, under Cr.PC Section 164/364. The *nazim*'s weak control over the DPO, and his lack of support by an executive body acquainted with the law, has diluted the pre-trial activities of the police.

The study found particular areas of promising progress:

Khairpur district: Khairpur is among the most innovative districts in terms of community involvement in service delivery. School Management Committees, with the help of union councils, have been given the responsibility to construct shelterless schools of which 35 have been completed. With community monitoring, their construction costs have come down considerably without compromising quality. These schools have been constructed at around Rs. 200,000–250,000, while similar ones built by the Education department in the past cost approximately Rs. 780,000. This initiative is a good example of developing partnerships with local communities and fostering community ownership of local schools. It should be widely disseminated to other districts for replication. The Khairpur pilot confirms international findings of similar programs that: the schools are well constructed; costs are remarkably lower; and completion time is much shorter.

Bahawalpur District: Ahmadpur East hospital has a capacity of 60 indoor beds with two air-conditioned wards. The district has collaborated with the hospital to achieve significant improvements. The operating theater is fully equipped, and a qualified surgeon conducts major and minor operations. The Medical Superintendent of the hospital is an anesthesiologist. An orthopedic surgeon working in the post of medical officer looks after trauma and bone diseases. A child specialist and obstetrician are also posted there. Medicines are in good supply, and three casualty medical officers provide emergency treatment free of cost. In addition to procuring the new equipment, the district government has also managed to clear Rs. 2.6 million of previous liabilities for building construction.

District Criminal Justice Coordination Committees have been established and meet regularly in all 6 districts except Karachi and Killa Saifullah to carry out investigations, raise issues of juvenile justice, insist on timely challans (indictments), and on the production of witnesses in accordance with the law. The delegation to the Sessions Court of the power to issue writs of habeas corpus has been greeted positively as providing a relatively inexpensive remedy against the continuing practice of illegal detentions by the police and—in some areas—by powerful elites.

Gulshan-e-Iqbal town, Karachi: In collaboration with Transparency International, the town administration has established a Customer Service Center to register citizen complaints. An elaborate procedure has been developed to track the action taken on these complaints and to gauge the level of customer satisfaction. The town government is also developing an interactive and informative web site while in the process of electronically connecting all 13 union councils with the town administration, as well as providing the union and town offices with computers through which citizens can register their complaints on-line. The town administration is also consolidating a variety of existing data on the municipal infrastructure, and linking it to a GIS system, and has launched a property survey in order to increase property tax collections.

Tehsil Jaranwalla, Faisalabad: The town administration has taken a number of innovative steps to improve service delivery. With private sector and NGO involvement, the *tehsil* is constructing a comprehensive database of the existing infrastructure, including, for example, the number of water outlets, pipes, drains, connections, joints and other details of sewerage, gas and telephone connections. This database will then be integrated into a GIS system and used to prepare a master plan of the town. With backing from the *Tehsil Nazim* and based on their own consultations, the 19 women councilors in the *Tehsil Council* have pooled their individual allocations for development schemes to develop a Women's Resource Center. This center will have a shelter for

abused women and embroidery, computer and other industrial training facilities. Even more encouragingly, the woman MPA from the *tehsil* has contributed her individual development allocation to the construction of this scheme.

The same *nazim*, responding to citizen complaints, has undertaken activities that do not come under his direct jurisdiction. When Pakistan Railways did not respond to requests to improve the road at two of the city's main railway crossings, he ordered his staff to use their own resources to improve it. Similarly, as a measure to support the local traffic police, his TMA has hired eight people from a private security agency to help manage traffic and lessen the impact of traffic jams.

Union councils, Karachi: Councilors are demonstrating innovation in response to increased contact with citizens. One union council has purchased manhole covers and street lights from its own funds even though such maintenance falls outside their purview. The *naiib nazim* claimed that the public does not have the patience to wait while the KWSB takes months to respond to requests to supply manhole covers. The union has also hired sanitation workers (*kundimen*) on contract, despite the objections of the provincial auditor that such an initiative goes beyond their scope of responsibility. Another union council has mobilized the local community to restore a local park. Neighboring union councils are also cooperating to improve service delivery. For example, one council that did not have adequate resources to purchase a tractor and a trolley (sanitation vehicles) has developed an arrangement with its neighboring union council whereby one has purchased the tractor and the other has purchased the trolley, and the vehicles are shared between the two.

Nazimeen and Senior Staff Can Make a Difference

The new incentives have seemingly allowed determined and dynamic *nazimeen* to achieve significant results.

The key variable is the strength of the provincial incentives to intervene in the districts. The province has few incentives to intervene when:

- The Chief Minister and/or the main provincial coalition and the District *Nazim* are from the same political alliance
- The Provincial Assembly constituencies within the district are filled with politicians from the same political alliance
- The *nazim* has sufficient independent political standing to resist provincial interventions.

When the province has few incentives to intervene, the *nazim* gains a fairly free hand to direct district staff and, despite the inevitable resource constraints, can achieve results. However, when the provincial incentives for intervention are high, *nazimeen* often finds their hands tied (Box 7).

Box 7: Provincial Interventions at the District Level

In Khairpur district, the *nazim* is a social activist turned political leader. She brings to her position a vast experience in investigative journalism, activism in women's rights, environmental conservation and social uplift. The daughter of former Chief Minister and PPP stalwart Qaim Ali Shah, she has effectively used her political background despite its having also been a major impediment, since her father's opponents—chief among them the powerful Pir of Pagaro—have become her opponents as well.

As one of two female *nazimeen* in the country, she has some significant achievements to her credit. She has encouraged the formation of over 100 CCBs in the district, with the assistance of UC *nazimeen* and the EDO Community Development. Hers is one of the few districts that has been active in this sector. A joint committee of the treasury and opposition members of the district council has approved a total of 98 schemes, while the DDWC under the DCO's chair has approved 59 schemes. Forty CCBs have deposited

their contributions to these schemes. Unfortunately these CCBs have become hostage to the political polarization that typifies the administration of this district and have not yet received funding themselves.

The successful initiative to fund the construction of shelterless schools, using district funds and the contributions of beneficiary communities managed with the assistance of Union Councils, has also stalled due to conflict with the province. Apparently on instruction from the province, the DCO did not approve the new structures and have not been regularized by the Education Department for the same reasons.

In District Bannu, the provincial government mounts a great deal of interference in the affairs of the district government. The provincial government often overrides the role of the district government, even, in some instances, sending instructions directly to the EDO (Education) instead of following the proper procedure.

In southern districts of NWFP, provincial and federal politics revolve around the development of water schemes. Because many of the schemes—mostly donor funded—are provincial schemes, *nazimeen* were given no say in the development decision-making process. The *nazimeen* therefore prevented their Works and Services EDOs from attending meetings in Peshawar on these vertical programs. The response of the province has been to establish new provincial posts at the circle level (group of districts) to enable the province to go forward with provincially approved projects without involving local governments—effectively cutting them out of major water and sanitation decision-making and ensuring that MPAs influence these decisions. For example, in Bannu the DERA schemes for 2003–04 were finalized by the MNA and MPAs from the district in a meeting with the provincial Works and Services Department.

A Decisive Break from the Past

Devolution has brought a decisive break with the past in two important respects. First, local government now has unambiguous constitutional protection. The agreed changes to the constitution were enacted on 30 December 2003, following a vote in the Senate, and National Assembly (29 December). The local government system, as prescribed by the Provincial Local Government Ordinances, is now included in the sixth schedule of the 1973 Constitution. Under Article 268 (2) of the Constitution, laws specified in the sixth schedule cannot be altered, repealed or amended without the previous sanction of the President. Further, it is evident that there is growing support for devolution across all political parties.

Second, as a result of the LGO provisions, the reservation of 33 percent of local council seats for women in all three levels of local government has proven the most strategic step ever undertaken by government toward women's political empowerment. Most directly, despite the significant number of vacant seats, it has enabled over 30,000 women to enter into formal politics at the local government level. The consequences have already been felt in province and federal politics—not just in terms of increased women's representation, but also in the fiscal and administrative domains as well. The Federal cabinet and the cabinets of Punjab, Sindh and Balochistan look set to approve multiyear Gender Reform Action Plans which will commit them to wide-ranging reforms consistent with devolution in electoral procedures, women's representation in the civil service and in terms of introducing new measures in statistics, budget and expenditure management to track the impact of resource allocation decisions on women.

Thus, devolution marks a decisive break with the previous arrangements—arrangements that, as the earlier discussion highlights, were associated unambiguously with the persistent failures in service delivery.

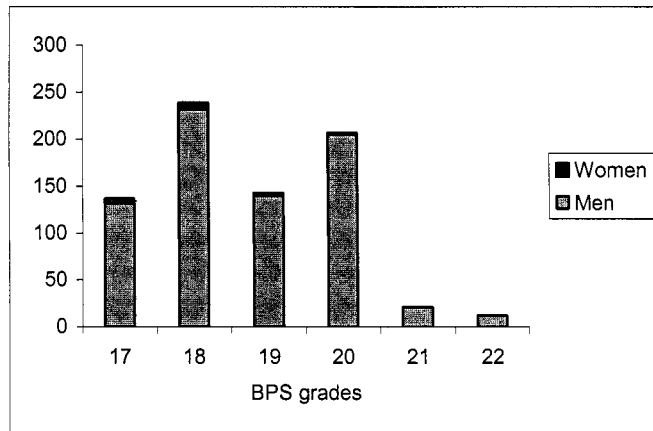
VISIBLE LOSSES

As with any dramatic policy change, there are costs as well as gains. Two concerns emerged prominently during the course of this study: civil servant morale and law and order and public safety.

Civil Servant Morale

Discussions with senior staff in all districts emphasized that career paths for the provincial and federal staff posted in the provinces following devolution, causing a serious loss in morale. There are two ways of looking at this contention. These senior staff saw devolution as, at best, a confusing and demanding institutional change and, at worst, as a sudden and unfair blow to their career prospects. Others regarded the move as a long overdue restraint on privileged groups who had protected their fast-track career options for too long and dismissed the protests as the complaints of those who feared losing rents from district postings that were often thought to be particularly lucrative.³⁰ Figure 7 shows the profile of the DMG group.

Figure 7: DMG Staff by Grade

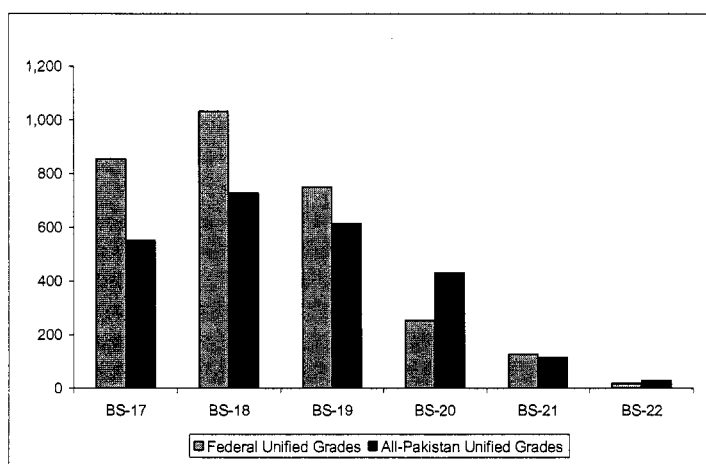


Source: Federal Government Civil Service Census, 2000.

Although few in number, District Management Group staff (DMG) and the Provincial Civil Service (Executive) were the most affected and the most vocal about their concerns. The DMG group felt the loss of their career prospects most acutely. This occupational group had, historically, been posted to the districts and divisions, at the level of Commissioner, Deputy Commissioner, Additional Deputy Commissioner and Assistant Commissioner. Also, as one of three groups in the All Pakistan Unified Grades (APUG), statistically they had a better than average chance of promotion to senior grades. At the highest level of the civil service, of the total of 47 BS-22 officers, 29 belong to the APUG, more than 60 percent of the total (Figure 8).

³⁰ For the reasons why cadre interests are particularly deeply entrenched in Pakistan, see (Kennedy: 1987).

Figure 8: Distribution of Positions by Grade for FUG and APUG Staff



Source: Federal Establishment Division.

Other provincial occupational groups also felt that devolution had diminished their career prospects and their status. Provincial Public Health Engineering staff in particular regarded their proposed transfer to the *tehsils* as particularly demeaning. This concern lies behind much of the determined resistance to the transfers, opposition so effective that, in the main, water and sanitation continues to operate as a provincial function with technical and administrative sanction powers continuing to lie in the province.

In considering morale, the operational question is not whether the loss of career prospects and privileges was justified. The question is how to re-establish a sense of purpose and enthusiasm in those who must provide the administrative lead for the new local governments.

Law and Order

The reforms dealing with access to justice were undoubtedly among the most complex, ambitious and controversial elements of devolution. They entailed three major legal and institutional changes:

- Although devolution is often seen as predicated on the 1973 Constitutional principle of the separation of powers, it is more accurately understood in terms of Article 37(i) of the Constitution,³¹ which refers to subsidiarity. Nonetheless, devolution did result in further separation of the executive from the judiciary by abolishing the post of deputy commissioner and dividing the power of that office among the District and Sessions Judge, district *nazim*, the DCO, and DPO. This change also entailed scrapping the office of district magistrate, one of many hats of the Deputy Commissioner, and the cadre of Executive Magistrates.³²
- With the abolition of the deputy commissioner, the Police Order 2002 was originally crafted to insulate police from political interference and provide a “unity of command” by making the district police officers (DPOs) responsible for all police professional

³¹ “The state shall decentralize government administration so as to facilitate expeditious disposal of its business to meet the convenience and requirements of the public.”

³² It should be noted that the EDO Revenue remains with trial jurisdiction in cases relating to land records and land revenue, continuing an age-old tradition extending from the office of the *zildar*, to collector, to the deputy commissioner.

matters including postings and transfers of officers.³³ Unlike the previous police head of a district, the DPO is no longer supervised by or accountable to any part of the local civil service, but accountable to new structures—District Public Safety Commissions and Police Complaints Authorities³⁴—and to the judiciary that has now assumed all of the judicial and quasi-judicial powers formerly held by district commissioners.

- Police reforms also include creating a separate independent prosecution service. The federal government has proposed a model law to set up independent prosecution agencies, and this draft is under active consideration by provincial governments. Apart from Balochistan, however, promulgation of the new laws has been mired in turf disputes between the province departments of law and home.

As noted earlier, the key concerns are: the power of the District Executive to enforce regulations has been weakened; *nazimeen* have little control over the police; there has been some decline in prosecutions; and there is a widespread perception that corruption has risen. Of most concern, it seems that weaknesses in external oversight of the police have made the police less governable. The consequence is that, in popular perception, the incidence of police excess and torture during pretrial detention has increased markedly, along with a perception that police are unresponsive to increasing (or better reported) violence against women (Human Rights Commission of Pakistan: 2004). As a result police reforms are in serious danger of being perceived as a one-way street on which the police has simply secured more resources while becoming less accountable.

Rising corruption in the police service exacerbates corruption in other public offices, motivated by the sense that corruption and unresponsiveness can occur with impunity. The failure of the police to provide basic public safety is undoubtedly associated in the public perception with a decline in accountability in other service areas (for example, revenue and tax, land, irrigation) which impact on the poor.

A CHALLENGING TIME FOR DEVOLUTION

As noted earlier, devolution had both broad governance objectives and some narrower technical goals. Although this study is modestly optimistic about the future of devolved governance in Pakistan, in the near term, devolution will achieve few if any of these objectives. It is certainly unrealistic to anticipate that substantial improvements in service delivery could be detected after such a short period. Thus while the evidence does not allow the proponents of devolution to point to many specific improvements, as systems bed down, detractors might be able to point to some areas in which devolution has seemingly made matters worse without compensating systemic improvements. Even the gains have been less substantial for the districts than for the TMAs, as the pervasive and often undermining intrusion of the province into district affairs is a particular problem.

In reality, devolution is undoubtedly a fact of life. It is not plausible to expect any substantial return to a discredited set of institutional arrangements with a proven track record of failure. However, undoubtedly opposition to it (from the senior bureaucracy and from provincial politicians in particular) still remains. There is no certainty that, in the face of this opposition, devolution will now be developed and entrenched to maximize the returns that it might offer. The

³³ It is reported that powers of postings and transfers of DPOs have been vested in the provincial Chief Minister who will appoint on the basis of a list prepared by the Province Police Officer. Further, Members of Provincial Assemblies in the district jurisdiction will become members of the DPSCs. See footnote 16.

³⁴ It is reported that the 14 April 2004 decision has merged the functions of the Police Complaints Authority with the Province Public Safety Commission. See footnote 16.

risk is that in failing to deliver visible service delivery improvements in the short term, the process will freeze in place and the present hybrid arrangements will be accepted as permanent.

There are other potential challenges for devolution on the horizon:

- Managing inequity between and within provinces
- Reemergence of private-goods strategies.

Managing Inequity Between and Within Provinces

The likely significant increase in the fiscal transfers to the provinces under the 7th NFC Award herald a major advance in devolution. However, as shown below, given that the current award is generally fiscally equalizing, the likely accompanying shift away from a population-based formula underpinning the divisible pool presents some potential risk of increased fiscal inequity if these transfers are designed inappropriately.

Any evaluation of fiscal equalization in Pakistan requires some judgment about the provinces' current own fiscal capacity,³⁵ expenditure needs, and the fiscal gap between the two.³⁶ To put current federal-provincial fiscal equalization in perspective, Table 16 sets out different revenue categories, expressed on a per capita basis—with those most associated with local tax effort or local tax base on the left and those best thought of as equalization transfers arranged on the right hand side.³⁷ While the Own Source Revenues (OSR), Straight Transfers, and OZT replacement grants (which together can be broadly categorized as provincial “own” revenues) vary significantly across provinces, the divisible pool allocations are by design the same across all provinces.

Table 16: Per Capita Resource Flows (FY 2003/04)

(Rs. per capita)

Province	OSR	Federal-provincial transfers				Total
		Straight Transfers	Octroi and Zila Tax Replacement Grants	Divisible Pool	Subventions	
Balochistan	234	1,238	147	1,374	731	3,723
NWFP	213	377	62	1,374	220	2,245
Punjab	389	80	155	1,374	0	1997
Sindh	465	791	357	1,374	0	2987
Average	375	349	189	1,374	68	2354

Source: Federal and provincial budget estimates, and World Bank staff calculations.

³⁵ Fiscal capacity of a sub-national government equals the revenues that could be raised by that government if it applied national average tax effort to all its tax bases.

³⁶ Two major caveats are in order on the expenditure needs side. First, there is typically at best a limited correspondence between fiscal resources, spending, and public sector outcomes. Efficient use of resources rather than absolute levels often matter more for ultimate performance. Secondly, the expenditure levels of the “richest” province may not necessarily be what is realistic or desired for all other localities.

³⁷ The four components of the mainstream federal-provincial transfers are as follows:

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

To gauge the current equalization impact of the transfers, Table 17 presents the cumulative per capita revenues as a percentage of the national average, moving from left to right.

Table 17: Cumulative Provincial Revenues (Normalized)

Rs. per capita, as a percentage of the national average

Province	1	2	3	4	5
	OSR	Column 1 + Straight Transfers	Column 2 + Octroi and Zila Revenue Replacement Grants*	Column 3 + Divisible Pool	Column 4 + Subventions
Balochistan	62.4	203.5	177.4	130.8	158.1
NWFP	56.8	81.5	71.4	88.6	95.3
Punjab	103.9	64.8	68.3	87.4	84.8
Sindh	124.0	173.6	176.7	130.6	126.9

Source: Federal and provincial budget estimates, and World Bank staff calculations.

Overall, comparing column 3 (own source revenues + straight transfers + OZT replacement) to column 5, it can be seen that per capita revenues do converge with, by design, the divisible pool making the greatest contribution toward this convergence.³⁸ Sindh and Balochistan have the highest levels of locally derived revenues (due primarily to royalties on natural gas and oil), which appear to reflect the higher fiscal capacity given the assigned tax basis. Their per capita “own” revenues are more than one and a half times the national per capita average. The subsequent transfers reduce these per capita disparities somewhat.

These figures suggest that the current system of divisible pool and other grants provides some degree of fiscal equalization, although to be sure it would be necessary to assess whether the remaining variance reflects differences in expenditure needs, and these data are not available. The results are intuitively reasonable, however, if expenditure needs in Balochistan are driven by the provinces size and remoteness. It should however, be noted that while on per capita terms the current NFC formula does result in some fiscal equalization, population is only one factor determining fiscal needs, and other factors like poverty and backwardness are equally important.

Thus the current divisible pool arrangements, when coupled with the subvention grants, might be providing a reasonable degree of fiscal equalization while being based on population measures which offer both transparency and simplicity (Shah: 1994). The proposals currently under discussion to include backwardness, tax effort and other indicators in the NFC formula, if designed poorly, could make the system complex without achieving fiscal equalization. The sensitivity of NFC awards to any move away from population as the overarching criterion in the divisible pool allocations—whether toward area, poverty, or the Human Development Index (HDI)—suggests the need for creative solutions grounded in technical work.³⁹

³⁸ It is frequently observed that the vertical fiscal imbalances coupled with the correspondingly high levels of transfers may be setting disincentives for the provinces to raise their own revenues. Historical evidence, for example, suggests that the provinces might be under performing on OSR, something which is aggravated by the transfers (Ahmad and Wasti: 2003).

³⁹ The choice of fiscal-capacity and expenditure-needs indicator proxies used internationally varies significantly (Ma: 1997; Shah: 1994). Especially on the expenditure-needs side, simpler indicators are typically preferred, as comprehensive and reliable sub-national data are typically in short supply. Population is typically the default expenditure needs. Indonesia recently introduced the use of area, regional price levels and poverty in addition to population as measures of expenditure needs (Hofman, Kadajmiko and Kai Kaiser: 2002).

Devolution certainly need not exacerbate problems of inequity (Smoke and Schroeder: 2003). The few cross-national, empirical analyses conducted of this proposition reveal no clear-cut pattern. For example, one study of regional inequality in both developed and developing countries (Shanka and Shah: 2003) found that unitary countries were on average more regionally unequal than federal countries. The study hypothesized that this negative relationship between decentralization and inequality results from the greater political risks these disparities pose for federal states and therefore the greater incentive to restrain these inequalities. Most transition economies have equalization components in their grant programs to sub-national governments.⁴⁰

Even without changes in the NFC formula, there are risks in the present federal-provincial arrangements. Although in principle, the formula-based distribution of the divisible pool combined with the grants has potential for fiscal equalization, since the former relies on revenue-sharing, any changes in the overall tax situation can result in unforeseen consequences for equalization (Shah: 2002).

The PFC awards offer a further risk of increased fiscal inequity. In principle, the present generation of PFC Awards is likely to be fiscally equalizing to some degree, on the simplistic but not unreasonable assumption that formula-based allocations to districts are more likely to be equalizing than discretionary allocations based on political clout. In addition, the formulae have, to varying degrees, factored underdevelopment as an indicator of fiscal need. However, current data do not allow any determination of the changes introduced by the first round of PFC awards, and it is clear that the new, primarily rural, *tehsils* with no existing resource base from which to operate services have faced major problems. It is evident that the delivery of municipal services in densely populated urban and peri-urban areas presents a different type of challenge than their delivery in the often dispersed, poor, rural areas. Developing rural water and sanitation requires significant investment. At the same time, rural *tehsils* are poor, and their scattered populations increase the cost of service provision. The independent and freestanding nature of each *tehsil* does not allow any equalization among *tehsils* of any one district. No mechanism for prioritizing resources within a district ensures that the relatively deprived rural areas begin to build services equal to those of the former municipalities.

Re-emergence of private goods strategies

The pull on councilors to provide private rather than public goods will remain very real for reasons of history, patronage and political visibility. The oversight mechanisms are well designed but still in transition. As yet, District Councils and their Monitoring Committees are not providing any strategic check on these tendencies. CCBs have yet to take off to any significant degree. In many districts the Mushawarat Committees, designated as the main institutional vehicles for district-wide planning, are not functioning properly primarily because of political tensions between the district and *tehsil nazimeen*. While checks and balances are introduced and institutionalized, the well-trodden path of patronage-based hiring and distribution of small schemes undoubtedly beckons local councilors.

The second volume (*Annex 1—Recent History*) sets out the limited evidence available so far. Reassuringly there is little sign that expenditures are being moved from operations and

⁴⁰ Latvia, Lithuania, Poland, Romania, Russia and Ukraine have adopted transfer formulae that explicitly incorporate either fiscal capacity and/or expenditure need equalization concerns. In developing countries, programs using an explicit standard of equalization are untried, although equalization objectives are implicitly attempted in the general revenue-sharing mechanisms used in Argentina, Brazil, Colombia, India, Nigeria, Mexico, Pakistan and South Africa. These mechanisms typically combine diverse and conflicting objectives into the same formula and fall significantly short on individual objectives. Because the formulae lack explicit equalization standards, they fail to address regional equity concerns satisfactorily.

maintenance expenditures toward new investments, from large to small schemes, or from completing ongoing schemes toward more new schemes. However, the fiscal evidence is limited and nuanced. The well-established pattern might come to dominate again in time.

THE KEY CHALLENGES FACING DEVOLUTION

In sum, the key challenges facing devolution can be summarized as follows:

- *Completing devolution is not seen to be inevitable.* Although the abandonment of the reforms is unlikely, especially now that local governments are protected under the Sixth Schedule of the Constitution, there is some hope, in some quarters, that it might be frozen at its current stage and there is a widely held view that its completion is tied to the sustainability of the Musharraf government.
- *Vertical programs undermine planning and budgeting in local government and reduce the commitment of senior staff.* Vertical programs have largely but not entirely outlived their usefulness. Given pressure to improve service delivery and the perception that central control is required to overcome local governance problems, federal governments and donors alike have favored vertical programs. That approach, however, represents an outdated mindset that held central control to be feasible, a view refuted by very strong evidence that such top-down management causes as many problems as it solves.
- *Senior staff and politicians from the provincial governments feel devalued.* Devolution was seen as a zero-sum game in which any gains for local government were inevitably losses for the provinces. This problem is clearly evident in the jurisdictional conflicts outlined in detail in the second volume (*Annex 1—Recent History*), particularly the problem of politicians in higher levels of government claiming credit for the efforts of local governments (Box 12, *Annex 1—Recent History*). This verdict will not change without some credible signals being sent about the future role of the provinces and, very particularly, without the transfer of functions from federal to provincial governments along with at least the medium term prospect of reducing the chronic vertical fiscal imbalances.
- *Senior staff and politicians from the local governments consider themselves to be under threat from the provinces.* Many feel that the provincial governments will seek ways to undermine their performance however determined their efforts. This feeling is certainly justified in districts that are politically opposed to the province (for example, Killa Saifullah and Khairpur), where the province can use its administrative control over senior district staff, such as the DCO, to influence the flow of funds and the implementation of local development schemes. Mirroring the federal-provincial relationships, some credible signals of future intentions are necessary; they need to include further transfer of some functions such as PHED to local authorities and the prospect of some tax reassignments and debt-for-performance swaps. Certain weaknesses that have emerged in the implementation of the LGO concerning sanctioning powers in local government, the monitoring committee and the weak oversight offered by the Local Government Commission also need to be addressed.
- *Senior staff and politicians from local governments have not yet realized the degree to which they are in charge of their own affairs.* For example, as discussed in the second volume (*Annex 1—Recent History*), local governments remain heavily reliant on provincial revenue transfers and, while noting that the taxes assigned to them lack buoyancy and potency, they have not fully utilized user charges as potential sources of own source revenue increases. The past has, of course, shaped the present, and despite the large numbers of new councilors, a legacy of dependency and of waiting for instruction hangs on. Local governments are now in a position to reduce the development throw-

forward, to increase the coverage of user charges and to improve inter-jurisdiction planning and coordination

- *Federal and provincial governments do not perceive many alternatives to vertical programs.* The debate has been cast in terms of either seeking, ineffectively, to over-determine the behavior of sub-national governments through vertical programs, or abandoning both the programs and any prospects for communicating the PRSP goals from the federal to the provincial and then to the local level. The potential use of conditional grants as an interim measure to achieve service-delivery and poverty-reduction goals has not yet won the full accord of federal and provincial governments. The range of such grants available to federal and provincial governments can be increased through negotiations with the donors and by improving the range and quality of social-indicator data available.
- *District governments do not employ their own staff.* As noted earlier, and elaborated in the second volume (*Annex 1—Recent History*), local governments have little de facto control over the APT authorities of local staff, and especially little control over the DCO and DPO. The ambiguities in the present arrangements and the reality that, for many district staff, there is no pressing reason to follow the instructions or the policy direction set by the *nazim* or the council will only be overcome through the creation of a distinct, local-government, career service. Accountability also requires the provincialization of accounts as a first step toward complete preparation by districts and the maintenance of their own accounts.
- *The separation of judicial and executive powers is incomplete.* The reporting arrangements between the District Police Officer and the *nazim* are uncertain and the transfer of all non-adjudicatory powers to the courts have combined to lower confidence in the police and judiciary even further. *Nazimeen* have little control over the police and as a result the enforcement of regulations has suffered, there has been some decline in prosecutions, and there is a widespread perception that corruption has risen.

3. Recommendations

A STRATEGY FROM HERE

To bolster devolution as a process and, in particular, its impact on service delivery, its architects and supporters need to take a strategic view of the challenges they face and the responses within their grasp. This chapter offers a range of practical actions that can be taken immediately to add momentum to the transfer of authority, resources and responsibilities. It opens, though, by examining three key considerations shaping an overall strategy that would

- 1) Raise awareness of devolution's gains and potential,
- 2) Incorporate flexibility within the framework of basic principles and
- 3) Make local governments allies in pursuing national priorities.

Seize the Opportunity Presented by the NFC Award

Note the successes

The successes of devolution are not widely known. Three are clear.

First, it has changed the incentives for *nazimeen*, senior staff and service providers within districts and TMAs:

- Provincial efficiency incentives.
 - Budgets are predictable
 - Significant autonomy has been achieved in preparing the non-salary recurrent budget
 - Despite problems with the tax bases and administrative collection arrangements, clear revenue assignments have been provided along with some incentives for local revenue-raising.
- Citizen power over *nazimeen*.
 - Incentives have been created for *nazimeen* to respond more directly to the concerns of citizens without resorting to the time-honored approach of providing patronage jobs and small schemes.
 - Councilors have become public figures, earning significant political legitimacy following good voter turnout and political contestation and evidence of increased contact between citizens and policymakers.
- Citizen power over service providers.
 - There are some sporadic but encouraging signs in relation to the Citizen Community Boards and the School Management Committees.

Second, it has already led to some visible service-delivery and fiscal gains:

- Anecdotal reports find doctors more often present in health facilities and teachers in schools than was the case before devolution. Reportedly the likelihood has increased that local facilities, particularly in health, will actually have on hand medicines available for treating patients.
- Determined and dynamic *nazimeen* can already achieve significant results as long as they have a free hand and no undue interference from the provinces.
- Contract-based employment is being used to prevent permanent liabilities arising.

Finally, it has marked a decisive break from the past:

- The 1973 Constitutional provision regarding the separation of powers has finally been achieved in local governance.
- Local government now has unambiguous constitutional protection.

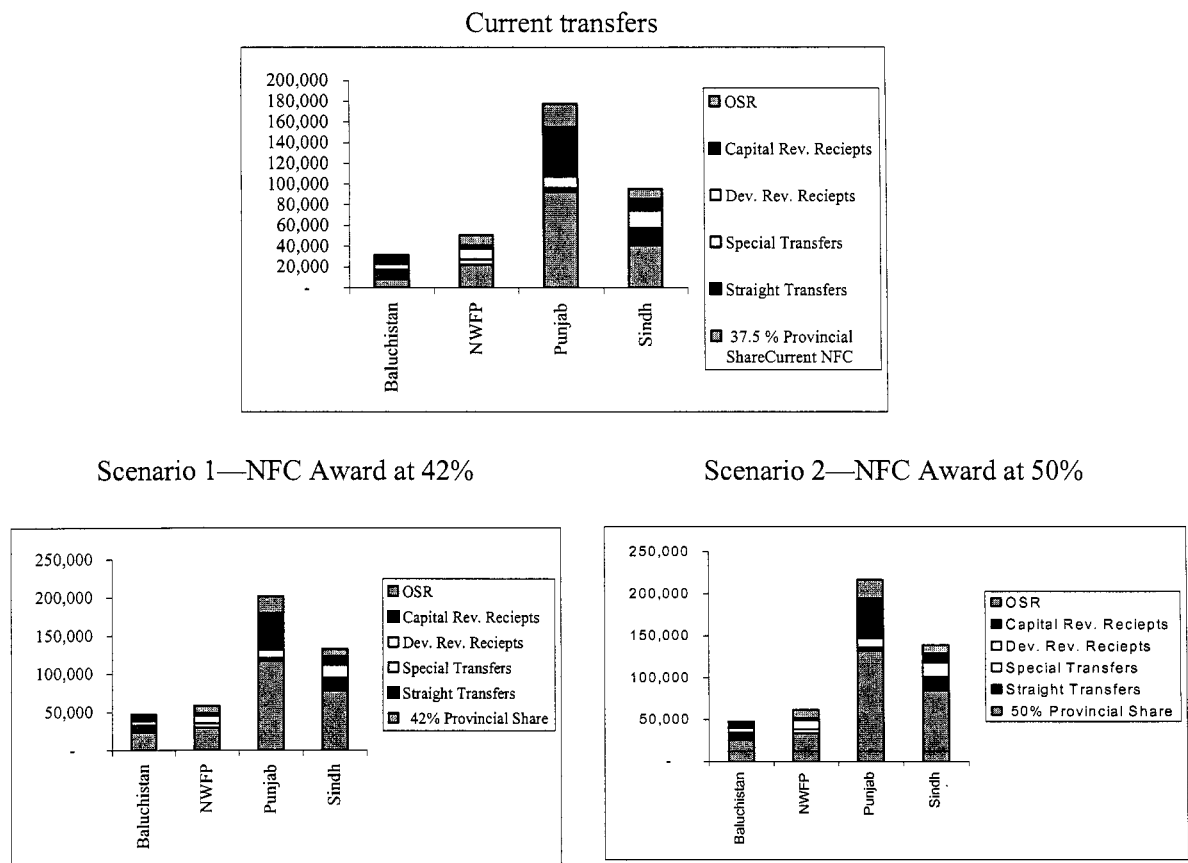
- 33 percent of local council seats are reserved for women in all three levels of local government.

A public information campaign setting out both progress and problems would assist in entrenching devolution and in spurring a more open debate about the options from here. Now is the time for such a campaign. The NFC decision is likely to be announced soon and offers a significant opportunity to kick-start this debate.

The Significance of the likely NFC Award

Figure 9 depicts the increase in provincial consolidated funds that might emerge as a result of the new NFC award.

Figure 9: Provincial Consolidated Funds under New and Old NFC Scenarios



Assumptions:

- The projections with increasing provincial shares have been simulated on the total revenue collected in FY 2003.
- The inter-provincial sharing formula remains the same (population based and the population proportions of 1998 census are used).
- There is no change in the amount of straight transfers, special transfers or provincial OSR.

Note: These assumptions model the transfers as still including the existing grants—despite the probability that these would be incorporated in the pool—on the basis that if they are in fact incorporated into the pool then a formula will be sought that roughly replicates the current pattern, and so the effect would be the same.

Source: ADB/DfID/WB DSD Dataset 2—and staff calculations from the flow of funds model.

In turn, the federal government appears to be advocating the abolition of the OZT offset and special grants, as well as a revision of the Divisible Pool allocation formula. The current

allocation formula might be extended beyond population to include area or the Human Development Index. Moving to a full formula-based allocation from the Divisible Pool carries significant political challenges. Political reality may require that relative changes in overall provincial allocation amounts not differ significantly between provinces. In that case, the provinces would be likely to receive on the order of 10 percent more federal transfers each, a not insignificant windfall. In turn, Sindh may argue for additional revenue sharing (for example, of customs revenues), as formula-driven transfers tend to work against it.

The provincial-local implications of a revised NFC are unclear. Not only is there much uncertainty about what the changes in transfers to the provinces will be, individual provinces' decisions on how to pass these resources on to their local governments may be even more uncertain. Any simulation of the impact of a revised NFC award on local governments is therefore highly speculative. However, higher federal divisible pool transfers to the provinces enhance the significance of the provincial finance commissions (PFCs). Overall increases in provincial-local transfers will likely exceed current allocations on existing recurrent expenditures (mainly district wages). These additional resources will therefore likely be distributed in accord with the evolving PFC formulas. The abolition of the OZT offset, implicit in the full merging of the additional GST revenues in the Provincial Allocable, will also end the implicit earmarking of these resources to TMAs based on their historical levels of collection.

Assuming that the resultant increases in provincial resources are made available to local governments under the same sharing arrangements, including the application of the current Provincial Retained and Allocable ratios as well as maintaining salary and development proportions, then a 50 percent NFC award would impact on DSD District spending as shown in Table 18. It may, however, be argued that the Provincial Allocable should enjoy a proportionately greater share of the increase, given the PRSP spending priorities.

Table 18: Potential Increase in District Budgets with New NFC Award

District	Baseline NFC at 37.5 percent		NFC at 50 percent allocation		
	(Rs. million)				
	Development	Salary	Development	Salary	Percent of previous budget
Killa Saifullah	99	152	143	219	144
Bannu	5	514	9	969	180
Faisalabad	577	2,400	1,051	4,368	182
Bahawalpur	231	1,292	425	2,382	184
Karachi	9,328	8,056	11,350	9,802	122
Khairpur	208	1,334	353	2,261	170

Source: ADB/DfID/WB DSD Dataset 2—and staff calculations from the flow of funds model.

Assumptions:

- The simulation compares the projections with the baseline revised budget estimates of FY 2003.
- The inter-provincial sharing formula remains the same (population-based, using the population proportions of the 1998 census).
- There is no change in the amount of straight transfers, special transfers or provincial OSR.
- Provincial Allocable is calculated using the current ratio but applied to the entire Provincial Consolidated Fund.
- The share of the district is calculated using the formula for sharing development funds prescribed by PFC in that province.
- The additional revenues are divided among development and salary allocations in accordance with their FY 2003 proportions.

Assuming, not unrealistically, that the major share of additional resources is in fact available for development spending, the impact in the six districts studied would of course be even more dramatic, ranging in the study sample districts from 270 percent for Killa Saifullah to 7,400 percent for Faisalabad (see the third volume, *Annex 2—Technical Considerations*, for details). The magnitude of increase is so significant as to warrant a rapid consideration by PFCs of the kinds of grant systems to be used to transfer these resources in ways that also pursue PRSP priorities.

A public-information campaign launched in tandem with the announcement of the NFC Award might set out the limited evidence on devolution's successes and challenges—but more importantly, it could highlight the goals that devolution is seeking to reach and invite debate on the best ways to achieve them.

Enforce the Core Principles—and Accommodate Local Differences

The implementation challenges have evolved in two ways. First, the message of devolution has gone from the broad and visionary to the narrow and technical. The March 2000 announcement of the devolution plan and the subsequent August 2000 Local Government Plan presented a broad strategic vision (National Reconstruction Bureau: 2000). Subsequent debate has focused on the technical issues of implementation—with a strong focus on the technical fiscal and administrative aspects and an underlying concern about the degree of compliance with the Local Government Ordinances.

Box 8: Celebrate Modest Diversity

The EDO Education in Rawalpindi announced that he will decentralize his powers to enable teachers to seek resolution of human-resource management issues at the *tehsil* level. The EDO said, “It was physically impossible for me to handle all issues. The district education department has to handle 22,000 personnel. How is it possible for a single person to deal with such a large number of people, especially when there are heaps of problems?” The DDO, the DEOs, and the DDEOs have been empowered to deal with all cases of teachers in their respective areas. Office bearers of Ittehad-e-Assataza Pakistan expressed their great appreciation of the EDO’s step, which they said, had solved the long-pending problems of the teaching community.

Source: Dawn, January 19, 2004.

Second, the range of actors has grown exponentially. While the NRB alone supervised the pre-October 2002 phase of devolution—defining policy, assigning new functions, powers and responsibilities to existing and newly created organizations and enacting laws and regulations to make these arrangements durable, in the present phase this is neither possible nor desirable. Unlike the first stage of devolution, the process of adapting the new institutional arrangements to local circumstances will now depend on the sustained efforts of elected and administrative officials at federal, province and local levels, not least by devising ways to productively engage private sector and civil society in this process.

The increasing complexity of the actors that must implement the next stages of devolution argues for some relaxation of the one-size-fits-all approach, with some recognition that provinces are likely to follow slightly divergent paths. Since local governments across the country face very diverse situations (Qadir: 2003), some variance in implementation is not only inevitable but also welcome (Box 8). Turning a constructive blind eye to some of the more marginal differences has prevented needless federal-provincial conflict, and has started devolution along a path that will be of strategic value in the future—where basic principles are recognized and enforced, but where, in the detail, local institutions are tailored to local circumstances.

Now that the basics are in place, the message from the federal government might perhaps return to the level of broader principles rather than detailed implementation instructions.⁴¹ To achieve this, in a context of many veto-players, strong leadership from the Prime Minister’s Office will be crucial.

Transmit National Policy Priorities More Effectively

Move from an over-reliance on vertical programs

At the federal level, specific purpose or conditional grants in the context of Pakistan’s intergovernmental fiscal system remain small compared to other types of transfers, although a variety of programs have existed in the past (Ahmad and Wasti: 2003).⁴² Provincial governments rely largely on block transfers from the divisible pool (revenue sharing), “straight transfers,” and “special lump sum transfers” for backwardness. “Other transfers and development grants,” similar to conditional or special purpose grants, total 2.3 percent and 3 percent of federal recurrent transfers in FY 2002/03 and 2003/04. However, these figures do not include on-lent donor projects, which continue to play a significant role in provincial finances. These are

⁴¹ Tight-loose tactics, that is, holding fast to core principles, while allowing diversity in implementation, are well known. See particularly (Bellamy and Taylor: 1998; Peters and Waterman: 1982; Witkin and Berry: 1975).

⁴² International experience with conditional grants varies significantly, although they appear to find some role alongside unconditional revenue sharing via block grants in most federations (Shah: 1994, Annex F). The third volume (*Annex 2—Technical Considerations*) presents the evidence concerning their usage.

undoubtedly significant; the federal and provincial governments continue to operate a wide range of vertical programs, many of them effectively earmarked, conditional grants (see the third volume, *Annex 2—Technical Considerations*).

Provincial governments use earmarking to a very large degree. From the perspective of the districts, between 30 percent and 60 percent of the total resource flows for development projects within their geographical boundaries are earmarked. In the study TMAs, between 19 percent and 59 percent of the transfers are within the appropriation authority of the TMAs.

In sum, Pakistan uses conditional grants to a very limited degree—but when it does, it tends to favor earmarking through vertical programs. The result is that a large share of financing for health, education, water supply and sanitation is delivered in ways that systematically undermine local government accountability.

Vertical programs represent attempts by higher tiers of government to influence the policy and behavior of lower-level governments by direct intervention. Retaining some influence over sub-national policy is sensible. Federal and provincial governments need some levers to influence local priorities in order to achieve national objectives such as minimum standards in education and health, to foster internal economic union and to meet spillover effects (see Shah: 1994). In practice, though, vertical programs have a poor track record, and they are now damaging the nascent accountability, credibility and authority of local governments.

Pragmatism not purity

Table 19 shows the relationship of vertical programs to other forms of conditional grants and to unconditional block grants. One goal is to seek movements, where possible from left to right in order to reduce the damage that the transfers cause to sub-national accountability. This entails replacing vertical programs in the medium term as the primary instruments for expressing federal and province government policies and, in particular, PRSP service delivery commitments.

Table 19: Characteristics and Impact of Vertical Programs and Conditional Grants

		Deconcentrated expenditures	Delegated expenditures	Decentralized expenditures	
			Conditional grants <i>Sectoral</i> ← → <i>Coordinated</i>		Unconditional block grants
		Vertical programs <i>Most vertical</i> ← → <i>Least vertical</i>			
Characteristics	Shown in the budget of:	Higher level government	Sub-national government (but might require pre-authorization by higher level government)	Sub-national government	
	Conditioned on:	Not conditional—based on project agreement.	Inputs (earmarking), or processes	Processes, outputs or outcomes	Not conditional
	Expenditure control and accountability arrangements:	Parallel project facility managed by higher level government	Sub-national government—but with special arrangements (local imprest with either ex ante or ex post controls)	Rely on existing provincial or local government accounts control	
	Awarded through:	Individual ministries or departments			NFC/PFC
Impact	Degree that systems are made part of normal functioning of sub-national governments:	Parallel systems	Parallel systems plus quasi legal compacts	Integrated with statutory arrangements by design	
	Transaction costs:	Very high—special purpose units and establishments	Moderate—proliferation of grants creates demands on local administration	Low—few, strategic conditional grants.	
	Likely damage to sub-national accountability	<i>High</i> ← → <i>Low</i>			

The approach to that goal, however, needs to be realistic. A simplistic conversion of all transfers into formula-based block grants might present some risks. In particular, although it is changing rapidly under the new devolved arrangements, the political economy still prevalent at provincial and local-government levels might provide incentives for provincial and local governments to use additional decentralized resources for other purposes than meeting PRSP goals.⁴³ Thus where the challenge is to provide incentives to meet higher-level standards or otherwise to influence local priorities, then grants conditioned on outputs, outcomes or processes can be tools of a reasonable

⁴³ This risk has also been noted in other settings. See (Andrews and Schroeder: 2003).

strategy. Grants should not be conditioned on inputs (that is, not earmarked on inputs) see Table 20, and should not attempt to cover multiple objectives within the same grant.

Table 20: Principles and Better Practices in Grant Design

<i>Grant Objective</i>	<i>Grant Design</i>	<i>Better Practices</i>	<i>Practices to avoid</i>
To bridge fiscal gap	<ul style="list-style-type: none"> • Reassign responsibilities • Tax abatement • Tax base sharing 	Tax abatement and tax base sharing in Canada	Deficit grants Tax by tax sharing
To reduce regional fiscal disparities	General Non-matching Fiscal capacity equalization transfers	Fiscal equalization programs of Australia, Canada and Germany	General revenue sharing with multiple factors
To compensate for benefit spillovers	Open-ended matching transfers with matching rate consistent with spill-out of benefits	Republic of South Africa grant for teaching hospitals	
Setting national minimum standards	Conditional non-matching block transfers with conditions on standards of service and access	Indonesia pre-2000 roads and primary education grants Colombia and Chile education transfers	Conditional transfers with conditions on spending alone <i>Ad hoc</i> grants
Influencing local priorities in areas of high national but low local priority	Open-ended matching transfers (with preferably matching rate to vary inversely with fiscal capacity)	Matching transfers for social assistance as in Canada	<i>Ad hoc</i> grants
Stabilization	Capital grants provided maintenance possible	Limit use of capital grants and encourage private sector participation by providing political and policy risk guarantee	Stabilization grants with no future upkeep requirements

Source: (Shah: 1994, 1998). Also in (World Bank: 1997).

While inferior as a means of transferring full accountability to sub-national governments, conditional grants represent a pragmatic approach one which recognizes that the federal government maintains a legitimate interest in provincial, district and local institutional reforms and service delivery arrangements.

Table 21: Benchmarks in Moving from Vertical Investment Programs to Conditional Grants

Program Features	Vertical Programs	Transitional Programs	Conditional Grants
Coordination with other programs and grants:	No coordination—based on individual project agreements	Sectoral coordination—individual ministries or departments determine grants in the sector	Coordinated through the NFC/PFC and through local budgets
Shown in the budget of:	Higher level government	Sub-national government (but might require preauthorization by higher level government)	Sub-national government
Conditioned on:	Not conditional—based on project agreement.	Inputs, or processes	Processes, outputs or outcomes
Expenditure control and accountability arrangements:	Parallel project facility managed by higher level government	Sub-national government—but with special arrangements (local imprest with either ex ante or ex post controls)	Rely on existing provincial or local government accounts control

To the extent that they are necessary, conditional grants should aim to incorporate the features listed in the right-hand column of Table 21. However, in the first instance, data problems might require that these conditional grants take the form of the transitional mechanisms also set out in Table 21, to be replaced as quickly as data systems improve by conditional grants coordinated through the mechanism of the NFC and PFC. Box 9 provides some illustrations.

Table 19 had highlighted the significance of coordinating such grants through the mechanisms of the NFC and PFCs, but also notes that realistically, this is not attainable in the short term.

Box 9: Incentives for Restructuring in Intergovernmental Transfers in the Russian Federation and Uganda

Incentives for restructuring in the Russian Federation

A federal Regional Fiscal Reform Fund (RFRF) has been established with World Bank assistance. Disbursements from the fund are made to regions that have chosen to enter a competition—conditional on their success in implementing two-phase reforms of public finance. Disbursement of the first phase is conditional on (inter alia):

- Comprehensive budgets
- Introduction of 3 year budget framework
- Reduction in wage arrears
- Reductions in non-monetary receipts
- Publication in the mass media of budget, debt and procurement details.

Disbursement of the second installment is conditional on:

- Compliance with minimum quality standards in budget management
- Establishment of single treasury account
- Reductions in off-budget resources.

Conditional and Unconditional Transfers in Uganda

The Local Government Development Program (LGDP) has been pivotal in Uganda's fiscal decentralization. Since the beginning of fiscal decentralization in FY 1994, Uganda faced a familiar quandary. How could development resources be devolved to local governments to allow elected leaders to plan and allocate them according to local preferences, while at the same time insuring the PRSP objectives for health, education, water, rural roads, and so forth would be prioritized by local councils? By 1998 the need to address this question was becoming more acute: as a result of HIPC, budgets for health, education, water, roads and other PRSP priorities were increasing rapidly. Rather than address the question, donors and central government had preferred to create additional vertical programs and highly restrictive conditional grants. Evaluations of local government performance demonstrated that this was having adverse impacts on local government governance and undermining devolution.

The LGDP was created to provide a common set of standards for judging performance and at the same time to channel resources to local governments in ways that allowed local councilors to decide how they would be allocated.

All local governments have access to a formula-based local government grant, however their access and level of funding is dependent on the annual local-government assessment.

- Local governments are assessed on their corporate performance, against minimum requirements and benchmarks related to areas such as planning, budgeting, financial management, engineering capacity—all of which are derived from existing laws.
- Those local governments that do not meet minimum requirements get no local development grant. However they do remain eligible for a capacity-building grant enabling them to upgrade their performance.
- The highest-scoring local governments in the assessment receive 10 percent greater allocations under the Local Development Grant.

The LGDP framework has provided a strong incentive for local governments to upgrade their corporate performance. It shows that benchmarking can be carried out in a developing-country context of limited administrative capacity. It also has become a common accountability platform for a range of donor-financed, sector-specific grant systems.

Risks of Overuse

Over-reliance on conditional grants can prove detrimental to local government performance and accountability. Disaggregated data are very difficult to obtain, but Table 22 suggests that typically, in federal jurisdictions, no more than 10 percent of federal-provincial transfers take this form.⁴⁴

Table 22: Conditional Grants in Major Federations

Federation	Specific Purpose Grants	Approximate Share
Argentina	Variety of special funds	43 percent in 1997 (Haggard and Webb: 2001, table 5)
Brazil	Health and education earmarking (Fundef/SUS), and guidelines on minimum expenditures in these sectors. Limited Discretionary Funding	Less than 10 percent as per 1988 Constitution (Haggard and Webb: 2001, table 5) Discretionary grants 2 percent of total state and municipal revenues in 1999 (World Bank: 2002) ¹
Mexico	<i>Aportaciones</i> restricted (Webb and Gonzales: 2003)	Less than half in 1998, and declining (Haggard and Webb: 2001, table 5)
Nigeria	Education Tax Fund (ETF) (World Bank: 2001)	—
Russia		In the late 1990s, various special or conditional grants accounted for over a third of transfers to the regions (Martinez-Vazquez and Boex: 2001).
South Africa	By 1998, adopted policy to shift toward unconditional grant programs (“equitable share”), and freeze levels of existing discretionary grants (Bahl: 2001)	
United States	Wide array of federal sectoral programs	Over 90 percent of US federal grants to states and local governments in the 1990s were conditional or categorical. However, sub-national governments were only dependent on the federal government for about a fifth of their revenues (Ma: 1997). Consequently, the share of conditional grants in sub-national revenues totaled only about 18 percent. Moreover the extent of deconcentrated vertical programs in quite limited.
1. Dependence on federal transfers ranged from 7 percent in São Paulo to 75 percent in Acre in the 1990s. In addition to the general grant program, the federal government makes grants to the states and municipalities (which have their own constitutional status) for a variety of specific purposes, and states also conduct projects on behalf of the national government. Moreover, there has been a significant use of “voluntary” or “negotiated” transfers, often for political purposes.		

The Source of funding matters

Over and above these design features, any federal-provincial conditional grants must, of course, be funded from the federally retained portion of the federal divisible pool. It will be difficult to argue for their funding from the provincial share of revenue sharing to which the provinces can argue they have a constitutional right. Province-local conditional grants are less constrained as local governments are legislative and not constitutional creations.

⁴⁴ See (Craig and Porter: 2003) for an account of the negative consequences of over-reliance on conditional grants in Uganda.

PRACTICAL ACTIONS TOWARD THE 7 GOALS

The three-point strategy discussed above can provide a push to make devolution fully operative. It supports the PRSP (Box 10) and serves to hurry history toward the following goals:

1. Devolved governance accepted as irreversible;
2. The federal government credibly committed to strengthen the future role of the provinces;
3. The provincial governments credibly committed to strengthen the future role of local government;
4. Local governments challenged to demonstrate that they merit confidence;
5. A menu of conditional grants enabled;
6. Local governments held to account; and
7. Full separation of executive and judicial powers.

Box 10: Fine-Tuning Devolution in the PRSP

“Devolution is now a ground reality. The challenge now is the full implementation of all its components and consolidation that include (a) some modifications such as the direct election of *zila* and *tehsil nazimeen*; (b) some additions such as federal to provincial devolution to strengthen provincial autonomy; and (c) federal and provincial restructuring.”

Source: (Government of Pakistan: 2003, p. 59).

Some steps can bring immediate relief. Others can prepare the ground for the medium term. Setting a series of clear goals is the foundation of a tight-loose strategy that maintains the core principles but allows local diversity. To entrench the gains to date, it is important to move forward in those areas that offer opportunities for visible wins, at the same time avoiding needless battles for small gains.

The actions proposed to meet these goals are not original but have been derived from wide-ranging studies and consultations, supported by other recent reports (see Table 23).

Table 23: Actions to Bring Some Relief Now—and to Prepare for the Future

	May the ground for future actions	
<p>Goal</p> <p>1. Achieve public consensus that completing devolution is inevitable</p>	<p>Making a difference now</p> <ul style="list-style-type: none"> Issue a White Paper on strategic options for adjusting legal, administrative, political and fiscal arrangements in support of devolution. 	
<p>2. Demonstrable federal government commitment to strengthened role of the provinces</p>	<p><i>Timetable for completion of functional devolution</i></p> <ul style="list-style-type: none"> Federal government to confirm its planned timing for functional reassignment to provinces. 	<p><i>Preparations in hand for the 7th NFC Award now</i></p> <ul style="list-style-type: none"> Establish High Level Expert Group on federal-provincial tax reassignment (including possible debt-for-performance swaps), to report within 2 years. Ensure adequate technical capacity and resourcing for standing NFC secretariat.
<p>3. Demonstrable provincial government commitment to strengthening local government</p>	<p><i>Reassignment of province-administered functions to local governments completed</i></p> <ul style="list-style-type: none"> TMA debt-for-performance swaps. Transfer of PHED staff and budgets to the TMAs <p><i>Incorporate the lessons of transition in revisions to LGOs, Rules of Business and delegation of powers.</i></p> <ul style="list-style-type: none"> Province-by-province review of the Rules of Business, the constitution of the Local Government Commission and the facilities and authorities provided to the local government monitoring committees. <p><i>Major Commitment to Capacity Development</i></p> <ul style="list-style-type: none"> Training for provincial staff in education, health, water and sanitation departments concerning their new roles in sector policy and standards or technical support and mentoring of their corresponding local government departments. Targeted support for Local Government Commissions, police complaints authorities and Public Safety Commissions. Training for the members of provincial assemblies concerning how local government is intended to work, and in the steps necessary to support the Accounts Committees and other assembly committees. Training for local government staff in managing the contracting-in of services from a range of sources, including provincial agencies, NGOs and the private sector. 	<p><i>Provincial-local tax reassignments</i></p> <ul style="list-style-type: none"> Provinces to announce formal reviews of provincial-local tax reassignment, to report within 2 years.
<p>4. Local Governments challenged to demonstrate that they merit confidence</p>	<p><i>Development throw-forward reduced</i></p> <ul style="list-style-type: none"> Local governments to rationalize and reduce their development throw-forward, culling redundant or unviable obligations prioritizing the revised list for completion in a phased manner. 	<p><i>Coverage of user charges increased</i></p> <ul style="list-style-type: none"> Provinces to ensure that user charges are returned to local governments. Districts to identify opportunities for increasing user charges in health and secondary education, providing some incentives at the facility level for collection. <p><i>Strong inter-jurisdiction planning and coordination</i></p> <ul style="list-style-type: none"> Districts to empower the Mushawarat Committees to

		<p>provide a platform for district-wide, medium-term planning.</p> <p><i>Local governments regulate and engage with private sector service providers</i></p> <ul style="list-style-type: none"> Provincial governments to develop and promulgate local government public-private partnership rules (as under LGO Schedule 5, Part A).
<p>5. Judicial Selection from a Menu of Conditional Grants</p>	<p><i>Cautious use of conditional grants</i></p> <ul style="list-style-type: none"> Federal and provincial governments to consider using conditional grants, selectively and if necessary outside of the NFC/PFCs initially, to achieve overarching policy goals. <p><i>Existing vertical programs reviewed and proposals redesigned</i></p> <ul style="list-style-type: none"> More comprehensive review of donor project portfolios and pipelines to ensure that all projects are assisting in a phased migration away from vertical programs. 	<p><i>Array of social indicator data available broadened and district data captured</i></p> <ul style="list-style-type: none"> Set benchmarks and specifications for the Federal Bureau of Statistics to report on the data that will be available for the 7th Award, at least 3 years before the anticipated end of the 6th Award.
<p>6. Local Governments held to account</p>	<p><i>Districts employ their own staff</i></p> <ul style="list-style-type: none"> Provincial governments to establish that the districts have full APT authority over all staff at grades 19 and below. <p><i>Districts maintain their own accounts</i></p> <ul style="list-style-type: none"> Federal government to provide incentives for meeting benchmarks toward the provincialization of accounts as a first step toward complete district preparation and maintenance of their own accounts. 	<p><i>Districts employ their own staff</i></p> <ul style="list-style-type: none"> Options for the creation of a Provincial Local Government Service (comprising provincial employees wishing to work in local government) and a Local Government Career Service (an autonomous local government cadre) to be set out in the White Paper.
<p>7. Clarify the separation of executive and judicial powers</p>	<p><i>Reporting obligations between the district police officer and the district nazim restructured</i></p> <ul style="list-style-type: none"> Provincial governments to prepare and notify the Rules of Business detailing the reporting obligations between the District Police Officer and the District Nazim. <p><i>Non-adjudicatory powers assigned to the local government executive</i></p> <ul style="list-style-type: none"> Provincial governments to assign non-adjudicatory powers to the local government executive, reducing the burden on the subordinate courts, and updating fines and fees for violation of local and special laws, and municipal regulations. <p><i>Judicial magistrates trained in new jurisdictions under criminal and local laws</i></p> <ul style="list-style-type: none"> FJA to train all judicial magistrates in their new jurisdictions under criminal and local laws especially to protect citizens from abuse of power and harassment. <p><i>High Court protection for judges interdicting unlawful action by officials</i></p> <ul style="list-style-type: none"> High Court to declare publicly that it will monitor any adverse action taken against subordinate judges who interdict unlawful behavior of officials, particularly the police, and will exercise its powers of contempt against the highest officials concerned. <p><i>Separate criminal and civil courts established at district level and Senior Judicial Magistrates appointed in each district</i></p> <ul style="list-style-type: none"> High Courts to expedite the establishment of separate Civil and Criminal Courts and 	

	<p>relieve the administrative and supervisory burden of the district and session judge by appointment of a senior judicial magistrate in each district to assist him or her with administrative matters relating to the exercise of criminal jurisdiction by the subordinate courts.</p> <p><i>Independent Prosecution Service established at district level</i></p> <ul style="list-style-type: none"> • Provincial governments to establish the independent Prosecution Service at district level, and strengthen arrangements for supervision by judiciary and local government officials of pretrial detention, and supervision of investigation. 	
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Completing Devolution Accepted as Inevitable

Box 11: Fostering Debate on Decentralization

“Decentralization is a dynamic process. No country ever gets it right on its first try. Circumstances change, and the nature and design of intergovernmental fiscal relations should change also. An important aspect of establishing an adequate institutional framework for decentralization is thus to build in some ‘error-correction’ mechanism, that is, to permit and encourage the adaptive development and evolution of the system in response to changes in needs and capacities.

“Much more informed and open discussion of these matters than now prevails in most countries is needed. Regular publication of relevant data would help, but one cannot rely solely on an interested party (the central government) to carry out, let alone publish, all the information needed for public discussion. In countries in which intergovernmental fiscal issues are important, consideration might therefore be given to establishing a small nongovernmental research institute focusing on local government problems.”

Source: (Bird: 2001).

The goal is to achieve a consensus among Pakistan’s governments, citizens and donor partners that stable and significant assignment of taxing powers and functional responsibilities to elected sub-national governments is the only credible strategy for lasting improvements in service delivery and achievement of PRSP commitments.

Achieving the goal requires engagement with a much broader range of stakeholders (Box 11). Pakistan’s devolution was well served by publication of the Local Government Plan 2000. This creative document set the agenda and established a common framework for the host of parties to devolution. Since then, a slew of ordinances, amendments, codes, regulations and guidelines, not surprisingly, have filled in the space created by the Devolution Plan 2000.

Other countries at comparable stages of devolution have found it vital to revisit the original statements, like that published by the NRB March 2000, and prepare a white paper to communicate clearly the nature of the steps government intends to take to complete the devolution project. Such a strategic paper would revisit the original Devolution Plan, identify elements that may be reconsidered or configured differently (for example, the role of Public Safety Commissions at union, *thana*, and *tehsil* levels, or Village and Neighborhood councils), modified (for example, how to implement the LGO in the Cantonments or Federally Administered Tribal Agencies), or newly introduced (for example, the proposed five-part independent service group). It would outline how remaining steps are to be introduced over time and present a renewed appeal to the political parties and donors. Most importantly, such a paper could assist in consolidating the currently broad citizen support for devolution (Pattan Development Organization: 2003).

Although the main political parties were initially opposed to devolution, it now enjoys near bipartisan support. A white paper that sets out the potential benefits in terms of legitimacy and accountability that might be conferred by direct elections for district and *tehsil* leaders, as recently proposed by the government (Government of Pakistan: 2003, p. 54), might also provide an opportunity for Pakistan’s political parties to make official, organizational commitments to devolution through their party manifestoes. Such a response becomes more likely if the policy statement explores possibilities for local governments to operate on an explicitly party political basis. This study has confirmed the key role that party affiliations continue to play in local government politics and the all-important relationship with province governments.

Box 12: Selling Decentralization in Uganda

After 6 years of implementation, the Government of Uganda in 2001 designed and published a *Fiscal Decentralization Strategy* to streamline and communicate a process for moving the next stage of decentralization forward in a way that enhanced local government budget autonomy, increased transparency—not just about fiscal transfers, but also important policy decisions and performance—and ensured that strong linkages were created with the government’s Poverty Reduction Strategy process. The *Fiscal Decentralization Strategy*, approved by Cabinet in 2002, has been pivotal in three important respects. First it has clearly delineated to sector ministries and local governments the way forward on completing fiscal decentralization. Second, it has challenged donors to harmonize their procedures in a more devolution-friendly way. And third, the *Fiscal Decentralization Strategy* has helped garner support for a broadly representative debate about the reforms involving civil society, parliamentarians, private sector and the civil service.

Source: (Government of Uganda: 2003, p. 2).

For donors, the paper might reinforce the fact that for countries in the process of devolution and where a significant share of spending for social services is dependent on donor support, harmonizing donor procedures with devolution is critically important (Box 12).⁴⁵ Insuring that donors have sufficient, accurate, and timely information about progress and government intentions is one part of the equation. The other part is insuring that donors are reassured that the LGO, related ordinances and the hard-won budget, accounts and procurement codes form a common accountability framework for donor support. The goal: persuade donors that insisting on vertical programs to protect special-purpose project delivery arrangements is less and less necessary.

This study has documented many commendable efforts to perform well in the face of the obvious constraints posed by a new and incompletely implemented Devolution Plan. But little is known of these efforts. Devolved governance is seen as the only credible approach to a problem that has eluded Pakistan since Partition, namely to establish a set of institutional arrangements capable of efficiently converting public resources into the delivery of services. Nevertheless, remarkably few of the many initiatives being taken by local governments receive the recognition they deserve. In country, the debate on devolution remains somewhat polarized and superficial. Internationally, the contrast could not be greater between the depth and intensity of academic and practitioner debate on the future of the big-bang devolution in Indonesia and the paucity of evaluation and critique of a reform in Pakistan, which has, in many ways, been more fundamental. One possible mechanism for highlighting the progress that some determined *nazimeen* have made is a series of federal and provincial award ceremonies, celebrating particular local successes. Other efforts should be made to increase the level of research and balanced media coverage of devolution.

Action recommended:

- Issue a White Paper on strategic options for adjusting legal, administrative, political and fiscal arrangements in support of devolution.

⁴⁵ (Annan: 1999; Brown, Foster, Norton and Naschold: 2001; Development Assistance Committee: 2003; Foster and Mackintosh-Walker: 2001; Teskey and Hooper: 1989) provide particular insights into the potential use of conditional grants within SWAPs.

Demonstrable Federal Government Commitment to Strengthened Role of the Provinces

Timetable for the PRSP Commitment on Functional Devolution

The PRSP makes the point that deconcentration of functions will not be complete until federal to provincial devolution takes place to strengthen provincial autonomy (Government of Pakistan: 2003). The government had previously announced its intention at the Pakistan Development Forum in May 2003 to examine the roles of federal government in relation to those of the Provinces and reallocate responsibilities more clearly to provinces on the basis of subsidiarity (assigning responsibilities to the level of government best placed to deal with the associated responsibilities, costs and benefits). Candidates for disengagement by the federal government include: population planning, agriculture, local government, tourism development, transport and communications, delivery of health, social welfare and women's development and education services.⁴⁶ This will entail the restructuring of the federal level to eliminate units that are unnecessarily duplicating provincial functions, such as education, health, and agriculture. It will also involve restructuring the provincial level to strengthen capacity for policy formulation as well as winding down direct execution of functions being assumed by the local governments.

The proportionate cuts in total employment would be small—around 3 percent of the existing workforce—representing some Rs. 27.1 billion in wage bill savings. The proportionate program savings would be more significant. However, the point is not primarily fiscal although some fiscal sharing via the NFC, to match new functional responsibilities, including through a special federal grant out of federal share of the divisible pool may be necessary. The significance of the transfer of functions is that it demonstrates that the federal government recognizes that provinces are not just a problem to be bypassed in the march toward devolved governance.

Some degree of hostility from provincial governments toward local governments and district governments, in particular, was noticeable throughout the study. Until relations between the federal and provincial governments are adjusted so as to complete devolution, such tensions can be expected. Provinces unambiguously considered that they had lost power and influence as a result of devolution. Devolution of these functions would ease provincial governments' concern about becoming redundant in the wake of the major devolution to the district governments, would lift the morale of the provincial civil service and enable the federal government to focus on its key strategic functions.

Action recommended:

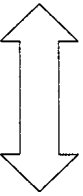
- Federal government to confirm its planned timing for functional reassignment to provinces.

Preparations in hand for the 7th NFC Award now

The problems of inappropriate federal-provincial tax assignments and burdensome and expensive provincial debt are well known and have been debated for some time.

⁴⁶ Similar arguments are made in (Shah and others: 1996; World Bank: 2003a, p. 87).

Figure 10: The Spectrum of Autonomy in Tax Revenues

Own Tax Revenue	Subnational government sets tax rate and		<i>decentralized</i>
	Subnational government sets tax rate only		
	Subnational government sets tax base only		
Revenue split may be changed with consent of Subnational government			
Tax Revenue Sharing	Revenue split fixed in legislation (may be changed unilaterally by the central government)		
Revenue split determined by the central government			
	Central government sets rate and base of Subnational government tax	<i>centralized</i>	

Source: Developed from (Ebel and Yilmaz: 2002).

Existing provincial taxes and user charges are inefficient and inequitable, and are incapable of generating sufficient revenues to meet a significant share of provincial expenditure needs (Malik: 2003; Shah and others: 1996; World Bank: 2000). Admittedly, provincial tax effort has, in addition, been lackluster but in significant part this has been due to reliance on numerous, frequently changing, low-yield tax instruments, and poor tax records that have created strong incentives for tax evasion.

Two measures have been consistently recommended. First, while collection remained a federal responsibility, the provincial revenue base could be expanded by allowing sharing of selected federal tax bases (income tax and possibly GST) through provincial add-ons over and above the federal rates. Second, some taxes and charges can be devolved to provincial governments (for example, the specific-purpose excise duties such as those on tobacco products) (see Figure 10). The rationale for these moves was most recently developed in (World Bank: 2000, 2001) and emphasized in (Malik: 2003).

A further and more complex question concerns an expansion in the base of the GST on services. This apparently attractive proposition is fraught with technical problems, as while this is (by default) a provincially assigned revenue, most of the services on which it should be charged are federal functions (telecoms, electricity transmission and distribution, gas distribution, a large proportion of transport, including air travel, railways, and sea travel). The provincial governments have an interest in expanding the GST base to these services, and a committee has been established to finalize recommendations on this matter. Most of these services are taxed by imposing a federal excise duty or GST while treating the relevant outputs as goods rather than services. This is not the only problem. At the moment, the revenue from the tax is distributed as per the NFC formula. As a result, the provinces disagree on which services to expand the GST to. For example, since the bulk of financial services are located in Sindh and Punjab, NWFP and Balochistan would like the tax to be expanded on these services in order to obtain more revenue without either significant impact on economic activity in the province or major political fall-out. Despite these difficulties, on balance this is a sensible policy option.

The challenges faced by the provinces as they labor under a high burden of expensive Cash Development Loans (CDLs) are also well identified in recent studies (World Bank: 2000).⁴⁷ In addition to explicit liabilities, the provinces have substantial contingent ones, mostly in the form of unfunded pension liabilities (pensions are pay-as-you-go) and debt guarantees and workers' compensation obligations of provincial autonomous bodies (Table 24). Due to the rapid growth in provincial employment in the early 1970s, pension payments have increased sharply.

⁴⁷ CDLs constitute the overwhelming majority of all provincial debt. The other debts are market loans, foreign exchange loans on-lent by the federal government and floating debt—the bulk of it acquired in the mid-1990s as a result of the 1997 NFC provision permitting provinces to borrow from the State Bank of Pakistan to meet short-term cash flow. That leeway inadvertently encouraged fiscal mismanagement in the provinces by allowing their governments to finance their revenue deficits through borrowing.

Table 24: Total Outstanding Debt Against Provinces, July 2003

(millions of Rs.)

Province	Debt (2003)	Interest (2003–04)
Punjab	82,983.28	12,237.44
Sindh	40,121.60	5,936.27
NWFP	35,427.31	4,298.16
Balochistan	15,386.22	2,320.86

Note: The table refers to CDL debt and interest only—it excludes market loans, foreign exchange loans and “floating debt.”

There is some dispute between the federal government and the government of NWFP as the latter argue that some debt has been retired, while the federal government disputes this.

Source: Provincial Finance Wing, Ministry of Finance.

government might wish to constitute a High Level Expert Group to make definitive proposals on tax reassignments and to explore options for swapping debt for provincial progress toward PRSP commitments. Such a review should be announced now, with a reporting date at least 3 years before the anticipated end of the 6th Award.

In preparing for the next NFC Award, the government might also wish to propose the size and scope of a standing secretariat with a significant technical capacity to evaluate options for future Commissions and prepare detailed policy alternatives. Box 13 provides some comparisons.

Urged by the federal government,⁴⁸ provinces have used the opportunity presented by recent structural adjustment and public-resource management reform programs supported by the World Bank and ADB to seek federal government dispensation for early retirement of the CDLs. Their action has created a more sustained fiscal space at the provincial level, since the interest payments include a significant subsidy from the provincial to the federal government. Still, the underlying problem remains.⁴⁹

Although these issues are well known, there is as yet no full consensus on ways to resolve them, and the result is that the imminent NFC award will not address these concerns comprehensively. The next opportunity will present itself with the 7th Award in 5 years. To avoid missing that opportunity,

Box 13: Technical Capacity Available to Other Intergovernmental Finance Commissions

The Finance and Fiscal Commission (FFC) in South Africa was established by Section 220 of the Constitution of the Republic of South Africa. The Financial and Fiscal Commission was instituted to provide advice with respect to the equitable sharing of revenue and other intergovernmental fiscal issues, and to limit subjective political decisions regarding the allocation of public resources in the spheres of national, provincial and local government.

The FFC is a permanent expert commission. Acting as an advisory body, it is mandated to make recommendations on financial and fiscal matters to parliament, the provincial legislatures and any other institutions of government when necessary. The FFC is separate from government and therefore is able to perform impartial checks and balances between the three levels of government. It facilitates cooperation on intergovernmental fiscal matters.

Excluding the outsourced legal advice and human resource functions, the FFC has 23 permanent professional staff, divided between a finance administration and operations department and a research program. Staff include a librarian, information specialists and specialist researchers.

⁴⁸ The Finance Minister urged provinces to develop provincial debt-repayment strategies so as to reduce their debt servicing costs when presiding over the first meeting of the reconstituted National Finance Commission (NFC) to discuss the 6th NFC Award on November 19, 2003.

⁴⁹ The Federal Minister of Finance has announced the government’s willingness to revise the rate of interest on loans extended to the provinces in next year’s budget. (Dawn, February 22, 2004).

Action recommended:

- Establish High Level Expert Group on federal-provincial tax reassignment (including possible debt-for-performance swaps), to report within 2 years
- Ensure adequate technical capacity and resourcing for standing NFC secretariat

Demonstrable Provincial Government Commitment to Strengthening Local Government

Reassignment of province administered functions to local governments completed

Mirroring the need for federal-to-province transfers of functional responsibilities, functions mandated to local government but currently retained by provinces must also be shifted to the next level. The evident mismatch between responsibility and accountability for water and sanitation is a clear example of incomplete devolution. The incomplete transfer of authority over service providers both in specialist agencies (for example, WASA, Karachi Water and Sewerage Board, and the Sindh Katchi Abadis Authority) and province departments (for example, PHED/LGRD) has resulted in the uneven retention of provincial control. To the extent that it is not completely cynical about local government performance (CIET: 2003), the public wants to see action and is unlikely to be impressed by nuanced points concerning the inability of councilors to respond because they lack control over the administrative machinery. The current situation has led to some significant problems for the credibility of newly elected district and TMA leaders who are unable to deliver on improved water and sanitation services.

Box 14: The PRSP Recognizes the Need to Resolve Jurisdictional Rivalries

“At this point, there is some degree of overlap and mismatch between responsibilities for design of the program, implementation and delivery. This is partly due to the ongoing devolution process devolving from upper level to lower levels of government, and thus, the government’s effort in the next 2–3 years will need to better align accountabilities and expenditures, resources, and administrative and policy functions.”

Source: (Government of Pakistan: 2003, p. 68).

Progress has been made in Punjab and Sindh. In NWFP and Balochistan completing the transfer of authority will require significant fiscal transfers also, not least to cover salary recurrent expenditure of Rs. 305.4 million in NWFP and Rs. 134.1 million in Balochistan. However, in addition to transferring the staff to the TMA, some effort must be made to deal with the large accrued debts of the TMAs. Otherwise, those obligations will prevent them from developing new schemes or maintaining large existing schemes and thus prevent the effective implementation of public-health engineering projects even with decentralized staffing.

In reducing the debt burden, however, it will be important not to signal any softening of the budget constraints for TMAs. Recurrent non-salary liabilities, which historically have been largely comprised of electricity charges, could be subsidized through cost sharing with the district and with no implied commitment for future accumulation of liabilities. Alternatively, TMAs could be expected to bear the costs through the medium of their shares in buoyant, GST-based transfers.

Provinces can, for instance, adjust TMA non-salary liabilities through a debt-for-performance swap (Box 15). The provinces can prescribe process and fiscal targets including cost recovery and link progress to drawing down a conditional grant. Major amounts of the grant should go toward financing (or adjusting) liabilities with a significant amount left for local, discretionary allocation. In addition, incentive grants should be provided to TMAs once they meet the targets and get write-off for local discretionary allocation.

Box 15: “Debt Write-Off for Performance” in Punjab

Punjab’s 122 TMAs are burdened by unpaid debts, electricity bills and pension dues of the staff transferred to local governments. Recently, the Department of Finance, Government of Punjab, estimated these liabilities at Rs. 3.7 billion—more than ten times Punjab’s total UIPT collection in FY 2003. And for the 15 TMAs in Punjab for which data was compiled under the DSD, liabilities amount to 292 percent of their own-source collection for FY 2003.

The Punjab government announced a one-time waiver of these liabilities, but has decided to provide this as a conditional grant to be sure that a hard budget constraint and incentives for improved local tax collection as well as important non-tax revenues like water and sanitation charges are reinforced. The grant is conditioned on TMAs’ undertaking an analysis of collection inefficiencies and preparing and securing council endorsement of a plan for raising own-source revenues over 3 years. The Department of Finance, with technical assistance from the Decentralization Support Program, will help TMAs to meet their obligations and be eligible for the grant. It is possible that matching grants may come from the province under PFC to help offset the political costs of local action.

TMAs have varying technical capacity. Groups of TMAs can meet the requirement by jointly financing senior engineers, thus allowing them to bring the technical and financial sanction powers within their administrative scope and ending their reliance on province offices.

Action recommended:

- TMA debt-for-performance swaps.
- Transfer of PHED staff and budgets to the TMAs

Incorporate the Lessons of Transition in Revisions to LGOs, Rules of Business and Delegation of Power.

The transition to devolved governance has highlighted three key areas of the LGOs and secondary legislation that have not resulted in effective local structures. Although this failure is due in part to weak implementation, the NRB and other key agencies have signaled the time has now come to revisit the legislation rather than just reiterate what it originally intended.

The Delegation of Power instruments have meant that many district staff now have less financial authority than before devolution. In many districts, EDOs are category II officers, whereas the equivalent position previously had category I financial powers. As the Principal Accounting Officer is a Category I officer and therefore has higher financial sanction and procurement powers, the budget preparation process and expenditure authorization within the districts is unduly centralized. There is a similar need to enhance the technical sanction powers of technical staff in TMAs. Among other problems, the low level of sanctioning authority provides the pretext for the recentralization of Public Health Engineering to the Province.

Monitoring Committees are not performing as envisioned. Among the reasons: improper constitution of the committees without a formal vote by the Council and denying the opposition any opportunity to participate; lack of training of the councilors; inadequate traveling allowances and transport facilities; and inability to enforce decisions.

The Local Government Commissions have no authority to impose a settlement and are seen, largely, to represent the interests of the province rather than as unbiased facilitators of the devolution process.

Refinements to the LGO, the Delegation of Powers and the Rules of Business can resolve these problems. A review could provide the opportunity to use these instruments as further incentives

to local governments to perform. For example, the LGO could allow district governments, subject to a satisfactory business plan, to amend their structures and merge or bifurcate some departments—allowing for the possibility that large city districts do not need the same structure as smaller rural districts.

Action recommended:

- Province-by-province review of the LGO, Rules of Business and the Delegation of Powers in order to improve the functioning of the Local Government Commission and the facilities and authorities provided to the local government Monitoring Committees and to recognize well-performing local governments by allowing them to move to more relaxed regulatory regimes.

Major commitment to capacity development

Capacity is primarily a function of institutions rather than the reverse—and so training and traditional capacity-building has little lasting impact if the basic incentives are weak. However, while there are many shortcomings in implementation of the array of new local institutions introduced under the Police Order and Local Government Ordinances, there is evidently great need for province by province capacity development: including basic orientation and training of elected and administrative officials, and the provision of adequate facilities and equipment. Although the Devolution Transition Grants provided by federal government in the last two fiscal years addressed this need for many local governments, a large number still require basic facilities. This is most marked in Balochistan where local governments, particularly at the *tehsil* levels, lack basic structures and equipment necessary for maintenance of even the most basic records and files essential for local government functioning.

In the initial stages of devolution, the NRB shouldered the responsibility for capacity development, through their advocacy of the Devolution Transition Grant, support for Devolution Transition Teams, public awareness and special purpose training activities—such as in respect of Chapter XII and XIIA of the LGO—this is no longer feasible or appropriate. It is essential that provincial governments, together with local governments address this requirement directly since they have a particular interest and responsibility to see that this occurs in a way that is tailored to needs in both the administrative and legislative organs of government.

Ongoing province-focused public sector reform programs⁵⁰ are providing targeted support to departments responsible for finance and planning, only sporadic efforts are being made to reorient the key line departments⁵¹ most affected by devolution. Staff of provincial departments are aware that devolution has substantially changed their role with respect to direct service delivery, but few in education, health, water and sanitation, or in the productive sectors have begun to develop capacity for their new roles in sector policy and standards or technical support and mentoring of their corresponding local government departments. More concerted efforts are required in respect of new institutions. The Province Finance Commissions, through support from the Decentralization Support Program, are actively engaged in research, training and other preparations for the upcoming Awards to local governments, but there is a glaring absence of similar efforts with respect to the Local Government Commissions. Similarly, the lengthy disputes regarding the police complaints authorities and Public Safety Commissions has been a convenient excuse for the lackluster support provided to these institutions. Now that agreement

⁵⁰ Supported by the World Bank in Sindh and NWFP and the ADB in Punjab and Balochistan.

⁵¹ Exceptions are the World Bank supported Education Sector Reform program in Punjab and the Sindh Devolved Social Services program supported by the ADB.

appears to have been reached,⁵² there is pressing need to prepare and notify the Police Rules and embark on a major capacity development effort for these critically important bodies. Similarly, training and other support is also necessary for the members of provincial assemblies. Although UNDP and USAID are providing some capacity-building support there remains a critical need to ensure province policymakers are oriented in how local government is intended to work and in the steps necessary to activate critically important province bodies—such as the Accounts Committees and other assembly committees.

At local government level, this report argues that the core principles of devolution should not only be reconfirmed, but that diversity should be encouraged in how they are applied. This principle might apply not just to how local government structures are created—bearing in mind the obvious differences in requirements from rural Balochistan to central Karachi—but also in approaches to local capacity development. In rural Balochistan, for instance, NGOs have considerable experience with provision of water supply facilities, in Punjab, private sector agencies, including NGOs, play a large role in primary education. Responsive capacity development requires arrangements through which local governments can contract-in such services from a range of sources, including provincial agencies, NGOs and the private sector. This demand-led approach to capacity development in turn will require that local governments are also encouraged to develop their capacity to become ‘clients’ for these soft sector services, and that NGOs and private sector firms—in planning, accounts, audit, procurement, evaluation and training—learn to respond to local governments as consultants in addition to their emerging role in the implementation of province programs.

Several existing modalities could be utilized for capacity development. First, as noted, there is a plethora of vertical programs with a primary focus on delivery of services. Typically, these include efforts to build local capacities in program execution. As argued earlier in this section, a strategy is needed to convert these programs and transit toward greater use of formula based transfers. This presents an opportunity to similarly redefine the focus and purposes of support for capacity development under these programs so as the progressively integrate ‘executive’ functions—planning, budgeting, expenditure controls and accountabilities—within local government operations. Second, the multi-donor supported Devolution Trust for Community Empowerment is presently contracting NGOs to support CCB-local government relations. Additional support is required, to extend this effort and to ensure it is well attuned to local variations in needs. Third, to promote better matching of capacity development to local needs, there is scope to expand arrangements being made under the Decentralization Support Program whereby local governments and provinces reach agreement on specific training and related needs through a participatory planning process, jointly appraise proposals and monitor the quality of services provided by private contractors. DFID, USAID and the ADB are considering providing local government capacity development grants linked to development grants within the PFC system. Under this arrangement, local governments that perform well, that is effectively utilize capacity development grants and demonstrate performance against common eligibility criteria, would qualify to access further budget support which may be utilized through their development plan and budget process.

Action recommended:

- Training for provincial staff in education, health, water and sanitation departments concerning their new roles in sector policy and standards or technical support and mentoring of their corresponding local government departments.

⁵² See footnote 16.

- Targeted support for Local Government Commissions, Police Complaints Authorities and Public Safety Commissions.
- Training for the members of provincial assemblies concerning how local government is intended to work, and in the steps necessary to support the Accounts Committees and other assembly committees.
- Training for local government staff in managing the contracting-in of services from a range of sources, including provincial agencies, NGOs and the private sector.

Provincial-local tax reassignments

Again mirroring the federal level, the problem of inappropriate provincial-district tax assignments has been clearly identified in the PRSP (Box 16) and elsewhere (World Bank: 1999, 2000, 2001).

For the districts, much of the debate revolves around the possible devolution of Agricultural Income Tax to the districts. Currently a provincial tax in all four provinces, AIT is a contentious issue in Pakistan, in part because the Constitution is silent about this tax. However, since agriculture generates around 25 percent of national income, the potential of AIT is substantial. One recent study of tax potential in NWFP estimates that a fully enforced AIT could generate over Rs. 500 million (Malik: 2003). Box 17 sets out the potential gains. Actual collection is nowhere near this potential either because of lack of understanding of the system on the part of tax collectors or inappropriate assessment because of connivance by the assessing authority.

Box 16: The PRSP Recognizes the Need for Further Tax Devolution

“Presently the local governments depend primarily upon fiscal transfers from province governments for meeting their expenditure requirements. Local revenue mobilization is an important activity for the sustainability of local governments. Future strategy will look a further devolution of taxes to the local levels, widening of tax base, rationalization of local taxes and improvement of collection and recovery mechanisms.”

Source: (Government of Pakistan: 2003, p. 56).

Box 17: Potential Short Term Gains from AIT Devolution

Assuming that a 20 percent increase in AIT collection were to result from the decision to share AIT collection with provinces on a 50-50 basis, the added revenue would represent about 5 percent of Bahawalpur's development budget and 4 percent of Faisalabad's. However, an added incentive could be created by the provinces' agreeing to pass its 50 percent share back to districts as a matching grant (that is, collection at district level, half given on the basis of the point of collection and the other half as a matching grant), with the province remaining responsible for setting rates and controlling policy. On this basis, it is reasonable to assume a far greater increase in collection. A 50 percent increase in collection, along with the revenue from the matching grant, would amount to 12 percent of Bahawalpur's development budget and 10 percent of Faisalabad's in FY 2003. In Faisalabad's case, this is equivalent to half the total spent on agriculture in FY 2003. For Bahawalpur, the increase amounts to twice its outlays in FY 2003 on Social Welfare.

Source: ADB/DfID/WB DSD Dataset 2.

Devolution of AIT is technically complex. On the one hand, converting the tax into a land-based farm tax on small farms (with no exceptions) and transferring assessment and collection responsibilities to the districts—or just sharing the tax directly with the districts—could create a useful and much-needed additional resource base for them. On the other, the tax itself is anomalous as it differentiates between agricultural and other forms of income—opening the door to manipulation and evasion. Moreover, it is administratively problematic to devolve as land registries are held at the provincial level (World Bank: 1999, 2000).

For the TMAs, the Urban Immovable Property Tax holds significant revenue potential, and there is scope both to

expand the tax base and to rationalize collection and distribution arrangements (Box 18). The current low collection rates arise from a combination of weak incentives and low capacity. Administration is split between the province which decides on exemptions and laws and regulations on rating levels and methodologies; the district government which, in some cases, has responsibility for collection not performed by the province; and the TMA which controls rating area declaration. In addition, even where collection is with the district, the province has some de facto responsibility for collection through informal control of the civil service.

Box 18: Potential Revenue Gains for TMAs in Transferring UIPT Collection Responsibility to the Districts

It is difficult to assess the potential revenue gains for the TMAs of transferring collection responsibility to districts. A 20 percent increase in UIPT collection would mean that Rs. 118.6 million in additional resources would be available in Punjab for allocation. A 20 percent increase is not an unreasonable expectation, indeed for many TMAs where collection is particularly low, this rise would be within easy reach. As a percentage of existing development spending, the increase would be significant, even for predominantly rural TMAs. Although for TMA Jaranwalla the projected increase represents only 4.8 percent of development spending, this TMA has a very high proportion of development spending in the total budget. For other rural TMAs the gain would be considerable. For Yazman in Bahawalpur, the addition represents a 48.8 percent increase in FY 2003 development spending.

Source: ADB/DfID/WB DSD Dataset 2.

It is often noted that collection could be rationalized by making the districts responsible for collection in all circumstances, broadly maintaining the current revenue-sharing arrangements between them and the TMAs (World Bank: 2000, 2001). Given the lack of buoyancy in property tax in recent years, despite tremendous growth in residential and commercial properties, there is a strong case to argue that the transfer of collection duties would give local councils a much greater incentive to utilize this tax. In addition, other administrative constraints must be removed and a general survey will be required to update valuation tables and capture new properties. The

assessment formula will also need revision along with a review of the administrative structure and computerization of records (Malik: 2003).⁵³

Box 19: Local Innovation: Property Tax Enhancement through Self-Assessment in Hyderabad

The Indian cities of Hyderabad and Bangalore have introduced self-assessment, property-tax systems to good effect. Both municipal corporations decided to place the responsibility for tax assessment on the individual ratepayer rather than municipal employees. The aim was to increase revenue and reduce the scope for collusion, rent-seeking and corruption. When the process began, there had been no revision of assessments in Hyderabad for at least 20 years. To tackle the likely deadlock of blocks, appeals and litigation associated with tax revision the Corporation introduced self-assessment in 1999 based on existing legal provisions to make a return true to the best of "your knowledge." Owners and occupiers submitted returns guided by residents' welfare associations that had negotiated on plausible rate guidelines. Sample verification occurs to track untruthful filing, which—where identified—results in higher assessment penalties or criminal charges with publicity. Revenues more than doubled in the first three years.

Source: ADB staff files.

Further devolution of collection to the districts has already occurred on a pilot basis. However, the situation in NWFP highlights the complexity of the choices involved. NWFP has recently transferred collection of UIPT to local governments in Nowshera and Swabi, while keeping the assessment at the provincial level. The result has been a drop in collection attributable, according to the provincial Department of Finance, to capacity problems at the district level.⁵⁴ Box 19 illustrates other innovations.

Again mirroring the situation in relation to the federal-provincial assignment of taxation, awareness of these issues has produced little consensus on remedies. As a result, the imminent PFC awards will not reflect any proposals for significant changes in tax assignments. An opportunity has been missed. To avoid missing the next one in 3 years, provincial governments should establish formal reviews of options for reassigning these taxes, with a reporting date at least 1 year before the anticipated end of the forthcoming PFC Awards.

There is however a significant difference between the provincial governments' preparing options ahead of the next round of PFC Awards and the federal government's preparing options ahead of the next NFC Award. First, this advance move requires some acceptance on the part of the federal government that provinces can and should follow separate paths. There is no intrinsic reason why the devolution of AIT and UIPT should look the same in NWFP as in Punjab. Second, realistically, some provincial governments have less capacity than the federal government to undertake the long-term perspective analysis required and will need additional incentives to stimulate timely, effective action.

In preparing for the next PFC Awards, the provincial governments might wish to propose the size and scope of a standing secretariat, with a significant technical capacity, which can evaluate options for future Commissions and prepare detailed policy alternatives.

⁵³ Other innovations are also possible. Suggestions are also advanced from time to time to give the property owner the option to assess the rental value of his or her house and pay the property tax accordingly. If, on revaluation by the ETD, if it is found less than the market value or rental value, the owner would be required either to offer the house at self-assessed value to the government or pay the differential with high penalty rate.

⁵⁴ The point that there are no certainties in reforming land and property taxation is well made in (Bird and Slack: 2002).

Action recommended:

- Provinces to announce formal reviews of provincial-local tax reassignment, to report within 2 years.

Local Governments Challenged to Demonstrate that they Merit Confidence

Development Throw-Forward Reduced⁵⁵

It is one thing to enhance revenues available but quite another demonstrate to the public that they are being well spent. When local councilors decide to invest in an individual development scheme, they need to be able to assure the public that they have considered the longer-term implications. Does the new scheme fit with the priorities established by council over the medium term? Are new projects crowding out completion of viable older schemes? Is it worth completing commitments made to older schemes, sometimes many years before, when priorities may have changed? Has council considered the long-term, recurrent-cost implications of new development spending?

Improving the efficiency of resource allocation will entail three responses by local governments, as illustrated in Box 20 for NWFP. First, a clearer link is needed between investment decisions and a medium-term planning process. This requires, at heart, that investments be better connected to reliable indicators and knowledge of local needs and of likely resource availability beyond the annual budget-planning process. It should be possible now for districts and TMAs to work out likely revenue over a three-year period (the PFC award and OSR projections) and indicate how income will be distributed across different sectoral priorities that may in turn shift over time according to council's priorities.

Box 20: Reducing the Throw-Forward in NWFP

The NWFP Government has been trying to rationalize its ADP to avoid the practice of allocating nominal amounts to ongoing schemes and to reduce throw-forward liabilities that had accumulated to such an extent that they equaled 3.24 years of the current ADP. Recently the province went through successive rounds of reprioritizing projects (breaking them into 4 priority groups, of which they only funded the top 3) and consequently reduced the ADP throw-forward 8 percent below the level of FY 2003. As a result of the reprioritization, the number of new projects for FY 2004 was reduced from 980 to 723, and the number of completed projects is expected to increase from the 342 originally targeted to 413 for FY 2004.

Source: Govt. of NWFP calculations.

⁵⁵ Throw forward can be defined as the claim on future development resources by the existing portfolio of development projects

Box 21: The Scale of the District Throw-Forward Problem

For four of the districts in the study (Karachi, Faisalabad, Bahawalpur and Khairpur) information was compiled concerning throw-forward of district ADPs on June 30, 2001—immediately before the elected local governments took charge. The results were contrasted with snapshot data concerning the throw-forward in 2003/04 to assess the impact of the inherited throw-forward, its claim on districts' development resources and whether the district governments have been in a position to start new schemes.

The main conclusions are:

- The four district governments combined inherited a throw-forward of about Rs. 3 billion, which would have taken district governments 2.6 years to complete at the 2001/02 level of allocation and if no new schemes were started in the interim.
- In comparison the throw-forward in 2003/04 is 28 percent lower, mainly because Karachi and Faisalabad cut their throw-forward significantly, whereas throw-forward of ongoing schemes increased more than threefold in Bahawalpur and 19 percent in Khairpur, indicating that the smaller districts initiated a large number of new projects in 2002/03.
- The overall, inherited and self-generated throw-forward in 2003/04 still represents a significant constraint on the ability of district governments to start more new projects.

See the third volume (*Annex 2—Technical Considerations*) for further details.

Second, medium-term plans and annual budgets need to reflect a clear connection between development proposals and recurrent cost requirements.

Third, and most immediately, local governments need to rationalize and reduce their development throw-forward. Most have a large portfolio of incomplete projects that should be reviewed to cull redundant or unviable obligations and to prioritize the revised list for completion in a phased manner. NWFP (Box 21) has recently achieved some progress at the province level; most district governments are capable of doing the same.

Action recommended:

- Local governments to rationalize and reduce their development throw-forward, culling redundant or unviable obligations prioritizing the revised list for completion in a phased manner.

Coverage of user charges increased

In the six study districts, there are encouraging trends in own-source revenue collection. Appropriate levying of user charges is, again, frequently discussed and has been extensively reviewed (Malik: 2003; World Bank: 2000).⁵⁶ However, user charges are politically difficult. Although districts might recognize significant potential for increased user charges in the health sector (outpatient services, in particular) and in secondary education, they are likely to judge that the political costs outweigh the likely fiscal gains. A further disincentive is that, in general, effort at the facility level is currently not rewarded. For example, where modest user charges have been levied in education, they have been collected at the level of the school and then sent to the district for reallocation. In health, outpatient department fees are more often than not deposited in the provincial account.

Determination and imagination might realize some short-term progress. For example, at the TMA level, Punjab has provided some incentives to TMA *nazimeen* for cost recovery in water and

⁵⁶ The broader utility of user charges is well set out in (Bahl: 1999; World Bank: 2003c), and a useful assessment of the challenges involved is provided in (Bird: 2003).

sanitation by waiving electricity arrears, loans liabilities and pension liabilities if cost recovery matches the TMA's own expenditures on water-supply systems. There are early but impressive results (Box 15).⁵⁷

Selective application of user charges could establish a visible linkage between the paying public and the quality of services that they value and for which they are willing to pay. However, this move requires a careful political strategy; province politicians would, in many cases, be only too happy to portray districts as rapacious and unconcerned with the poor. Since their policies determine what services can and cannot be charged for, the provinces would have to feel some benefit from the change.

Action recommended:

- Provinces to ensure that user charges are returned to local governments.
- Districts to identify opportunities for increasing user charges in health and secondary education, providing some incentives at the facility level for collection.

Strong inter-jurisdiction planning and coordination

Crafting workable arrangements for resolving disputes and making consistent plans and decisions is a challenge for any multi-representative electoral system. Pakistan is attempting an innovative approach to inter-local government coordination and integration. Called Mushawarat Committees, they aim to achieve through a nonhierarchical political process of negotiation and compromise that which is frequently achieved elsewhere only through an administrative hierarchy.⁵⁸

The public credibility and fiscal efficiency of local governments depend on concerted efforts to clarify jurisdictional responsibilities and demonstrate that workable arrangements exist for coordinating planning and implementation of vertical programs both among tiers of local government and with province governments (Box 22). The Mushawarat Committees and DDCs provide highly visible platforms to nurture this capability. The former could provide a platform for district-wide, medium-term planning as well as resolve common disputes about jurisdictions and responsibilities. DDCs likewise present a forum for district, province and federal political representatives to ensure resources are used more in wiser, more publicly credible ways. Both may be used to encourage civil-society engagement in debates about local service delivery policy, plans and budget processes.

Although it is true that Mushawarat Committees might offer a rational basis for the effective coordination of development programs at the district and TMA levels, it is not in the individual interest of the district or any single TMA to ensure their success. The political incentives discussed earlier make councilors value schemes that publicize their individual contributions to their constituents more than they value coordination. To break the impasse and tilt the balance in favor of coordination, additional incentives might be needed from the province.

⁵⁷ See also (Sidat Hyder Morshed Associates (Pvt) Ltd.: 2003).

⁵⁸ Since October 2002, the challenge of institutionalizing this new approach has been increased by the resistance of MNAs and MPAs who can see successful local government planning, investment and dispute resolution as undermining their position as coordinators.

Box 22: Multi-agency Planning in West Bengal and Kerala

The District Development Plan (DDP) and the Metropolitan Development Plan (MDP) process has been established in West Bengal as a planning system to integrate the activities of local governments and other spending departments at district and metropolitan levels. District Planning Committees have been constituted in all districts in accordance with the District Planning Committee Act 1994. The DDP is intended as both a comprehensive multi-sectoral plan and as an instrument for optimizing and equalizing resources. An infrastructure plan is an essential derivative of the comprehensive plan. At the same time GoWB is the first State in India to have made provision for a Metropolitan Planning Committee (MPC). One was established in Oct 2001 for the Kolkata Metropolitan Area (KMA) to converge and guide the various local DDPs within a wider strategic framework of economic, social and environmental development. The MPC has 60 members, 40 of whom are elected by and from the elected representatives of urban and rural local bodies in Kolkata Metropolitan Area.

A similar system of integrated district planning has been established in Kerala where 40 percent of the outlay of the State Five Year Plan has been allocated for decentralized planning and development mediated through local government. The first stage of local planning is based on a participatory planning process known as the Peoples Plan Campaign. Based on a strategic perspective in every *gram panchayat*, these strategies and needs assessments are then formulated into the Annual Plan by special *panchayat* and municipal task forces. The Annual Plans are then consolidated into block and district plans to be spatially and functionally integrated into a district Perspective Plan.

Source: ADB staff files.

Action recommended:

- Districts to empower the Mushawarat Committees to provide a platform for district-wide, medium-term planning.

Local governments regulate and engage with private sector service providers

As the private provision of health and education grows, the role of the responsible district departments must become overseer and regulator of the private sector as well as provider of government services. Currently, most district health or education departments maintain no record of services provided by the private sector, and are poorly equipped to promote or regulate the sector. A first, near term step toward rectifying this weakness would be for provinces to promulgate local government public-private partnership rules (as under LGO Schedule 5, Part A). While the role of local government is not necessarily limited in this way, these rules should, in the interim, focus on two types of relationship: 1) where the local government is outsourcing services, which potentially includes the entire local government mandate; and 2) where local governments are regulating the market, for example, in rapidly expanding private-sector delivery of health and education services.

Action recommended:

- Provincial governments to develop and promulgate local government public-private partnership rules (as under LGO Schedule 5, Part A).

Judicious Selection from a Menu of Conditional Grants

Cautious use of conditional grants

As noted earlier in the section on *Transmit National Policy Priorities More Effectively*, at the federal level, Pakistan uses few specific purpose or conditional grants compared to other types of transfers—and when used, the form of conditionality preferred for provincial-local transfers is earmarking. One goal of reform is to reduce the damage that such transfers cause to sub-national accountability. However, an overly rapid conversion of all transfers into formula-based block grants is a hostage to fortune, as it would leave the federal and provincial governments without levers through which to communicate policy preferences that might be at odds with local politically determined concerns.

Recognizing that to some degree they run counter to the logic of transferring full accountability to sub-national governments, conditional grants represent a pragmatic approach which recognizes that the federal and provincial governments, respectively, maintain a legitimate interest in provincial, district and local institutional reforms and service delivery arrangements.

As set out above, these are nuanced instruments and there are three concerns to be borne in mind:

- They can only be employed at the margins—over-reliance on conditional grants is likely to be detrimental to local government performance and accountability.
- It is important to coordinate such grants through the mechanisms of the NFC and PFCs, although noting that this is not attainable in the short term.
- Any federal-provincial conditional grants must, of course, be funded from the federally retained portion of the federal divisible pool as provinces can argue they have a constitutional right to the provincial proportions of the shared revenues. This constitutional constraint does not apply at the provincial level.

With these constraints in mind, there are some likely candidates for conditional grants at both the federal and provincial level.

At the federal level, in assisting provincial-local tax reassignments, the federal government could, in principle, propose special conditional grants to provincial governments, necessarily made outside of the NFC, conditioning access to the grant on the existence of a published plan for reviewing tax assignments and amounts payable that reflects the coverage and success of pilot projects.

Provincial governments could propose conditional grants to districts, initially outside the PFC if it is too late for their inclusion in the imminent awards, which:

- Provide incentives for the reduction in development throw-forward
- Provide matching incentives for the increased application of user fees within a range acceptable to the province
- Provide incentives for districts and the associated TMAs to develop integrated district plans through empowered Mushawarat Committees and to fund schemes consistent with the plans.

Bearing in mind the significance of using conditional grants sparingly, then the effect of such conditional grants could also be achieved by government requesting that such conditionalities are included in provincial budget support credits or loans provided by donors and the multilateral lending agencies.

Action recommended:

- Federal and provincial governments to consider using conditional grants, selectively and if necessary outside of the NFC/PFCs initially, to achieve overarching policy goals.

Existing vertical programs reviewed and proposals redesigned

Vertical programs remain significant features of intergovernmental relationships. In addition to the government-funded vertical programs, donors provide extensive support for federal and provincial vertical programs. For local governments, highly vertical programs not only undermine accountability and operational efficiency. Additionally, they create an environment in which funding in the key sectors is largely determined elsewhere. The result impels even well-intentioned local councilors either to shift funds about rapidly as they try to cover the priority sectors or to second-guess next year's amount of vertical-program allocations. In some cases, the programs can create incentives for recentralization.

Donors have begun to recognize these problems and have started initiating fewer vertical and more devolution-friendly projects. The World-Bank-supported Punjab Education Sector Reforms, the proposed Punjab Municipal Services Improvement Project and the ADB-supported Southern Punjab Basic Urban Services Project and the Sindh Devolved Social Services Program explicitly recognize local government ownership (Box 23). These programs provide examples of how far, and how rapidly, donors are prepared to realign their operations in accordance with the changed reality presented by devolution.

Box 23: Donor-Supported Transitional Vertical Program/Grants

The ADB-financed *Southern Punjab Basic Urban Services Project*, approved in late 2003, is designed to encourage good performance by TMAs and to shift from a traditional vertical program toward modalities more consistent with the PLGO 2001. During 2004, the first year, funds will be allocated through the Local Government and Rural Development Department under a special PFC grant on the basis of TMA-specific investment plans for small-scale water supply schemes. In subsequent years, funds will be allocated under a formula-based grant.

Access to funds in any year will depend on TMA's compliance with "Basic Eligibility Criteria" that are applicable to all TMAs. The criteria include:

- Compliance with PLGO 2001 requirements on Monitoring Committees.
- Strengthening of Council secretariat and budget provisions made for continued technical capacity.
- Complaints cells and procedures established and linked with internal audit procedures.
- Action plans prepared, detailing how *Tehsils* will transfer functions to Union Administrations in accordance with PLGO 2001.
- Requirements allocating 25 percent of development budget for CCB projects observed by TMA, and efforts made to disseminate CCB guidelines and Rules of Business widely.
- Water Supply and Sewerage User Charges action plan prepared, for detection, disconnection and regularization of illegal connections, and detailing time-bound strategy for rationalizing water tariffs, improving collection efficiency.
- Other revenue-enhancement measures, including initiation of baseline survey to determine revenue potential, incorporating licensing, encroachment, temporary *tehbazari*, parking and transport stands.
- In the following years, the funds available to a TMA will be determined by formula, and performance.

Two sets of performance measures will be applied:

Investment Project-Specific Performance Measures (IPPM). These include simple process measures to be observed for the effective use of resources allocated to individual investment projects. Examples include

operations (staffing, equipping levels); community participation; compliance with physical progress targets; quality of construction; observance of PLGO 2001 requirements on maintenance of accounts, tender and contracting rules; monitoring and evaluation. A minimum score for IPPM will be mandatory. The shares of TMAs failing to meet the minimum performance standard will be credited to an investment pool and made available for reallocation to other TMAs based on their performance.

Reform Implementation Performance Measures (RIPM). These measures will judge performance in carrying forward the reforms under the eligibility criteria. They include therefore, scoring systems that measure the functioning of complaints cells, the implementation of commitments for transfer of functions to UCs; at least 80 percent of utilization of budget reserved for CCB projects, and so on.

Supported by the World Bank, the *Punjab Education Sector Reform Program* focuses on improving access through the rehabilitation of primary schools, and improving quality through teacher training and free textbook provision. The centerpiece of this program is a Terms of Partnership Agreement between the provincial government and participating districts. Based on these accords, the province will provide conditional grants to districts in Account IV outside the PFC framework. These grants will be conditional on a number of items such as increased education expenditure allocations, meeting of reform and other education-indicator targets.

Governments at all three levels need to find ways to bring vertical programs under local-government planning and budgeting systems and to lay the ground now for a shift to the kinds of formula-based grant systems envisaged in the Local Government Plan 2000. Since donor-funded projects represent the bulk of the province-local government vertical programs, reviewing the pipelines of donor projects is the logical place to start in identifying pragmatic opportunities to make this transition.

In the various programs to provide budget support to federal and province governments, donors should work with governments to ensure attention to the intergovernmental aspects of the linkages between their budget support—at federal or province levels—and the local governments. More generally, in project aid, donors must ensure that project modalities do not weaken but rather support the linkages between elected leaders and citizens and with service providers. Frequently, the project aid modalities sidestep local policymakers through parallel institutional arrangements. As the study has revealed, a large share of donor project aid is effectively outside the influence and, sometimes, the ken of the elected leaders responsible for planning and delivering services in their jurisdiction. This separation creates great difficulties in planning and budget processes so that a fair and equitable distribution of resources is ensured and exacerbates the problems of local ownership and long-term recurrent financing of the facilities and services created.

Table 25: Devolution-Friendliness of ADB and World Bank Projects in the Current Lending Program

Dimensions Assessed	No. of Projects		
	Yes	Maybe	No
<i>Short term Impact</i>			
1. Is there a commitment to consult with district governments?	16	5	7
2. Will local governments have a role in the planning and operational design of the project or program (for example, policy priorities, site selection, and criteria for distribution of funds)?	12	5	11
3. Will the project support capacity-building at local government level?	19	6	3
4. Will it deal with intergovernmental transfers of funds?	10	8	10
5. Will it encourage clarity about the management of staff in local governments?	15	2	11
6. Will it avoid parallel financing mechanisms that bypass local government?	14	4	10
7. Will it include mechanisms to reward local government innovations?	9	3	16
Average Scores (%)	48.5%	16.8%	34.7%
<i>Medium Term Impact</i>			
8. Will the project or program envisage a graduated increase in local government responsibility in the implementation of the project?	14	8	6
9. Will it encourage diversity with provincial devolution models to accommodate local needs and innovation?	3	12	13
10. Will it envisage the use of conditions grants for major policy initiatives?	7	5	16
Average Scores (%)	28.6%	29.8%	41.7%

Notes: ADB Projects: SME Sector Development Program; Decentralized Social Services, Sindh; Balochistan Road Sector Development Project; Punjab Resource Management Program, Southern Punjab Basic Urban Services; FATA Rural Development Project; Sustainable Livelihoods in Barani Areas Project (Punjab); Balochistan Public Resource Management Program; Decentralized Social Services Program (Punjab); Restructuring of Technical Education and Vocational Training System; Rawalpindi Environmental Improvement Project; NWFP Road Sector and Sub-regional Connectivity; Industrial Efficiency and Environmental Improvement Project; Decentralized Social Services Program (Sindh II).

World Bank Projects: Highway Rehabilitation; Poverty Alleviation Project II; Punjab Education SAC; Public Sector Capacity Building Project; Community Government Infra. (CIP 2); Sindh OFWM; Poverty Reduction Support Credit; PIFRA; Tax Adm. Reform Project; Punjab OFWM; Punjab Municipal Service Improvement Project; Community based Maternal and Child Health Project; NWFP SAC II; Sindh SAC II.

Source: Responses from surveys of task team leaders in the World Bank and ADB undertaken in November and December 2003.

As a preliminary step, this study has assisted the World Bank and ADB to begin a review of upcoming assistance to Pakistan. It is apparent that whereas some assistance may be assessed as devolution-neutral, that is supporting upstream institutional reforms, capacity-building or urgent service delivery improvements, the larger share of assistance would benefit from commitments to be devolution-encouraging. Table 25 summarizes an analysis conducted simultaneously on ADB and World Bank lending for 2004–05.

Action recommended:

- More comprehensive review of donor project portfolios and pipelines to ensure that all projects are assisting in a phased migration away from vertical programs.

Array of social indicator data available broadened and district data captured

The quality of data available about service-delivery performance, from expenditure data all the way through to measurements of human-development outcomes, is weak at the district level.

Unless quality improves, it will not be possible for federal government to make reliable judgments about the impact of macroeconomic or poverty policy, for provinces to establish performance-based grant systems to buy better performance from local governments (Box 24), for local governments to plan, or for the citizens of Pakistan to gauge how well their elected leaders are doing and hold them accountable.

Box 24: Data Needs for Equalization or Conditional Transfers

“In selecting formulas for equalization transfer, a major consideration is the availability of data. In many developing countries, data constraints force the central government to adopt relatively simple models with few variables. The central government agency in charge equalization transfer can use a variety of data sources. In most countries, the easiest source is the statistics provided by the central government’s statistical agency. In addition to the central statistical agency, line ministries can often provide more detailed statistics on need indicators such as demographic composition, land areas, student enrollment rates, health indicators, length and quality of roads, electricity consumption, number of policemen, etc... Data on local tax bases are often supplied by local tax authorities. In cases where the central and local governments share the same tax bases and the center is responsible for tax collection, tax base data can be easily obtained from the central tax authorities. In cases where local tax bases differ from central tax bases, local tax authorities should be required to provide annual tax base figures to the central government agency in charge of transfer. It is necessary to enact a law or issue a central government ordinance on fiscal transfer that obliges local authorities to submit accurate data on a timely manner. Naturally, incentives exist for local governments to under-report... in order to receive more transfers. To prevent such practices, it is necessary to include penalty clauses on fraud in the law or ordinance. Equally important is that the central government audits the statistical reports submitted by local governments (either by directly sending officials to local governments or hiring independent auditors).”

Source: (Ma: 1997).

A range of data sources provides input, intermediate, and outcome indicators disaggregated at the district level (see the third volume, *Annex 2—Technical Considerations*, for a survey of available data sources). In general, the administrative data sources, such as the MIS, are not as reliable as household survey data from PIHS. Presently, two survey data sources are representative at the district level: the CIET Social Audit and the MICS, and one in process, the CWIQ. Of these, the CWIQ and the CIET appear to be the most promising, although it must be recognized that each provides different information to support different processes. CWIQ may be used to support the definition of indicators for design of conditional grants and then to track expenditure and performance against process and output. CIET data, which cannot be used in the same way, provides a more qualitative gauge—what do citizens think—about particular service-delivery or cross-cutting issues. This additional source of information has great potential for elected leaders, in particular, when it comes to budget-planning decisions or gauging the performance of particular sector service-delivery staff. Provided that these methodologies can be adjusted to ensure local ownership, and that the requisite capacity is created for the surveys to be conducted regularly and properly, then they should be able to provide a range of indicators for local government planning and budgeting, as well as a basis for a conditional transfer mechanism.

The success of a monitoring system and its impact on policy critically depend on the institutional arrangements and the capacity within the monitoring institutions. Progressing from the I-PRSP, the PRSP published in December 2003 lays out an institutional setup in more concrete terms, specifying a general mechanism for tracking and reporting outcomes, with the National PRSP Secretariat as the coordinating interface. Clarity is still lacking, however, on such key specifics as the mechanisms through which the data and reports generated by the monitoring institutions would provide timely feedbacks into the policy process. On the issue of capacity, while the

document identifies four vital areas where capacity has to be developed at the Secretariat and other levels of government, no clear plan has yet been advanced to address this need.

Specifically, the sustainability of the monitoring system, of which the CWIQ is a part, will depend critically on the capacity of the Federal Bureau of Statistics (FBS) to conduct complex surveys effectively and on its ability to function as an autonomous organization. The PRSP does not include a plan for enhancing capacity at FBS or for insuring the autonomy that would enhance the credibility of its data.

Action recommended:

- Set benchmarks and specifications for the Federal Bureau of Statistics to report on the data that will be available to for the 7th Award, at least 3 years before the anticipated end of the 6th Award.

Local Governments Held to Account

Districts employ their own staff

The challenge to managerial authority in the districts arises from the transfer of large numbers of staff from provincial employment groups, particularly Rural Development, Local Government, Health and Education.⁵⁹ These civil servants have a strong historical connection with the provinces and provide a convenient point of entry for provincial involvement in district affairs. In addition, some see the province as a logical next step in their career.

Box 25: Administrative Devolution in Indonesia and Uganda

In Indonesia, the 2001 decentralization saw a massive transfer of central government civil servants, government assets, and documentation to regional governments. The transfer of civil servants proceeded in two phases. Personnel of 5 departments, some 150,000 people, were already reassigned to the regional governments in 2000, when the departments they worked for were either abolished or converted into a state department without an apparatus in the regions.

Law 22/1999 gives the regions the right to hire and fire its civil service, but there are conflicting laws and other forms of implementing regulations that appear to circumscribe this autonomy. The local right to manage the civil service is limited in several ways. In contrast to Law 22/1999, the civil service law (Law 43/1999) retains much control at the central level. The central government still determines to a large extent civil service wages: base wage, position allowances and family and rice allowances are still set by Presidential Instruction. In addition, the Ministry of Finance sets limits to honoraria to be received by civil servants for project management, and the like. And BKN, the civil service agency, is developing job classifications and accompanying qualification standards, which it wants to see applied to local civil service as well as central civil service. Government regulations, which require nationwide advertising for certain posts, and local advertising for others, further limit hiring procedures.

Source: (World Bank: 2003b).

In Uganda: "Before decentralization, line Ministries had direct control over staff working in Districts. Line Ministries initiated the appointment, confirmation, promotion, training, discipline and the transfer of such staff. With decentralization, the above staff were transferred to Districts and so were the functions previously exercised by the Line Ministries. Staff became employees of the respective District and Urban Councils and movement between Districts and between Districts and Ministries was minimized.

⁵⁹ TMAs do not face the same problem as they inherited staff from the former urban councils, and from rural district councils but other than some PHED staff where these have been devolved, they inherited few provincial staff.

With decentralization, an officer can leave one District or Urban Council for another, and from a District or Urban Council to a Ministry, if:

- (i) There is an advertised post to which he or she applies and is appointed:
- (ii) He or she learns of a vacant post and applies to (the respective council) to fill it.”

Source: (Republic of Uganda: 1999).

Administrative devolution is always limited. Few sub-national governments have untrammelled authority to act autonomously as employers (see Box 25 and the third volume, *Annex 2—Technical Considerations*). However, as Box 26 illustrates, there is an urgent need to move significantly in this direction (World Bank: 2001, 2002a).

Realistically, establishing the districts as the primary employers of their staff may not be a feasible single step for Pakistan District Governments. Staff from the federal occupational groups and senior staff from provincial groups would strongly resist such a move, fearing that their career paths had been unreasonably limited, restricting them to a few management positions in a small government. In fact, as local government develops, there is every reason to assume that a dynamic market in senior local government positions will develop, with pay and career options at least as attractive as those in the federal and provincial governments. However, in the short term, a two-part local government service could provide the senior staff in the district with the reassurance that they have both security and career prospects, while insuring that all staff in the districts, senior and junior, are managed only from within the district.

Box 26: Conflicting Lines of Management

“The heated debate in the Peshawar District Council on Tuesday when the elected members resented the non-implementation of the resolutions passed by the council, is not particular to Peshawar. This is happening all over Pakistan in nearly all the District Councils. The Peshawar District Council had passed seventy-eight resolutions during the year 2003; the concerned departments responded to only fifteen. According to the members of the council the District Coordinating Officer failed to do his duty by not sending the resolution to the concerned departments.”

“The crux of the whole matter is the plurality of authority under which the different cadres of employees work in the districts. Most officials on senior posts in the districts are federal government appointees and their service rules and promotions are regulated by that government. They, however, work in the provincial government departments. The provincial governments can influence them by writing adverse reports on them and transferring them to unattractive locations. These officers when placed in district departments are supposed to do the bidding of the district administration. But since the districts have no influence with them whatsoever, these senior officers do not feel the urgency of following the directions of the district *nazimeen* or members.”

Source: “Governance Issues” electronic newsgroup—22 January 2004.

One method for achieving this is to create a distinct Local Government Career service comprising those staff at grade 16 or below, in which the district government assumes responsibility for preparing the salary budget, recruitment, career management and performance management for junior staff. They would thus be employed unambiguously by the district. In parallel, provincial staff could apply to join a *provincial* Local Government Service. Districts wishing to fill senior vacancies would interview and accept staff from the pool of eligible provincial Local Government Service members, who would serve in the district for fixed-term appointments while retaining their substantive appointment with the province.⁶⁰ Table 26 summarizes this option.

⁶⁰ The Services Departments of the provincial governments might need some assistance or capacity-building in order to manage the pool and to ensure that district governments had access to career histories of staff in the Provincial Local Government Service pool.

Table 26: Possible Future for the Staff in District Governments

Staff groups		Appointment	Control over the salary budget	Establishment control	Pay policy
Staff from federal employment groups (primarily District Management Group (DMG) and the Audits and Accounts Group)	Formerly provincial employment groups— particularly Public Health Engineering, Rural Development, Local Government, and Education	Provincial Local Government Service	Federal or Provincial Government	Province	With the province
Grades 17+					
Employees who had earlier belonged to the rural district councils	Grades 1–16	Local Government Career Service	Appointed by the District Government	District	To be passed from the province to the district within one year

Ideally control of the establishment, and ultimately authority over pay policy, would be devolved for the Local Government Career Service, but realistically these are longer term options. Box 27 sets out the more immediate steps.

Box 27: Key Features of a Local Government Service

Key features of the *Provincial Local Government Service* could be:

- The Service is a voluntary pool that senior provincial staff can apply to join.
- Staff who had applied and been found suitable for district employment would remain in their provincial posts pending assignment.
- Pool staff could be accepted into the district on clearly specified terms, with explicit performance agreements.
- Staff members who wished to resign from the district service could, with the permission of the provincial government, return to the province.
- The district could terminate the appointment to the district, with the staff member automatically returned to the province, with the right of appeal to the Provincial Public Service Commission in the event of unfair dismissal

Key features of the *Local Government Career Service* would be:

- The District Service to be established separately in each province by provincial legislation.
- Legislation to ensure that all districts within a province retain the same pay and grade structure.
- To cover grades 1–16 only.
- Recruitment to the districts to be at departmental level within the district, with the Provincial Service Commissions to oversee the quality of the recruitment processes, but not to be involved directly in the recruitment.
- Transfer between districts would entail resignation from one and appointment by another.
- Transfer from districts to provincial or federal government employment would entail resignation from the district.
- The enabling legislation could allow for the possibility of small provincial quotas of new appointees to be drawn from the staff of districts.
- The legislation could also allow for the Local Government Commissions to establish small secretariats to ensure consistency in personnel practices between districts within the province.

Steps in transferring responsibility for managing the Local Government Career service to the districts:

- Full control over the salary budget for the Local Government Career Service would be passed to the district immediately—allowing for local determination of the size and composition of the district workforce.
- PFC transfers to the districts would initially be based on 2003/04 staffing figures, recognizing that disparities in district employment have arisen historically and are beyond the control of districts in the short term.
- PFC transfers to the districts for salaries would move incrementally toward a formula-based transfer within 5 years that allowed for employment levels based on similar per capita ratios, with some allowance for the diseconomies faced by small districts and by remote rural districts.
- If, within 5 years, any comparatively overstaffed district could not reduce its staffing norms through attrition to those allowed in the NFC awards, then the province must offer the option of transferring unwanted staff to a provincial surplus pool.
- In the short term, the province would maintain restrictions on the total headcount, while allowing districts to determine staffing composition. Within one year, provinces would relinquish control over the district establishments completely, with discipline exercised on district employment practices through PFC provisions that penalize districts for staffing beyond provincial norms.

If this or a similar arrangement is not instituted in the short term, there is still an urgent need to reduce the opportunity for provincial micromanagement of district staff. In principle, APT authority for the devolved staff in the provinces has largely been passed to the districts. However, for staff in Sindh, Balochistan (health), and NWFP (health), the province has authority over APT down to grade 16. At the very least, some rationalization of the APT authorities is necessary to make sure that the district has full authority over all staff at grades 19 and below. Enforcing this rule in practice would remain challenging. One possibility for enforcement would be for intra-district and inter-district transfers of TMA staff at any grade to be subject to veto by the Mushawarat Committee, and for inter-district transfers of district staff at any grade to be subject to veto by the district council.

Action recommended:

- Provincial governments to establish that the districts have full APT authority over all staff at grades 19 and below.
- Options for the creation of a Provincial Local Government Service (comprising provincial employees wishing to work in local government), and a Local Government Career Service (an autonomous local government cadre) to be set out in the White Paper.

Districts maintain their own accounts

The AGP and CGA are in dispute over their respective authorities over staff. In reality, the cadre histories have resulted in the CGA having very little managerial or professional authority over the accounting staff. That authority is further reduced by the dispute between the federal and provincial accounts cadres. The consequence is that district accounts are prepared by a combination of provincial accounts staff (who have few incentives to follow the professional advice of the CGA) and federal accounts staff (who also have few incentives to follow the advice of the CGA, but in addition feel no need to cooperate with their lower-status provincial colleagues).

Compounding the problem, the new accounting responsibilities of the District Accounts Officer coupled with the minimal capacity available has created a series of technical accounting problems. The consequence is that district-level accounts are poorly prepared and maintained, largely by staff with no loyalty to the district.

It is necessary to address three key issues to resolve the transitional problems. First, the various technical problems associated with the development of New Accounting Model and the transition to the new codes must be resolved. Second, ambiguities in the staffing responsibilities and reporting arrangements, including responsibility for preparation and maintenance of accounts and oversight and enforcement of compliance with accounting standards, must be addressed. Finally, there is a significant problem of capacity.

The federal cabinet decision on 6 November 2002, requiring the provincialization of accounts by 2006, sets a direction toward local responsibility for account preparation. However, responsibility for administration of district accounts should eventually be fully transferred to a district cadre—as oversight and enforcement of compliance with accounting standards is transferred from the CGA to the Provincial Accountants General.

Establishing benchmarks as outlined in Table 27 would allow the federal government to create incentives, through conditional grants, for provinces that are complying.

Table 27: Steps toward Provincialization of Accounts

Issues to be resolved		Near term		Medium term (to mid-2006)	
		District	TMA	District	TMA
Technical issues	Development of New Accounting Model	Refine, based on piloting through PIFRA	Refine, based on piloting through PIFRA	No action needed	No action needed
	Managing transition to new codes	Modify LG Accounts Code to NAM compliance. Roll-out NAM to all districts	Modify	Review and debug systems following roll-out	Pilot test, then roll-out NAM to all TMAs
Staffing responsibilities and reporting arrangements	Responsibility for preparation and maintenance of accounts	Federal-provincial (Federal Pakistan Audit and Accounts Service, the Provincial Treasury cadre)	TMA (<i>Tehsil</i> Accounts Officer)	District	TMA
	Oversight and enforcement of compliance with accounting standards	CGA designs system of sanctions for noncompliance.	Province designs system of sanctions for noncompliance.	CGA to impose sanctions for violations (but handing over to Provincial Accountant General post 2006)	CGA to impose sanctions for violations (but handing over to Provincial Accountant General post 2006)
Capacity-building		Build capacity of existing a) federal accounts and b) province treasury	Train on existing system	Local government cadre responsible for accounts	Retrain and induct qualified accountants into service

Action recommended:

- Federal government should be providing incentives for meeting benchmarks toward the provincialization of accounts as a first step toward complete district preparation and maintenance of their own accounts.

Further Clarify the Separation of Executive and Judicial Powers

Devolution has abolished the executive magistracy and its functions vested in the judiciary, executive (local governments) or police. Promulgation of the Police Order 2002 has left many uncertainties in the respective responsibilities of the DPO and *nazimeen*, including both district and *tehsil* levels, for the broad definition given to law and order. There is a real risk that failure to clarify these relationships, and ensure they are adequately dealt with in the forthcoming Police Rules may jeopardize the entire reform effort. As noted, there is widespread public concern that police corruption and public safety have deteriorated since promulgation of the Police Order 2002. Evidently, national leaders are acutely aware of public concern.⁶¹ Box 28 suggests that some local action can be helpful.

Box 28: Improving Union-Level Police, Court and Local Government Relations

The Local Government Plan envisaged Public Safety Committees at union level, and a role for CCBs in police monitoring. By and large, this has not been part of the roll-out of the Police Order 2002. However, Tehreek, a Quetta-based NGO that works in preventive-health service delivery in UC Gawalmandi has taken this idea forward. Recognizing the high priority placed on public safety and justice issues, Tehreek's dialogue with the UC *nazim* and local police-station and community leaders has led to formation of an *Insaaf* Committee and a *Musalihat* Committee. An office has been established to facilitate police-community liaison, the functions and responsibilities of the committees, as detailed in the LGO are displayed outside the office, and the initiative has been greatly appreciated by citizens. This initiative is currently being replicated in other unions in Quetta.

The goal is to conclude the separation of powers with the result that external oversight and accountability of the police improve and workable arrangements are put in place for the enforcement of local and special laws, including the assignment of non-adjudicatory powers and supervision of pretrial detention to the executive.⁶²

Action recommended:

- Provincial governments to prepare and notify the rules of business detailing the reporting obligations between the District Police Officer and the District *Nazim*.⁶³
- Provincial governments to assign non-adjudicatory powers and supervision of pre-trial detention to the local government executive, reducing the burden on the subordinate courts, and updating fines and fees for violation of local and special laws, and municipal regulations.
- Federal Judicial Academy (FJA) to train all Judicial Magistrates in their new jurisdictions under criminal and local laws especially to protect citizens from abuse of power and harassment. In particular, where writ of *habeas corpus* is issued, the court should also order action against the officials concerned and report the same to the High Court for

⁶¹ On 27 January 2004, the President and Prime Minister jointly presided over a further meeting with senior cabinet officials and the Province Chief Ministers to set a renewed deadline for "full implementation of the Police Order 2002 in letter and spirit." Dawn 28 January 2004, "August 14 Deadline for Police Reforms Fixed."

⁶² This refers to the *nazim*'s power to visit police stations and demand the release of persons illegally detained and not the judicial powers pertaining to the grant of custody or remand of the accused to police.

⁶³ The 14 April 2004 meeting (see footnote 16.) reportedly reaffirmed the *nazim*'s responsibility to initiate the DPO's ACR in respect of law and order. Police rules have not yet been prepared.

follow-up by the Registrar with those actions reported in the annual report of the High Court.

- High Courts publicly reaffirm their commitments to monitor any adverse action taken against subordinate judges who bar unlawful behavior of officials, particularly the police. The declaration should include a commitment to exercise its powers of contempt against the highest officials concerned.
- High Courts should expedite the establishment of separate civil and criminal courts and lighten the administrative and supervisory burden of the district and session judge by appointing a Senior Judicial Magistrate in each district to assist with administrative matters relating to the exercise of criminal jurisdiction by the subordinate courts.
- Each Provincial government to establish an independent prosecution service with offices at district level, and strengthen arrangements for supervision by judiciary and local government officials of pre-trial detention and supervision of investigation.

Appendix 1: Background to ADB/Dfid/WB DSD Dataset 2

This dataset comprises: provincial receipts and expenditures; fiscal transfers to the districts; and district government receipts and expenditures—as known at the end of FY 2003.

This dataset has been constructed from a range of sources:

- Annual budget statements of each province for FY 2004 and revised estimates.
- Budget notifications of the Departments of Finance in each province showing the budgeted share of individual district government of each province were used.
- Monthly actual transfers to each district government from the Department of Finance of each Province were used, drawing on notifications issued to the State Bank of Pakistan for release into account IV.
- Monthly Detail Books of account IV from the Provincial Accountant General's office. These are available centrally at the office of accountant general of each province.

Table 29 provides details of the data sources.

Data drawn from district budget documents alone are unreliable for two principal reasons:

1. Budget estimates are only rough proxies of actuals. During this transition period the estimates have been prepared by adding a percentage onto the previous years' budgets. These are therefore inexact pictures of actual expenditures.
2. Presentation of the district budgets does not follow a set format and can vary from individual district to district, creating problems for comparability.

Aggregate data of DAOs are also unreliable, as reports of Provincial Consolidated Fund revenues include all revenues collected in a district without differentiating between Account I provincial levies and de jure district revenues deposited in error or temporarily in Account I (see Table 28). Depending upon the level of aggregation at times they can include federal revenues as well. As such they provide a false picture of district government revenues and often are not even a close proxy. Obvious errors resulting from this approach are inclusion of the following revenue items in the district revenues: agriculture income tax, collection fees on arrears of land revenue, the sale of non-judicial stamps and papers, motor vehicle tax, entertainment tax, and so forth.

Table 28: State of the Provincial Accounting Records

Punjab	NWFP	Balochistan	Sindh
The accounting records in AG Punjab are computerized and monthly Detail Books were available showing the details of expenditures and receipts of the Account IV and Account I of each district.	In AG NWFP, the records were not yet computerized. DAOs from each district accounts office submit monthly cash accounts and civil accounts of the transactions incurred during the period.	Accounting records in AG Balochistan are computerized and monthly Detail Books were prepared monthly showing the expenditures and receipts of the districts.	DAOs in Sindh were not able to record the transactions of Account IV separately. As with NWFP, DAOs from each district accounts office submit monthly cash accounts and civil accounts of the transactions incurred during the period, but these contain many errors. Expenditures from Account IV and Account I, are often recorded in the same document. As a result, a reliable database of receipts and expenditures for province of Sindh could not be constructed.

The accounting records used to construct the database are the records of transactions at the point at which they are incurred. These records are reconciled with each authority responsible for incurring expenditure or recording receipts. As standard accounting formats are used, the accounting records are comparable.

The process of building the dataset took the following into account:

1. Different provinces are at different stages of transition to preparation of district accounts. The transition from provincial accounting formats to district level accounts is still not complete. This means that the actual decentralized functions and revenue items have been changing by jurisdiction, by province, and over time. This required numerous revisions in data collection and datasets. New codes for district accounts were only notified in January 2004 (with implementation of NAM these will change once again). No district accounts have been prepared to date. District-level data remains embedded in provincial accounts.
2. Many of the revenues which should be booked under Account IV are still being recorded in Account I. District expenditures appear in the aggregate Province Consolidated Fund bookings in the DAO and later AG's records. To adjust for these difficulties a mapping of statutory assignments over the codes of classification was carried out. Minor heads in case of revenue items and function codes in case of expenditures were selected from the Chart of Classification and used to map onto corresponding assignment of functions and revenues in accordance with the four LGOs. These were then each tracked month by month in the accounting records.
3. Appropriate amendments were made for shared taxes. For instance urban property tax collected in a district is now a tax to be shared between district government and TMAs in the ratio of 15:85 with the latter returning to point of collection. For this purpose the district level data used in the paper depicts the total collection and then counts only 15 percent of the tax for district governments.

This process led to some delays as the staff in the offices of the Accountants General were initially reluctant to hand over data. It was only toward the end of the fiscal year, after repeated attempts, that data for all the districts in Punjab, Balochistan and Sindh were available with the

respective AGs. Data were flowing in from districts in fits and starts at times with errors. Data from the AG office of Punjab and Balochistan was easy to collect. It was difficult to obtain data from AG NWFP as the records in this office were not computerized and cash accounts and civil accounts were obtained and photocopies were made from these accounts.

Provincial AGs will be finalizing appropriation and finance accounts by the end of third quarter of the current year for fiscal year 03. The data will be updated and any errors that are found at this stage will be corrected.

Table 29: Data Sources for the Tables in DSD2

Data source	Punjab	NWFP	Balochistan
Provincial Receipt and Expenditures	Annual budget statements of each province for FY 2004. Revised estimates have been used		
Fiscal Transfer Data Tables	For the budgeted share of each district government, the budget notifications of the Departments of Finance in each province showing the budgeted share of individual District Government of each province were used. For actual transfers, the statements depicting monthly actual transfer to each district government from the Department of Finance of each Province were used, drawing on notifications issued to the State Bank of Pakistan for release into Account IV.		
District Government receipts	Monthly Detail Books of Account IV were used from the Accountant General's office. Where needed the required codes have been disaggregated from Account I records	All receipts are being deposited in Account I therefore, monthly cash accounts of Accountant General's office were used to construct the receipts tables. The required codes have been disaggregated from Account I records	All receipts are being deposited in Account I therefore, the monthly Detail Books of Accountant General's office were used to construct the receipts tables. The required codes have been disaggregated from Account I records
District Government expenditures	Monthly Detail Books of Account IV from the Accountant General office were used to construct the expenditure table.	Monthly civil accounts of Accountant General's office were used to construct the expenditure tables	The expenditure of each district government has been collected from monthly Detail Books collected from the office of the Accountant General. The photocopied records were used to construct district by district expenditures

Appendix 2: Assessment Frameworks Developed for the Study

Despite the voluminous research and practitioner literature, enormous conceptual and practical difficulties remain in assessing the pace and depth of devolution. This study has developed three key frameworks that could, with adaptation, be used for extending an assessment of devolution to other settings.

First, the study uses a schema for focusing on a key set of incentives at local government level, for which there is ample justification in the theoretical and research literature, as key to the success of devolution initiatives, and which can provide a test of the degree to which devolution is beginning to “bite” by creating appropriate incentives for efficient and responsive services within local government. These are summarized in Table 30, but were set out in more detail in Table 10 above. The second volume (*Annex 1—Recent History*) illustrates how these tests were applied in practice.

Table 30: Assessing Institutional Changes within Local Government

Incentives for <i>Nazimeen</i> and senior staff	Provincial efficiency incentives	Budgetary certainty
		Enhanced autonomy in preparing the budget
		Incentives for local revenue-raising
	Citizen power or voice	Councilors motivated to listen to citizens
Incentives for service providers	Managerial power	The pull from councilors is stronger than that from the Provinces
		Staff working in the district are employed by the district
		<i>Nazimeen</i> authority over senior staff
		External oversight
	Client power	Adequate deployment of staff
		Citizen dispute resolution
		Community management of facilities

Second, within this overall schema, the study also has employed a distinctive approach to measuring the degree to which staff are formally employed by local government—offering some precision to the nebulous assessment of administrative devolution. This is set out in detail in the third volume (*Annex 2—Technical Considerations*), but is summarized in Table 31.

Table 31: Assessing the Location of the Employer Function

Dimensions of “Employership”	Is the local government responsible for:
Budget Control	Paying staff from its own budget Determine the wage envelope Authority to dismiss surplus staff
Establishment Control	Control overall staffing numbers Control staffing numbers in local offices and facilities
Recruitment	Formal employer Authority to hire Independent merit-based recruitment mechanism (for example, PSC)
Career Management	Promotion Transfers within local government Horizontal mobility
Performance Management	Direct and supervise activities and tasks Conduct evaluations Financial rewards or promotion Ability to discipline or fire
Pay Policy	Set overall wage rates Set local hardship or remoteness allowances

Third, the study sets out a new approach for assessing the degree to which conditional grants represent deconcentrated expenditures, with damaging consequences for local ownership and accountability—and corresponding progress toward instituting decentralized expenditures in the form of unconditional block grants. This is set out in detail in Table 19 above, and summarized in Table 32.

Table 32: Assessing “Verticalness” of Conditional Grants

		Deconcentrated expenditures	Delegated expenditures	Decentralized expenditures	
		Conditional grants		Unconditional block grants	
		Vertical programs			
Characteristics	Shown in the budget of:	Higher level government	Sub-national government (but might require pre-authorization by higher level government)	Sub-national government	
	Conditioned on:	Not conditional—based on project agreement.	Inputs (earmarking), or processes	Processes, outputs or outcomes	Not conditional
	Expenditure control and accountability arrangements:	Parallel project facility managed by higher level government	Sub-national government—but with special arrangements (local imprest with either ex ante or ex post controls)	Rely on existing provincial or local government accounts control	
	Awarded through:	Individual ministries or departments			NFC/PFC

Glossary

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

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CURRENCY EQUIVALENTS

Currency Unit = Pakistan Rupee
US\$1 = PKR 58.80

FISCAL YEAR

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