SOCIAL DEVELOPMENT IN PAKISTAN

ANNUAL REVIEW 2011-12

Devolution and Social Development

SOCIAL POLICY AND DEVELOPMENT CENTRE

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FOREWORD

It is my pleasure to bring to you the eleventh Annual Review of SPDC entitled Devolution and Social Development in Pakistan. The report looks into the issues of federalism in Pakistan, which traditionally have been surrounded by the challenges posed and controversies generated by political and economic developments. Of particular importance is the insurgency in Balochistan and the growing movement for more provinces in the country.

The report examines the design and implementation issues of the decentralisation provisions of the 18th constitutional amendment and the 7th NFC Award. The two, being major landmarks, have the potential of having a far-reaching impact on the relations between the federation and the provinces. However, much would depend on the consequential measures taken by the federal and the provincial governments in line with the provisions.

Chapter 1 looks into the underpinnings of the new devolution system. The parameter identified for the chapter would help guide the implementation and an assessment of its effectiveness. Chapter 2 draws lessons from the other countries. Indian, Canadian, and Brazilian experiences have particularly been focused because of the similarities in the issues and challenges. Chapter 3 discusses major changes related to legislative and fiscal autonomy, reviews the nature and status of the implementation of the transfer of functions to the provinces and lays out the financial and development implications of the 18th Amendment. Implications of the 7th NFC Award and its impact on the finances of sub-national governments are analysed in Chapter 4 while Chapter 5 deals with the issues of resource mobilisation by provincial governments with particular focus on sales taxation of services and borrowing powers of the provinces. The future of local governments is discussed in Chapter 6, which provides the current status and key features of the proposed laws related to the local government system. Chapter 7 highlights the impact of the 7th NFC award on social sector expenditure and presents a comparative picture of various indicators to show the state of social development before and after the Award. Chapter 8 discusses a number of emerging issues which eventually have to be resolved through a consensus among the federating units, especially within the Council of Common Interests (CCI).

The combined affect of the constitutional amendment and the 7th NFC Award on the federation-provinces equation is yet to be seen. However, much would depend on the equilibrium that the two tiers of government are able to maintain among the three basic, yet, essential tenets of power-sharing that is, principle of subsidiarity, behavior as co-equals and a commitment to consensus building. These tenets would lay the basis of compromise and accommodation that can take the country towards participatory governance and the much-needed national integration.

The report, hopefully, would benefit both the government and society.

Khalida Ghaus
Managing Director

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SOCIAL POLICY AND DEVELOPMENT CENTRE

Established in 1995, SPDC is a private sector research organisation that serves as a focal point for policy-relevant research on social sector development. Using a multidisciplinary approach, the Centre assists both public and private sector institutions including non-governmental organisations (NGOs) to plan, design, finance, execute and manage social sector programmes in a cost-effective manner. The results of its research are made available to policy makers, interested groups and general public to promote informed discussion and action on vital social sector issues.

SPDC being an independent and non-partisan organisation cooperates and collaborates with organisations/institutions working on issues of common concerns (both) within Pakistan and abroad. Being an autonomous and independent organisation, the Centre identifies its own research agenda and parameters remaining within the mandate and objectives identified. Key activities include research and policy analysis in the areas of governance, poverty, public finance and macro economy, and gender; social sector government database support; pilot project monitoring and evaluation; training of personnel in government, private sector and non-governmental organisations; and information dissemination through publications, conferences, seminars and workshops.

In addition to the core funding from International Development Research Centre (IDRC - Canada) and the Royal Norwegian Embassy's Support to the Gender Research Programme, SPDC generates its alternate funding through contract research.

The Board of Directors consists of eminent personalities selected for their commitment to social sector development and their belief in the use of analytical tools in developing public policy to ensure sustainable social sector development. The Board members are:

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LIST OF ACRONYMS

ADB	Asian Development Bank
AIT	Agriculture Income Tax
BLGA	Balochistan Local Government Act
BOR	Board of Revenue
CACS	Commission for Agricultural Cost and Prices
CADD	Capital Administration Development Division
CCI	Council of Common Interests
CE	Central Excise
CGT	Capital Gains Tax
CLL	Concurrent Legislative List
DFID	Department for International Development (UK)
DRA	Drug Regulatory Authority
DRGO	Distribution of Revenues and Grants-in-Aid Amendment Order
EAD	Economic Affairs Division
ECNEC	National Economic Council Executive Committee
EFA	Education for All
ENERCON	National Energy Conservation Centre
EOBI	Employees' Old-Age Benefits Institution
EPC	Environment Protection Council
FBR	Federal Board of Revenue
FESCO	Faisalabad Electric Supply Company
FLL	Federal Legislative List
FRBM	Fiscal Responsibility and Budget Management
FRDL	Fiscal Responsibility and Debt Limitation
GDP	Gross Domestic Product
GDS	Gas Development Surcharge
GEPCO	Gujranwala Electric Power Company
GPI	Gender Parity Index
GSDP	Gross State Domestic Product
GST	General Sales Tax
HEC	Higher Education Commission
HESCO	Hyderabad Electric Supply Company
HIES	Household Integrated Expenditure Survey
HST	Harmonised Sales Tax
IESCO	Islamabad Electric Supply Company
IPP	Institute of Public Policy
ITO	Income Tax Ordinance
KESC	Karachi Electric Supply Company
KMC	Karachi Metropolitan Corporation
KWSB	Karachi Water & Sewerage Board
LESCO	Lahore Electric Supply Company Limited
LGA	Local Government Act
LGO	Local Government Ordinance
MDGs	Millennium Development Goals
MEPCO	Multan Electric Power Company
MoE	Ministry of Environment
MOF	Ministry of Finance
CVT	Capital Value Tax
MPI	Multidimensional Poverty Index
MQM	Muttahida Quami Movement

NCOP	National Council of Provinces
NEC	National Economic Council
NEPRA	National Electric Power Regulatory Authority
NEQS	National Environmental Quality Standards
NER	Net Enrollment Rate
NFC	National Finance Commission
NNS	National Nutrition Survey
NSPP	National School of Public Policy
NWFP	North West Frontier Province
O & M	Operations and Maintenance
OGDC	Oil and Gas Development Company
OGRA	Oil and Gas Regulatory Authority
OZT	Ocroi and Zila Tax
PARC	Pakistan Agricultural Research Council
PCCC	Pakistan Central Cotton Committee
PEPA	Pakistan Environmental Protection Act
PEPAC	Pakistan Environmental Planning and Architectural Consultants
PESCO	Peshawar Electric Supply Company
PFC	Provincial Finance Commission
PIHS	Pakistan Integrated Household Survey
POL	Pakistan Oilfields Limited
PPL	Pakistan Petroleum Limited
PPP	Pakistan People's Party
PRA	Punjab Revenue Authority
PRSP	Poverty Reduction Strategy Paper
PSLM	Pakistan Social and Living Standard Measurement
QESCO	Quetta Electric Supply Company
QST	Québec Sales Tax
RGST	Reformed GST
RST	Retail Sales Tax
SBP	State Bank of Pakistan
SLGO	Sindh Local Government Ordinance
SNGPL	Sui Northern Gas Pipelines Limited
SPDC	Social Policy and Development Centre
SRB	Sindh Revenue Board
SSGCL	Sui Southern Gas Company Limited
TTP	Tax on Transfer of Property
UAE	United Arab Emirates
UGC	University Grants Commission
UIPT	Urban Immoveable Property Tax
UNDP	United Nations Development Programme
USA	United States of America
WASA	Water and Sanitation Agency
WWF	Workers' Welfare Fund

EXECUTIVE SUMMARY

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Pakistan needs a different development paradigm to deal with its many economy, social and political problems. The paradigm needs to be different from the one followed in recent years that, despite several years of high growth, plunged the country into a deep crisis which manifested itself as an economic downslide, security breakdown, political instability, governance failure and international marginalisation. The new development paradigm must work to restore not only the confidence of the domestic players in the economy, but also revive external interest in the country's economic future. One important pillar of this new paradigm can be the reforming of economic, social and political systems by bringing the government closer to people. The 7th National Finance Commission (NFC) Award and the passage of the 18th Amendment to the Constitution are major steps in the direction of devolution in Pakistan.

CONCEPTUAL FRAMEWORK FOR THE 18th AMENDMENT

This report attempts to define the underpinnings of the new devolution system, and to clarify its conceptual basis that may assist in guiding both its implementation and an assessment of its effectiveness. It discusses the advantages of federalism which have motivated 40 percent of the world's population to adopt it. These include additional checks and balances because of the distribution of power to multiple tiers of government; support for democracy and enabling citizens to participate actively in their own development; easier access of people to government for action; support for diversity through a reflection in local policies; and the need to coexist facilitates an environment of mutual cooperation and compromise that may lead to more balance and hinder extreme positions.

However, federalism has its disadvantages too. It is more complicated and difficult to operate with overlapping responsibilities and confusion of roles. It can also lead to duplication of government and contradictory policies in different parts of the country. Inequalities among regions may increase with negative externalities and there can be a breakdown of the common market for national goods and services if some regions impose restrictions on movement. Also, regions could begin to engage in "fiscal wars" giving financial concessions to foreign investors without any limits, thus incurring huge debts.

Federalism, Devolution and Human Development

Conceptually, federalism and devolution should promote human development through expansion of peoples' capabilities and their range of choices. The experience of federalism in the world has been mixed. In some developing countries, federalism and devolution have not promoted participation, responsiveness or accountability. Research shows that the nature of steps taken to introduce federalism, and the relative success in meeting its objectives depends on the history as well as the manner in which federalism is structured. For a federal system to work there appear to be some important prerequisites like autonomy to each level of government to enable local people to set priorities and use resources to achieve them along with the proper support of institutional, human and financial resources.

Proposed Principles of Devolution for Pakistan

The report presents a conceptual framework linking decentralisation and human development. It shows how administrative, political and fiscal decentralisation would lead to macroeconomic stability, efficiency, empowerment and equity. Macroeconomic stability will promote economic growth; efficiency will further enhance local service provision and degree of economic development; equity will reduce urban/rural gaps and regional disparities, and also create direct benefits for the poor reducing gender inequality; and empowerment will enable the people to raise their voice, be heard and make choices. These combined will produce an improvement in human development. Based on these the report proposes a set of principles that may be used to guide the implementation of the 18th Amendment to the Constitution.

The keys principles relate to common markets, macroeconomic stabilisation, promotion of growth through uninterrupted investments in key sectors and the incentives of environment, subsidiarity, national public goods, linking costs to benefits, income equalisation, equity among federating units and reduction of inequality and disparity, minimum standard of service provision, national unity and integrity, recognition and promotion of diversity and differences, cooperation between federating units, resolution of issues through consensus and debate and explicit inclusion in constitution.

Federalism - The International Experience

Globally, there are 28 federations, 10 in developed countries and 18 in developing countries. They cover large countries, both in terms of area and population, such as India and USA, and small countries such as Comoras and Federated States of Micronesia. International experience may help Pakistan to better understand and resolve some of the issues experienced in the process of implementation of the 18th Amendment.

Key Fiscal Decentralisation Indicators

Pakistan appears to be at the intermediate level of fiscal decentralisation with a 30 percent share of sub-national (state/ provincial + local) governments in total public expenditure (prior to the 7th NFC Award and 18th Amendment). An international comparison indicates that the average share of sub-national governments in total public expenditure is higher for federal countries than for unitary countries. Likewise, the share of revenues generated by sub-national governments in federations is also generally higher. This indicates that there is higher devolution in federal countries than in unitary governmental structures.

Regarding allocation of function, by and large, the dominance of the intermediate (state / provincial) government in the provision of social services is clearly indicated. Of course, there are some noticeable differences. Electricity is mostly a shared subject between central and intermediate levels of government. Telecommunications is exclusively the responsibility of the central government. In the area of transportation, there is a clear hierarchy of provision. Intra-urban highways are managed either by local or state governments, while inter-urban highways are the responsibility of the central and intermediate level governments. Ports are mostly under central control, with some smaller ports being managed by state / provincial governments like in Argentina, Brazil and India. Airports are largely the responsibility of a central agency. Urban transportation is generally managed by intermediate and local governments. The function of law and order, performed by the police, is in most countries in the sample, executed and managed by state / provincial governments. Finally, the management of the irrigation is generally with state / provincial governments.

There appear to be fewer differences in the allocation of taxes among different levels of government than in the allocation of functions. Income tax, both corporate and personal, and customs duties are collected by the central government. Sales tax is either a central tax or the tax base is split between state / provincial governments. Excise duties are mostly in the federal domain. Payroll taxes revert frequently to intermediate level governments. Taxes which are generally sub-national in character include taxes on land and immoveable property, taxes / surcharges / royalties on natural resources, stamp duties and motor vehicle taxes.

Sub-national Borrowing Powers

Access to borrowing by sub-national governments is a somewhat contentious issue in many countries due to concerns about the impact on macroeconomic stability and debt sustainability. However, sub-national borrowing is generally allowed subject to some controls. The controls can be administrative or market based in character, For example, in India and Pakistan, borrowing is approved by the central government while in Estonia, Peru and Venezuela, they are largely rule based. Canada is an example of the most fiscally decentralised but well-managed country. All ten provinces have full freedom to borrow any amount without restrictions. They do, however, follow their own rules, ensuring that subsequent administrations do not get encumbered with a deficit. Also, if the deficit of a province increases beyond a certain ceiling, its international credit rating falls; and it is therefore, less likely to attract funds. On the other hand, Brazil has been a special case of highly liberal policies for sub-national borrowing that led to national fiscal destabilisation and caused the central government to impose fiscal controls

Centre-State Relations and Dispute Resolution

Intergovernmental relations change over time and with changes in political, social and economic conditions. In India, for example, the debate over strong centre and strong states started as early as the 1950s. The situation was exacerbated by the imposition of the emergency rule by Indira Gandhi and in 1983 the Commission on Centre State Relations was formed. Consequently, since 1950, 97 amendments have been introduced until January 2012 within the constitution, of which at least 30 are related to aspects of devolution. On conflict resolution outside courts (many state-centre conflicts have been taken to court), the Indian constitution envisaged the National Development Integration Council, the National Development Council and the Planning Commission which have not worked. Article 263 provides for an Inter-State Council which is supposed to be a body for intergovernmental consultation and cooperation, to inquire and advise on disputes between States, investigate and discuss subjects of common interest and make recommendations on any subject for better coordination and action. The working of dispute resolution mechanisms in India have, however, been of concern.

In Pakistan, the Council of Common Interests (CCI), which deals with centre-provincial and interprovincial disputes and issues of concern to all provinces, has been revitalised and strengthened by the 18th Amendment. The National Economic Council (NEC) and its Executive Committee (ECNEC) has been a regular body with representation from all provinces and has been recently reconstituted which higher provincial representation. A new Ministry of Inter-Provincial Coordination has been set up to deal with issues of coordination between the provinces and with the centre. The National Finance Commission (NFC) is a constitutional body which decides intergovernmental revenue sharing between the federation and federating units.

Local Governments

Some key lessons for Pakistan that can be extracted from experiences in other countries regarding local governments are as follows. Local government really must be local in nature thus village-level representation and community involvement in development processes and monitoring must be ensured; local governments should have clearly defined functions and responsibilities, together with responsibilities for local revenue generation. In addition, they must be provided additional funds if their own expenditures exceed their own revenues; built-in incentives for improving social indicators can be helpful and bottom-up village development planning process such as the one used in India, with monitoring through village and district monitoring committees would be very useful.

Some Special Emerging Issues

In recent times there has been talk, in the public, of more provinces in Pakistan. Perhaps the size, diversity, population and challenges of governance demand that Pakistan should have more federating units. Also an international comparison shows that of all the federations in the world, Pakistan has the lowest number of constituent units with very high population per unit. An argument can, perhaps, be made that Pakistan should have smaller, more manageable federating units where people are able to participate more fully and directly in development decisions that affect them. Regarding what should be the basis of this division, some argue that provinces be created following proper research and debate regarding the social, cultural and very importantly, the economic viability on an administrative basis, using population, area, resource base, source of income.

18th AMENDMENT: MAPPING THE TRANSITION

Changes due to 18th Amendment:

With this Amendment the Concurrent List of legislation (CLL) in the Constitution stands abolished, devolving the functions contained in the List to the provincial governments. This significantly enhances the range of legislative and functional responsibilities of provincial governments. Some changes have also been made in the Federal Legislative List (FLL). The role of provinces is also enhanced by transferring a few subjects from FLL Part I to FLL Part II since the latter comes under the CCI. These subjects include major ports, census, national coordination and planning, and interprovincial jurisdiction of the police force. Moreover, the CCI has gained control over the management of public debt and all regulatory authorities established under federal law. An important and welcome step is the revitalisation of the CCI – with stronger provincial representation and regular reporting to parliament.

In addition, major changes related to fiscal powers under the 18th Amendment include sales taxation of services by provinces, no reduction in share of provinces in future NFCs and borrowing powers to the provinces.

Also, several other changes have been made under the 18th Amendment which may have direct implications for social development in the country. These include the right to free education, right to information, safeguards against discrimination in services, promotion of social and economic well-being of the people and establishment of local governments.

Status of Implementation

As highlighted above, the 18th Amendment has resulted in the redistribution of functional responsibilities of federal and provincial governments. The federal government devolved its 17 ministries -- mostly related to social sectors. However, eight new ministries have been created by the federal government. There appear to be two major factors behind the motivation of the federal government to create new ministries. First, the objective is to continue with retained functions and services after 18th amendment, particularly those functions which are national in character. The other motive appears to be to accommodate partners of the coalition government. Creation of new ministries has been questioned and termed as an attempt to roll back the 18th Amendment by the Chairman of the Implementation Commission for the 18th Amendment, Senator Raza Rabbani

Several institutions involved in service delivery have been retained by the federal government, including the Employees' Old-Age Benefits Institution (EOBI) and Workers Welfare Fund (WWF), which have been transferred to the newly formed federal Ministry of Human Resource Development. Provinces of Punjab and Sindh have raised concerns about the retention of these institutions. Also, there appears to be a dichotomy in the policy of the federal government as it has transferred some institutions providing health and education services to the provinces while retained apparently strong candidates for devolution. On the whole, some subjects performed by the devolved ministries have not been fully devolved. There were 301 entries in the allocated business of devolved ministries and divisions. Altogether, only 94 functions have actually been devolved whereas 207 functions have been retained by the federal government.

As a consequence of 18th Amendment, more than 100 laws and more than 200 minor acts need to be amended or replaced. In addition, a large number of subordinate legislation needs to be amended in sync with the superior legislation. However, there is a major legislative gap which is hindering the full implementation of the 18th Amendment.

Implications for Finance and Development

Current expenditure on the devolved divisions was Rs21.5 billion in 2010-11, which could have potentially been saved. However, the establishment of new divisions has placed an additional burden of Rs5.6 billion in 2012-13, leading to an overall reduction in current expenditure at the federal level of Rs16 billion. The increase in current expenditure liability of provincial governments due to devolution is estimated to be Rs5.0 billion in 2011-12. A number of federal PSDP projects/schemes relating to devolved subjects have also been transferred to the provincial governments. The basic issue that arises is the financing of these projects. The provincial governments were of the view that the 7th NFC Award preceded the 18th Amendment. Therefore, the additional resources should be provided to finance liabilities transferred to the provinces.

The CCI took up the issue and made a number of decisions: the federal government will continue to fund higher education, vertical programmes of the health and population sectors till the next NFC award due in 2014-15 and all projects located in the provinces except those being carried out under presidential and prime minister's directives will be financed by the provinces.

In line with the CCI decision, an allocation of Rs17.9 billion was made for 17 vertical programmes in the sectors of health and population welfare in the budget 2011-12. Actual releases to these projects during 2011-12 have been 92 percent of the total allocation. This is an encouraging step towards the sustainability of important social programmes in the preventive health sector. However, greater ownership of these programmes by the provincial governments could have been created by including them in the provincial ADPs with financing through development grants by the federal government.

The total cost of the projects transferred to the provinces was Rs108 billion while expenditure incurred on these projects up to June 2011 was Rs40 billion implying a throw forward of Rs68 billion. The provinces had the option to continue or discard these projects according to their own development priorities. An analysis of provincial Annual Development Programmes (ADPs) of 2011-12 and 2012-13 indicates that most of the projects have been continued in the provinces of Punjab, Khyber Pakhtunkhwa and Balochistan. These projects have been integrated into their respective ADPs. The total cost of the projects, which have apparently been discontinued, amounts to Rs20 billion. Expenditure already incurred on these projects was Rs3 billion, which is in the nature of sunk cost. In the case of Sindh, however, the devolved projects do not appear to have been integrated into ADP as regular schemes. However, in the next year's ADP (2012-13) total cost given for all devolved projects is Rs754 million. It is not clear whether all the remaining projects have been discontinued.

A significant number of projects related to devolved subjects are still found in the federal PSDP. An allocation of Rs69.5 billion has been made for these projects, which is equivalent to 29 percent of the total PSDP allocations to the federal ministries in 2012-13.

To conclude, while the 18th Amendment has had the intention of providing greater autonomy to the provinces. Political and bureaucratic compulsions to retain control and power have raised serious questions on it. We suggest the establishment of a commission to determine the extent to which the goals of the 18th Amendment have been achieved and steps necessary to ensure full implementation.

IMPLICATIONS OF THE 7th NFC AWARD ON SUB-NATIONAL FINANCES

The financial state of provincial governments in Pakistan largely depends on intergovernmental revenue transfers which take place according to the provisions of the NFC awards. However, because of difficulty in building consensus between the federation and each federating units, there have been only three NFC Awards (1974, 1991 and 1997) while there was one Presidential Distribution Orders (2006) prior to the 7th NFC Award. Five NFCs were unable to reach a consensus; and therefore, there was no award.

Key Elements of the 7th NFC Award

The 7th NFC Award has brought some profound changes in the resource distribution formula in terms of changes in the divisible pool transfers, straight transfers and grants. Principally, the overall size of the divisible pool was enlarged, Khyber Pakhtunkhwa's role as a frontline province against the war on terror was recognised through earmarked additional transfers, provincial share in the divisible pool was increased, revenues from GST on services was accepted as a provincial tax and not a divisible tax, formula for gas development surcharge (GDS) computation was revised, rate of excise duty on gas was increased, arrears on the payment of hydel profits to Khyber Pakhtunkhwa and GDS to Balochistan was approved and a grant of Rs6 billion was given to Sindh though all discretionary grants-in-aid to all provinces was abolished.

The 7th NFC Award has resulted in an increase in the share of provinces in the divisible pool of taxes to 57.5 percent 2011-12 onwards and expanded the distribution criteria for divisible pool to provinces. The criteria now includes: population (82 percent), poverty and backwardness (10.3 percent); revenue collection/generation (five percent) and inverse population density (2.7 percent).

Financial Implications of the 7th NFC Award

Federal transfers to provinces increased by over Rs160 billion in 2010-11, Rs230 billion in 2011-12 and Rs285 billion 2012-13 due to the changes in the design of divisible pool transfers. In percentage terms, transfers to provincial government are higher by 23 to 28 percent as a result of changes made in distribution formula in the 7th NFC Award. This increase in transfers reduces revenues of the federal government from the divisible pool by about one-fifths.

The Award has, expectantly, had a differential impact on the four provinces benefiting disproportionately the smaller provinces. In 2010-11, percentage gains in transfers to Balochistan, Khyber Pakhtunkhwa, Sindh and Punjab are more than 100 percent, 50 percent, 20 percent and 15 percent respectively. Thus the 7th NFC is fiscal equalising and the objective to ensure horizontal equalisation through non-discretionary, transparent mechanisms appears to be successful.

Transfer of GST on services to the provinces, changes in the GDS distribution formula and excise duty has increased straight transfers to the provinces by 63-72 percent over the last two years. The 7th NFC through discontinuation of grants has led to a reduction in grants to provinces while payment of arrears on gas and electricity and grant to Sindh leads to an increase, with a net reduction of 16-26 percent under this head. Altogether, the impact of the provisions of the 7th NFC Award results in an additional 26-28 percent revenue transfer to the provinces compared to the previous intergovernmental revenue transfer arrangements. The largest beneficiary, with an increase of more than 60 percent throughout the tenure of the NFC Award, is Balochistan followed by Khyber Pakhtunkhwa. The relative picture substantiates the point made earlier that the 7th NFC Award will be fiscally equalising as its provisions disproportionately benefit the relatively backward provinces more.

Local Government Finances After the 7th NFC Award

Prior to the 7th NFC Award, one-sixth of GST on revenues in the provincial divisible pool was earmarked for local governments as a compensation for the abolition of octroi and zila tax (OZT). This amount was distributed on audited collection share of OZT. The 7th NFC Award abolished the separate basis of distribution of one-sixth of GST goods and merged it with other divisible pool taxes to be shared on the basis of multiple criteria discussed earlier. As a result, earmarking of revenues for the local governments has ceased and the transfer is now at the discretion of the provincial governments.

Significant variations in the pattern of growth of intergovernmental fiscal transfer from provincial to local governments across provinces is witnessed in the pre- and post- 7th NFC award period. In Balochistan, no transfer from provincial governments to local governments is reflected in budget documents 2011-12 onwards. Sindh also shows a significant decline. In contrast, in Punjab and Khyber Pakhtunkhwa the transfers exhibit a growth in the last two fiscal years.

There has been growing concern about the financial viability of large cities in face of the pressures of rapid urbanisation. This is also an emerging issue in Pakistan although it is yet to hit the headlines. The basic problems are, first, that financing needs per capita are higher than those of small cities and, second, that the incremental costs of absorbing additional population rise rapidly, especially of water supply (due to procurement from more and more distant sources) and urban road network (due to the spatial expansion of metropolitan areas). Potentially, the tax base should also be larger due to greater economic activity, but this is not adequately exploited either due to limited fiscal powers (usually the same for small and large cities) or because of underdevelopment of the tax machinery and high levels of tax evasion (especially due the sizeable informal economy in large cities). Therefore, there is a tendency for the financing gap to rise on a per capita basis as cities expand.

The solutions have to be both of immediate short term and medium term in character. In the short term, the focus has to be on solution of the liquidity problems of water supply and sanitation agencies. In the medium term, local revenue sources will have to be better exploited and possibly more fiscal powers given to the municipal governments of large cities. In most cities, user chargers are linked mostly (except for metered bulk consumers) to the Gross Annual Rental Values (GARVs), assessed for the purpose of levy and collection of the Urban Immoveable Property Tax (UIPT) which are only a fraction (one-fifth to one-fourth) of current market rental values. Consequently, the user charge collection is low in the presence of high inflation.

Clearly, the time has come for the UIPT to be transferred to large city governments, which are big enough to have their own specialised tax machinery. In the interim period, water and sewerage charges should be enhanced on an ad hoc basis by up to 150 percent to cover the financing gap and stronger measures adopted to enforce payment of bills, while keeping affordability considerations in mind with regard to the poorer segments of the population. Over time special measures, in the form of additional fiscal powers, may have to be granted to metropolitan governments. This could include 'piggy backing' on the federal income tax and a small surcharge on the provincial sales tax on services.

RESOURCE MOBILISATION BY PROVINCIAL GOVERNMENTS

It is important that the provincial governments maximise their revenue collection and finance, partly, the additional expenditure liabilities created by the devolution process. Besides explicit tax assignments, tax bases not explicitly assigned to the federal government fall under the provincial fiscal domain, according to the provisions of the constitution. As such, some important taxes are under provincial fiscal powers including GST on services, agricultural income tax and taxation on immovable property.

The Sales Tax on Services

Prior to the 7th NFC award and the 18th Amendment, the FBR collected GST on services under two regimes: one as provincial sales tax on behalf of provinces which was reverted back to the province of origin and GST on services (under the Central Excise Mode) which is basically taxation on services but was part of the divisible pool. This arrangement adversely affected the provincial revenues because the FBR had little incentive to maximise collection under the first regime and a share of revenues collected under the second regime was retained by the federal government. Estimates show that the latter, over the ten-year period cumulatively, has effectively cost a revenue loss to the provinces of as much as Rs155 billion.

In the post-NFC period, a comparison of budgeted with revised figures show that the FBR, which continues to collect GST on services(in CE mode, now referred to as GST on telecommunications) has not been able to achieve the revenue target. There has been a shortfall of 26 percent. As opposed to this in Sindh, where revenues were collected by the newly established Sindh Revenue Board(SRB), the revenue target was achieved. Also, while the FBR has budgeted an increase of 10 percent in 2012-13, Sindh budgetary target shows a growth of 28 percent. Interestingly, Sindh has targeted an increase in both GST in telecommunications and other services.

As to whether the growth in Sindh's revenue collection is an outcome of improvement in tax efficiency or broadening in base, available details support the hypothesis that growth was more due to improvement in tax administration. Moreover, the SRB also shows some revenue heads, which are not mentioned in the FBR yearbook like services provided by medical diagnostic laboratories, pathological laboratories, and property developers and promoters. This may be an indication of broadening in tax base of GST services.

Based on the success of provincial sales tax collection, the outlook for GST in Pakistan levied in an integrated VAT mode, as aspired by the federal government, does not appear realistic and politically feasible.

Development of Agricultural Income Tax

Total tax collection in the four provinces combined aggregated to about Rs1 billion only in 2011-12, with over 70 percent of the revenue being generated in the province of Punjab. This level of collection is an insignificant proportion of the national value added by the agricultural sector. Therefore, the sector is effectively exempt from income taxation. Lack of proper implementation, in particular, problems in the derivation of net taxable income, is the principal cause of this under exploitation.

The report while developing a case for the effective levy of AIT, presents mechanisms of enhancing revenues. Application of the simple progressive fixed tax regime is suggested which will not only greatly simplify the tax system but will also reduce the possibilities of tax evasion. The fixed rates also need to be enhanced in order to make the tax burden more significant. The estimated revenue yield from the reformed AIT is Rs35 billion for the four provinces combined, with 80 percent collection efficiency. This will increase provincial own-tax revenues by almost 50 percent while almost 95 percent of the farmers will continue to remain exempt.

Development of Taxes on Real Estate

There is evidence of multiple taxation on property transactions including stamp duty, capital value tax and tax on transfer of property. Consequently, the combined tax rate is high and encourages under-declaration of property values. The desired reform in this area of taxation of real estate is to rationalise the tax rates, eliminate the tax on transfer of property and update the valuation lists of District Collectors.

In the case of urban immovable property tax, the assessed rental values are only a minor fraction of the current market rental values. Reforms of the property tax will include: decentralisation of levy and collection of the tax to at least the large municipal metropolitan governments, extension of rating areas, survey of properties to update rental values and rationalisation of exemptions and concessions. Given the multiplicity already of taxes on real estate, the introduction of CGT by the federal government appears to be an ill-advised move.

Provincial Borrowing Powers

Given the low level of outstanding provincial debt, there is perhaps a case for enhancing the access of provincial governments to the capital market. Besides enlarging the provincial resource envelope, this will expose such governments to market discipline, greater reporting requirements and fiscal transparency. Further, this will ensure that since infrastructure investments also benefit future generations, they should also bear some of the cost. However, it is important to ensure sustainability of sub-national debt if problems of financial insolvency are to be avoided in the medium to long run, leading to a situation where the federal government has to engage in bail out operations as 'lender of the last resort' Also, excessive sub-national borrowing could jeopardise the adherence to the macroeconomic and fiscal framework of the country. The report while examining international experience, recommends fiscal rules, to be imposed by provincial assemblies through Provincial Fiscal Responsibility and Debt Limitation Acts. The National Economic Council may monitor the adherence to limits imposed by the provincial Fiscal Responsibility Acts. In the absence of such an act enacted by the provincial assembly of a particular province, the NEC may specify the limits and the conditions for borrowing by such a province.

To conclude, if provincial governments continue to make minimal attempts at tax reforms and present 'tax-free' budgets then it is unlikely that the tax-to-GDP ratio will rise significantly in coming years. Also, there will be a need to establish norms of fiscal responsibility through appropriated legislation which regulates provincial borrowing.

THE FUTURE OF LOCAL GOVERNMENTS

The 18th Amendment has accepted the long-standing demand for constitutional recognition to the third tier of government in Pakistan. Extracting lessons from international experience, the report presents principles for allocation of functions, local resource mobilisation, intergovernmental revenue transfers and financial management and accountability. It reviews the 2001 devolution plan and the status of proposed legislation.

Local Government Act (LGA)

Undertaking a detailed analysis of Punjab and Sindh Local Government Acts (LGAs) with respect to allocation of functions, structure of local government, allocation of fiscal powers, borrowing powers and financial accountability, the report concludes that overall, the proposed LGA of Punjab represents a retreat from the wide ranging functions transferred to local governments in 2001. However, revenue sources have been consolidated and some additional fiscal powers given along with strengthening of financial controls. It is imperative that the new law be legislated quickly by the provincial assembly so that local elections are held soon, as per the directive of the supreme court.

Deliberations have been ongoing between the PPP and MQM over the former's proposed Sindh Local Government Act 2009 draft in order to find a middle ground, which is more or less replica of Sindh LGO 1979. As in the case of Punjab, the report looks at the allocation of functions, structure of local government, allocation of fiscal powers, provincial financial commission and fiscal transfers and accountability. The overall conclusion is that the hiatus in local governments must be resolved urgently. The grass-roots participation of citizens and the provision of basic services at the doorstep to the people are one of the fundamental pillars of democracy. The constitution clearly recognises local governments as a provincial subject. Therefore, it is to be expected that different provinces will enact different LGAs within their respective jurisdictions, in line especially with the prevailing political economy and ground realities. But it is important that the broad principles for good local governance, as identified in the report, be adhered to in the laws that must be enacted soon, to be followed by early elections.

INITIAL IMPACT OF NFC AWARD ON SOCIAL DEVELOPMENT

It was expected that the increase in provincial fiscal space following the 7th NFC award will largely be diverted to social sector expenditures. However, the expenditures show a growth of 19 percent in 2010-11, compared to an increase of 38 percent in revenues. This increase in expenditures is largely due to current expenditure escalation in response to the salary increase announced by the federal government while development expenditures show a decline of five percent. Another, unexpected outcome is that the provincial governments preferred to generate budget surpluses rather than initiate projects to enhance the pace of social development in their respective provinces, perhaps due to limited institutional capability to design and implement a larger development portfolio, particularly in the smaller provinces.

Provincial Governments' Pro-Poor Expenditures

The Government of Pakistan, in the PRSP-II has identified seventeen budgetary heads as expenditure on pro-poor sectors. PRSP expenditures, as a percentage of GDP, substantially increases from 2.5 percent in 2000-01 to 4.7 percent in 2007-08. However, they declined to 4.3 percent of GDP in 2009-10. It was expected that these expenditures will increase after the 7th NFC Award. Indications are that these expenditures will close at the level of 3.92 percent of GDP in 2011-12. While, Balochistan shows an increase in PRSP expenditures in 2010-11, the remaining three provinces show a decline.

Focusing on social expenditures, provincial government expenditures on social sectors as a percentage of GDP show a similar pattern. Expenditures increase up to 2007-08, decline thereafter upto the post NFC period when there is some recovery. Except Khyber Pakhtunkhwa, there is an increase in social sector expenditures in the other three provinces'. Provincial governments' priority to social sectors (provincial government expenditures on social sectors as a percentage of total provincial expenditures), shows an upward trend. These expenditures increased from 31 percent in 2000-01 to over 38 percent by 2011-12. Therefore, the expectation that improvement in provincial financial position will lead to an improvement in social sector allocations appears to be materialising, though the gains are very limited yet.

Social Development Before and After the 7th NFC Award

The report attempts to study the impact of the Award on social development. Initial outcomes are discussed in the report for eradication of the extreme poverty, undernutrition, education, child immunisation and health indicators. The overall conclusion is that while there is substantial progress during the period 2000-01 to 2007-08, a decline in growth momentum is witnessed thereafter. The post-NFC award period does show some improvement in most indicators, but provinces have a long way to meet their international commitments related to the MDGs.

Overall, the chapter concludes that the 7th NFC award provided the much-needed fiscal space to provincial governments. It was expected that this fiscal space would be used for the betterment of citizens, particularly of backward regions. However, in the first two years following the 7th NFC Award, we witness that this fiscal space was primarily used to either generate budget surpluses or increase in current expenditures. There was in fact a decline in development expenditures at provincial level. Given that most of the indicators of social development show a loss in growth momentum after 2007-08, it is essential that more of the revenue gains from the NFC award be channeled to the social sectors. Clearly, in the absence of such a concerted effort, Pakistan is unlikely to meet most of the targets of the MDGs by 2015.

EMERGING ISSUES FROM THE 18th AMENDEMENT

Given that the 18th Amendment entails profound changes in the structure of government, implementation is bound to be problematic. Creation of new stress points and tensions within the federation are likely to emerge. The report discusses a number of emerging issues which will need to be eventually resolved by consensus among the federating units, especially by discussions within the Council of Common Interests.

Electricity

The major change with regard to electricity in the 18th Amendment is the shifting of this subject from the now defunct Concurrent List to the Federal Legislative List Part II. The country today faces the highest levels of power load-shedding in its history. The major reasons for this crisis include non-utilisation of full capacity due to poor O&M, increase in oil prices and circular debt, depletion of gas reserves, accelerating system losses, seasonal variation in the availability of hydropower and growth in demand. Power shortage has resulted in severe disruptions to economic activity and large losses of income and employment. According to recent estimates, the total economic cost of load-shedding to industry, commerce, agriculture and domestic consumers combined exceeded Rs1 trillion in 2011-12 equivalent to more than five percent of the GDP. This has led to large-scale public protests.

The impact of load-shedding has affected the four provinces differently. Biggest decline in consumption is observed in distribution companies of Punjab and Balochistan. As opposed to this, consumption has increased by nine percent in KESC. Consequently, the problem of severe load-shedding and its regional distribution is imposing severe stresses on the federation. Since issues related to electricity are to be resolved by the CCI following the 18th amendment, a resolution has been passed in the last meeting of the Council that the burden of load-shedding be distributed equally throughout the country.

What are the implications of following this strategy? Given that the distribution companies in Punjab appear to be more efficient in generating revenues due to substantially lower transmission losses and higher rates of recovery of billing, both equity and efficiency considerations are better met by distributing the burden of load-shedding more uniformly throughout the country. Also, to incentivise provincial generation of energy a proviso should be added to Clause2 of Article 157 stating "a province may construct power houses and grid stations and lay transmission lines for use within the Province subject to the provision to the commitments and obligations as on the commencing day." The commencing day in this case will be the time when province start supplying to the national grid. This will confirm that the existing supply to the province from the national grid will not be reduced if the province generates additional electricity on its own and supply to the national grid.

Gas

Constitution provisions with respect to gas imply that in periods of shortage, given the priorities of the government, the power and fertiliser sectors have been relatively deprived of gas and the interests of consumers in the domestic and transport (CNG) sectors have been largely preserved and the gas producing province (Sindh) has precedence over other parts of Pakistan in meeting the demand. Consequently, as the shortage has worsened, the regional distribution of gas consumption has altered. As such, the only option available for ensuring efficiency in the allocation of a scarce and valuable resource like gas is to let market forces act by deregulating the pricing of the gas sector.

Given the change in Article 172, the provincial governments may legitimately argue that they should also be involved in the granting of concessions for gas exploration. There may also be a case for establishment of companies at the provincial level like the Oil and Gas Development Company. Also, in recognition of the role of provincial governments in the regulation of the sector, especially in price setting, representation of each province may be ensured in the Board of the NEPRA.

EOBI and WWF

The abolition of the Concurrent List in the Constitution following the 18^{th} Amendment has resulted in the devolution of the labour and manpower to the provinces. There is, however, ambiguity if workers' welfare activities also are to be devolved. The EOBI has sizeable assets today of over Rs200 billion. The annual benefits paid are about Rs8 billion. Therefore, the annual accrual to the EOBI is almost Rs22 billion. As such, EOBI is a strong and financially viable entity.

As for WWF, the total revenues collected by FBR as contributions to the WWF were Rs5 billion in 2010-11. 25 percent of the revenues were from Islamabad, 17 percent from Punjab, 54 percent from Sindh and four percent from the two smaller provinces. The regional distribution of revenues clearly reflects the location of head offices of corporate entities in Pakistan.

The demand for provincialisation of EOBI and WWF has already been voiced in the CCI. In case of devolution, there would be the issue of collection and distribution of funds – how should these be determined and the issue of division of financial and physical assets that belong to the WWF and EOBI among the provinces. Moreover, if workers with domicile of one province work in another province and after retirement go to their home province, the issue for EOBI then will be cross-border generation and distribution of pensions.

The potential solutions lie, first, in keeping EOBI as a federal institution and continuing with the operation of the EOBI act 1976 with the provision that the Board will have the representatives from each province. The case for this can be made on the ground that a large social security scheme enables greater pooling of risks and enhances the financial viability of the scheme. Second, WWF can effectively be decentralised because it is more in the nature of a development programme for workers. The formula for distribution among the provinces, like in the case of the Zakat Fund, may be based on population shares.

Higher Education Commission

Today, the HEC provides financing of public universities through recurring and development grants and regulates all universities. The total recurring budget in 2010-11 was almost Rs15 million while development budget was Rs9 billion. An initial attempt was made to devolve HEC functions after the passage of the 18th Amendment. However, on the petition by the HEC, the supreme court issued a stay order. The CCI has allowed an independent working and continued federal financing of the HEC till 2014.

Beyond 2014-15, it appears that, following the 8th NFC Award, financing of universities will be transferred to the provinces. Administrative control and senior appointments in public universities are already the responsibilities of the provincial governments.

The decentralisation of curriculum development and syllabus at the primary and secondary level has led to some concerns about problems about standardisation of quality and the implications of a common national identity among the younger generation from different parts of the country. This is an important issue and may be resolved by the CCI.

Drug Regulation

The drug regulatory function prior to the 18th Amendment was being performed by the Federal Ministry of Health as per the Drugs Act of 1976. The Supreme Court of Pakistan has since given a directive for the establishment of a Drug Regulatory Authority (DRA). According, an Ordinance was promulgated by the President of Pakistan in February 2012 for the formation of a centralised regulation body of the pharmaceutical industry, despite objections from the Punjab government, but with the consent of the other provinces. The agency will control pricing of drugs, quality assurance, import/export and the issuing of licences to drug manufacturers.

The centralisation of drug regulation is essential because the international experience is that the risk of a race to the bottom, whereby there is a tendency to slacken regulatory standards due to competition in attracting pharmaceutical companies.

Agricultural Policy

The Ministries of Food and Agriculture and Livestock and Dairy Development at the federal level have been abolished with the intent of transferring functions to the provinces. Ministry of National Food Security and Research has been established in Islamabad with diverse functions including stabilisation of farm income/consumer prices and provision of regulatory and assessment services. The issue which arises relates to the fixation of support/ procurement prices for different crops. Decentralisation could have a number of implications, like the provinces producing sizeable crop will have edge in making unreasonable profit (if price fixing is left to them)and without national planning, any province can declare that it cannot produce much or beyond its own need causing a disorder in demand-supply equation and pushing the price up. The solution potentially lies in following the practice adopted in India. The Commission for Agricultural Coast and Prices (CACS) recommends the support price for different crops following discussions with State governments and Central Ministries/Departments this function can be performed in Pakistan by the Agriculture Policy institute (originally named the Agricultural Prices Commission). The support/procurement price for a particular crop can then be decided in the CCI.

Environmental Protection

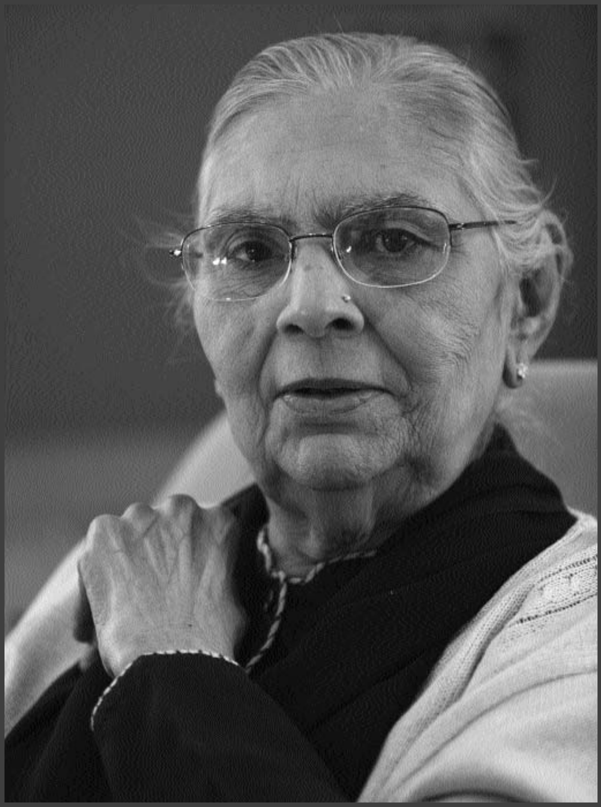
Following the abolition of the Concurrent List, Environmental Pollution and Ecology stands transferred to the provinces. A key emerging issue relates to setting and enforcement of the National Environmental Quality Standards (NEQs). Devolution of the Ministry of Environment (MoE) has been opposed by NGOs basically on the grounds of lack of capacity and readiness in the Provinces. It is necessary to maintain national-level institutions for: (a) effective policymaking and interprovincial coordination; (b) negotiation, oversight, monitoring and reporting implementation of international treaties and agreements; and (c) liaison with donors.

The solution appears to lie in retaining the functions of the federal Environmental Protection Council (EPC), which already provides for membership of the provincial chief ministers and ministers in charge of the subject of environment in the provinces. Post-18th Amendment there is need for an explicit statement on the delegation of powers and functions. The newly set-up federal Ministry of Climate Change should have minimum regulatory functions and enforcement of existing environmental laws should be the responsibility of provincial governments. However, the setting and monitoring of NEQS should continue to be performed by the federal EPC. This will require considerable strengthening of the provincial environment departments.

The emerging issues discussed in the report are already debated and discussed by different stakeholders. Solutions will need to be found which are consistent with the objective of greater decentralisation but are pragmatic in nature and focus on maximising the public good. The prime forum for discussion and consensus building will be the CCI. The strength of the federation in years to come will hinge on success fully implementing this initiative and achieving progress in the presence of strong vested interests which want to preserve the status quo.

To sum up, the analysis in this report leads to the conclusion that overall the 7th NFC Award has effectively led to fiscal decentralisation, the 18th Amendment has created the perception of a major enhancement in the autonomy of the provincial governments. The reality, however, has turned out to be somewhat different. Political considerations, legal impediments and the desire of the bureaucracy for centralised control have led to a significant roll back in the process of the implementation. Positive impact of devolution on social development will hinge on the commitment of both the federal and provincial governments to sustain the process and ensure implementation which provides the environment conducive to social development.

Views of a Leading Social Sector Personality



There is a need to identify strategies and plans which will aid provinces in accomplishing their new roles.

– Professor Anita Ghulam Ali

VIEWS OF A LEADING SOCIAL SECTOR PERSONALITY

Professor Anita Ghulam Ali's name is synonymous with the education sector in Pakistan. An academician and educationist, she has been awarded Sitar-e-Imtiaz for her contributions to education. She began her career in 1961 as a lecturer in microbiology at the Sindh Muslim Science College, Karachi. She has since been appointed provincial minister for education, culture, science, technology, youth and sports twice – in 1996 and then again in 1999. Currently, she is the Managing Director of the Sindh Education Foundation – a semi-autonomous organisation which undertakes educational initiatives in the disadvantaged areas of Sindh.

SPDC spoke to her about education, devolution and the 18th amendment.

Prof. Ghulam Ali started on a positive note about the state of education in the country. According to her, people in remote villages of Sindh want English medium schools for their children and they know it is the key to progress and that in itself is development. She attributed this "mental development" to the media and commended the latter on the positive role it has played in raising awareness among people.

However, she was clear about the challenges the education sector faces – the 'language issue' being the most important one. According to her, we are a long way from solutions but no government yet has even engaged in a meaningful debate or discussion about the medium of instruction which she feels should be the mother tongue, and from grade sixth as a second language thereafter. She stressed the need for a high standard of instruction for the English language.

She noted that the icons of partition, despite being educated in their mother tongue, had an excellent command over the English language. So many of them went to local schools and madrassahs, and learnt the English language later on in life. Unfortunately, the government has been unable to take a decision on the medium of instruction. She lamented the fact that even though language can be a uniting force so far "it has done more harm than good". However, the issue "is not unsolvable" as long as governments shun "expediency" and short-sighted measures.

She also disagrees with the idea that there should be one curriculum all over Pakistan. She believes that parents should be free to choose whichever curriculum they want for their children. But even if the government chooses to enforce a single curriculum in all schools, it should review its education policy on a yearly basis as opposed to every five years. Things are changing so fast that policy needs to be tweaked constantly especially in technical and vocational education.

Professor Anita Ghulam Ali finds the relationship between the state and people in the country woefully inadequate. There does not seem to be any kind of relationship between the state and people in Pakistan. If this was not the case, political representatives would have known more about their constituencies. She appreciated the contributions of a select few but considers the majority of political representatives lacking. The state has not been fair and it seems as though it has never considered hearing the voices from the people.

The leadership vacuum can be filled at the grassroots level which is why Professor Anita Ghulam Ali finds devolution and the 18th amendment "desirable" for Pakistan albeit with caution. The debate would now be more localised than having countrywide debates on issues. The provinces can take decisions and find common ground through coordination committee/s. Given the provision for the Council of Common Interests (CCI), they can discuss matters such as water and revenue sharing. This will promote a better understanding among provinces since all provinces are represented on the CCI. It will also help strengthen the federation.

She is cognisant of the changing roles and responsibilities of the provinces that are set to increase following the abolishment of the Concurrent Legislative List. There is a need to identify strategies and plans which will aid provinces in accomplishing their new roles.

Expressing her concerns on the implementation of the 18th Amendment, she noted the lack of adequate preparation particularly any forward homework which would have helped avoid controversies surrounding the implementation of the constitutional amendment. Those in devolved ministries do not know what to do now that the amendment has been passed.

According to her, the amendment is not a "messiah" as people thought it would be; it needs to be implemented properly for a devolved system to take its root. The problem is that people do not want to relinquish power. We have difficult days ahead regarding the implementation process of the amendment. Education and health especially will have a lot of contentious issues, and problems will arise over what subjects will go to the local government. She feels that such decisions will in fact be consequential for these vital social development sectors, and emphasised that health and education always go together.

She cites the examples of schools, set up 25 to 30 years ago, by local body boards, which were the best in Sindh . While this indicates how devolution can have a positive impact on social development, people need to have an open mind and be willing to accept changes, she cautioned. People are still looking for an effective leadership.

It will take time before we find our feet in this new system. Having worked in a devolved system during Musharraf's era she has experienced reluctance on the part of the bureaucracy to relinquish power. She speaks of the tussles between local government officials and commissioners and how that increases red tape and slows down dealings.

Another problem she foresees is that of transferring money to the grassroots level which has traditionally been problematic, and is likely to be exacerbated in a devolved system. She asserted that the empowerment of communities is important for successful transactions as they may lack the resources required for record keeping and accountability procedures. Yet another problem is the lack of knowledge among non-bureaucrats in the system. Devolution brings in people who are unfamiliar with the rules and regulations of government and the civil bureaucracy. She recalled how mayors, during the Musharraf era, were unacquainted with the workings of the system. This created obstacles in good governance and routine dealings.

Referring to remedial measures for the effective implementation, she emphasised the importance of training of officers on the processes of devolution; placing resource persons in ministries undergoing devolution to deal with issues as they arise; training communities in financial matters; and familiarising incoming officials with service rules. All these measures are important for the smooth functioning of the system.

She is hopeful that the 18th Amendment will have a positive impact on social development. In particular, Article 25 A – the State shall provide free and compulsory education to all children from the ages of 5-16 – highlights the urgent need to increase efforts towards reaching Pakistan's MDG and EFA goals.

It should help the ongoing devolution process if those involved go by the book, have flexibility and the mindset to use their expertise to get things going through processes which are legal. She also hoped that people who are entrusted with this responsibility will perform their duties with devotion – they should understand it and be committed. They should also be able to work within limitations. Political will and commitment, according to her, are the two essentials.

Conceptual Framework for Devolution and the 18th Amendment

1

Wherever there is a strong movement for democracy, there is usually an attempt to bring in a federal system.

1 Conceptual Framework for Devolution and the 18th Amendment

Pakistan needs a new development paradigm to deal with its many economic, social and political problems. The paradigm needs to be different from the one followed in recent years which plunged the country into a deep crisis despite several years of high growth. This manifested itself in various ways. The rate of economic progress slowed down and the incidence of poverty increased. Domestic terrorism grew to a point where Pakistan's ties with the rest of the world were negatively affected. This was particularly troubling since the latter depends on external capital and a decrease in its quantity has a deadening impact on the economy. The poor performance of the economy accompanied by palpably poor governance created an environment in which inter-regional, intra-provincial, inter-economic classes and sectarian conflicts have risen to the surface threatening the very integrity of the Pakistani state. These have come with heavy economic, social and political costs that will further set back progress.

Pakistan faces multiple threats. Dealing with it must be a priority for those who hold the reigns of power. The new development paradigm must work to restore not only the confidence of the domestic players in the economy but also revive external interest in the country's economic future. An important part of the suggested paradigm is to reform the existing economic, social and political systems in order to bring the government closer to people. The award made by the 7th National Finance Commission (NFC), in late 2009, is a big step in this direction. The other is the passage of the 18th Amendment to the Constitution of Pakistan.

With the passage of the 18th Amendment, decentralised federalism seemingly has made a big leap forward. In March 2012, Pakistan became a formal member of the Global Forum of Federations. How the newest member performs, and to what extent its experiences contribute to the increasing knowledge base of political governance and development, remains to be seen. It is important to properly understand the underpinnings of the new devolution system and to clarify its conceptual basis. This would help guide both its implementation as well as the assessment of its effectiveness.

FEDERALISM

There is no single way to define the best model of federalism. Wherever there is a strong movement for democracy, there is usually an attempt to bring in a federal system. "There has been a mushrooming of federal systems. While Australia, Canada, Switzerland and the USA were the only functioning federal democracies in 1945, today some 25 to 30 countries, with 40 per cent of the world's population, are federal" (Anderson, 2011).

Driven by political and economic imperatives, every federating country has a different model shaped through its own system of democracy, will of politicians and strength of institutions. Many countries have taken actions that they believe are in line with their devolved system only to find that these decisions need to be reversed. Many others have functioned well enough with a semi- or quasi- federal structure and a complex distribution of power and resources between the federating units. The ability to work with such models, and to evolve them over time, depends considerably on both the flexibility and power inherent within the system as well as the resilience of the larger system of democracy – the latter being a necessary condition for governance.

Birch (1961) terms federalism as a political device "which is adopted to further ends which are always partly and sometimes predominantly economic. How far it succeeds in furthering these ends will depend partly on the nature of the constitutional arrangements, partly on the policies of the political leaders, and partly on the effectiveness with which those concerned with economic development take advantage of the opportunities presented to them."

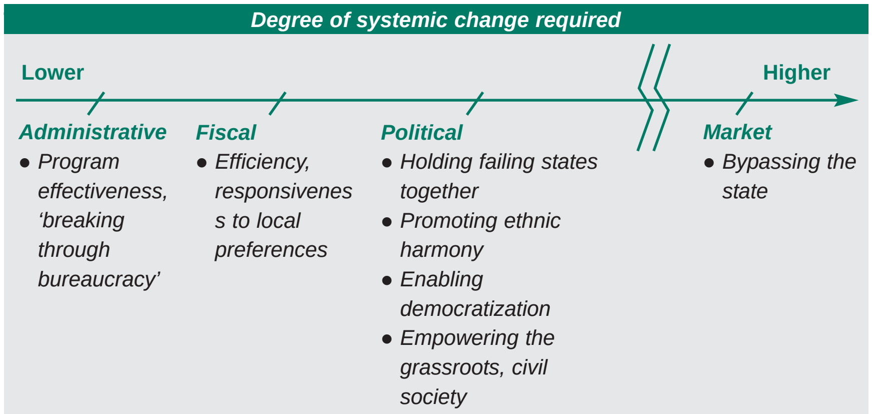
Decentralisation can take various forms. The first is deconcentration, which is the transfer of responsibility to lower levels of governance. Deconcentration takes place within the same legal entity; has vertical and hierarchical relationships between higher and lower levels; and accountability is administrative so that directions flow from top to bottom in which the lower levels are answerable to higher levels. In delegation, separate legal entities are formed, relationships are vertical but not necessarily hierarchical, and accountability is through a contract - negotiation and agreement. In the process of devolution, accountability is the main differing point. It is vertically defined by law and horizontally to the constituency through a political process (Shivji, 1983).

Gregersen (2004) adopts four types of decentralisation, which include political, administrative, fiscal and market decentralisation. Political decentralisation refers to the groups at different levels of government (central, meso and local), which are empowered to take decisions related to what affects them. The notion of administrative decentralisation relates to administering resources and matters by various levels of governments that are delegated to them through a constitution. In terms of decentralisation as a process of change, and according to the level of transfer of responsibilities, it is useful to distinguish between deconcentration, delegation and devolution. In the case of fiscal decentralisation, previously concentrated powers to levy tax and generated revenues are dispersed to other levels of government, e.g., local governments are given the power to raise and retain financial resources to fulfill their responsibilities. The concept of market decentralisation refers to a state of affairs where government privatises or deregulates private functions.

These distinct but linked types of decentralisation call for specific changes within the government systems, as illustrated in Chart 1.1.

The systemic changes identified in Chart 1.1 are both necessary for devolution to be effective, as well as those that may be a direct consequence of the devolution process. Perhaps one of the most significant points to be noted is the link between political devolution, democratic processes and institutions (including the role of civil society

Chart 1.1 Spectrum of the ideological underpinnings of decentralisation

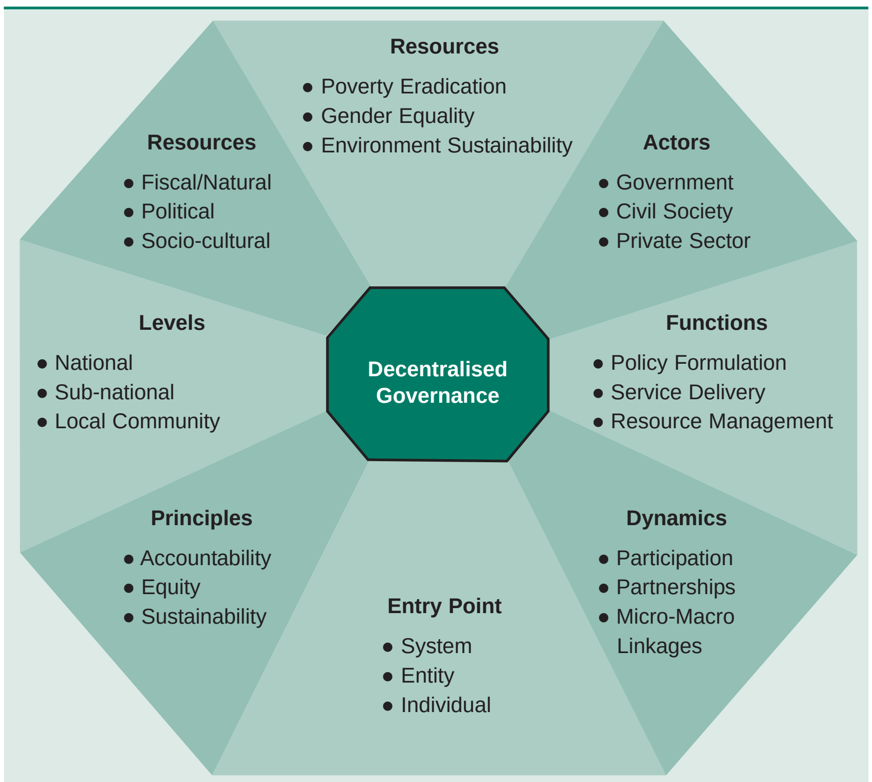


Source: Fritzen and Lim 2006

and participative planning), and devolution. For example, in Russia, attempted decentralisation failed because of the lack of democratisation within society and the sluggish political process. Whereas, in India, despite strong centralist tendencies, it been has been viable because of its sustained democracy.

The complexity of decentralisation by devolution is depicted in Chart 1.2 while Box 1.1 presents a review of merits and demerits of federalism.

Chart 1.2 Decentralized Governance



Source: UNDP 2004

Box 1.1 Advantages and Disadvantages of Federalism

Advantages	Disadvantages
• Distribution of power, ensuring vertical distribution to at least two tiers of government and additional checks and balances, in addition to horizontal links among legislative-executive-judiciary. • Support to democracy, enabling citizens to participate actively in their own development and exercising their right to vote both nationally and regionally. • Greater opportunity for local problems to be resolved through local and regional governments. National governments tend to be remote and may not be sensitive to issues in far-off provinces. • Ensures balance of power even if one group takes control of all three branches of the federal government, federation ensures that the state/provincial governments would still continue to function independently. • Promotes leadership by offering opportunities for local politicians even if they are in a minority at the national level. • Optimum utilisation of resources enables the national government to focus on issues of international relations, while local development can be taken care of by local government. • Different parts of a country can be very diverse and have different aspirations. Federalism can incorporate diversity within local policies, and help local cultures and languages to develop further. • Opportunity for experimentation and innovation. Different provinces can practice different approaches towards the same issue, and the results can be shared and evaluated. Successful models can be replicated if found feasible. • The need to coexist in a federal structure demands an environment of mutual cooperation and compromise that may lead to a more balance and hinder extreme positions.	• With different levels of responsibilities, even for the same functions, and a check and balance system, a federal system is more complicated and difficult to operate. • The departments at different levels of government need to consult, coordinate, and negotiate. This process can be time-consuming and can be used as a ruse by government officials for causing delays. • Overlapping responsibilities and confusion of roles may diffuse accountability between different levels of government. This can also lead to contradictory policies in different parts of the country. • As different regions focus on their own development, inequalities among them may increase. Regions with a higher tax base would do better than others as in the case of India.* • Negative externalities, such as spread of uncontrolled air or water pollution or infectious disease from one region to another, in case one unit is slack in its environmental or health management laws and practices, can be a major problem. • There could be a breakdown of the common market for national goods and services such as wheat, sugar and even water. In the absence of central controls, some regions may impose restrictions on movement and prices of essential items. • Regions could begin to engage in "fiscal wars", similar to what Brazil did in the 90s; giving financial concessions to foreign investors without any limits, thus incurring huge debts. • Ensuring minimum national standards becomes a problem if subjects such as education become completely decentralised. How will human development at the national level be ensured? • In some federations, it becomes morally binding on the centre to bail out sub-national governments that have failed.

* Empirical evidence shows that devolution in several developing countries was accompanied with a rise in regional inequality except in Brazil where the federal government controlled a large revenue pool through which transfers could be made to the poorer regions (85 percent transfers were set aside for these).

FEDERALISM, DEVOLUTION AND HUMAN DEVELOPMENT

Conceptually, federalism and devolution should promote human development, which is explained as "expansion of people's" capabilities and their range of choices. As such, it focuses "on the ability to lead a long and healthy life, to acquire knowledge and to be able to enjoy a decent standard of living. These, in turn, depend upon access to basic services like education and health, expansion of income-earning opportunities, and greater participation in both economic and political processes, along with greater empowerment in terms of freedom of choice"(SPDC, 2007). Devolution contributes to human development through positive influence on "efficiency, equity, participation and impact on local economic activity" (SPDC, 2007).

The experience of federalism in the world has been mixed. In some developing countries, federalism and devolution have not promoted participation, responsiveness or accountability. "Critics argued that if anything, federalism had undermined these essential aspects of the transition. As Frances Hagopian (1996) argued in her study of Brazil, regional politics in some areas remained traditional, with a narrow concentration of political power, restricted access to decision-making, hierarchical channels of political representation, and limited political competition.

Research shows that the nature of steps taken to introduce federalism, and the relative success achieved depends on the history as well as the manner in which federalism was structured in countries such as Brazil, Argentina, Russia rather than the notion of federalism itself. In these countries, central governments devolved responsibilities but sub-national units were not given authority to raise revenue, and the regions remained dependant on transfers rather than their taxes. Thus, many sub-national governments have unfunded mandates. "Problem federations tended to be the ones where most were shared between levels of government, via non-transparent or 'pork-barrel' style formulas. Lack of firm criteria for allocating federal funds made it especially difficult to plan regional services (Bahry, 2003)". Overdependence on the centre often undermines the horizontal accountability to civil society and the constituency, thus reducing chances of planning for the benefit of local people.

According to a report of the World Democracy Movement (WMD, 2000), a federal structure is "financially expensive, with structures at each tier of government that must be financed, institutionally complex and may demand greater administrative bureaucratic capacity at each level than is available at any point in time and demands a relatively high level of cooperation and active intergovernmental relations." Recommendations of the report for making a federal system are summarised in Box 1.2.

It follows, therefore, that the manner in which the devolution process will be implemented and practiced, alongwith the nature of democracy and democratic institutions, will determine the extent to which Pakistan will benefit from the promise of provincial autonomy stated in the 18th Amendment.

Box 1.2 Recommendations for a Successful Federal System

- Each level of government should be autonomous "in a democratic context to enable local people to set priorities and use resources to achieve them.
- Federal systems must extract greater resources for effective financing of the structures of governance at each level of autonomy.
- Greater capacity at each institutional level of government must be developed to enhance efficiency in the delivery of services to the people; this enhances good governance.
- To make a federal government more responsive to the people, a network of intergovernmental relations should be established. These can be formal and/or informal, constitutional and/or statutory, and/or ad hoc. A network of intergovernmental institutions helps in coordinating the activities and policies of the various levels of government and facilitates greater cooperation among the tiers.
- The pattern of fiscal federalism should take into consideration the functions of each level of government and its corresponding tax powers. The demands of fiscal equalisation, to give all units of the federation a sense of participation, cannot be overemphasised.
- In the context of a changing global situation and demands for greater autonomy of federative units, there should be a shift from federal control functions to federal interventionist functions. A federal government should seek to intervene to correct inadequacies at the sub-national levels, rather than seek to control them.
- Democratic institutional arrangements and processes are important to strengthening federations and enhancing good governance.

*Source: "Improving Governance through Federalism: Decentralisation, Devolution, and other Approaches", Report of the Second Assembly, World Movement for Democracy, November 12-15, 2000

DRIVERS OF FEDERALISM AND DEVOLUTION IN PAKISTAN

The 1973 Constitution of Pakistan declares:

> *The country shall be such wherein the principles of democracy, freedom, equality, tolerance and social justice, as enunciated by Islam, shall be fully observed; a Federation wherein the units will be autonomous; Therein shall be guaranteed fundamental rights, including equality of status, of opportunity and before law, social, economic and political justice, and freedom of thought, expression, belief, faith, worship and association, subject to law and public morality; Wherein adequate provision shall be made to safeguard the legitimate interests of minorities and backward and depressed classes; that Pakistan would be a democratic State based on Islamic principles of social justice; Dedicated to the preservation of democracy achieved by the unremitting struggle of the people against oppression and tyranny; Inspired by the resolve to protect our national and political unity and solidarity by creating an egalitarian society through a new order (Constitution of Pakistan, 1973).*

The Directives of Policy stated that provinces have an equitable share in the federation.

Notwithstanding constitutional principles, Pakistan has largely been governed by alternating military and civil rule, the latter more or less through a centralised bureaucracy. The failure of the government to accord autonomy to federating units resulted in the secession of East

Pakistan in 1971 and subsequent years have been tumultuous – marked by army coups and short-term civilian governments. The year 2010, on the other hand, is a landmark in that a major amendment to the constitution called for the redistribution of legislative powers, transfer of several items from the concurrent to the provincial list, and the reconstitution of the Council of Common Interests to debate issues relevant to the country as a whole. The 18th Amendment, in its design and proposed intent, claims to be aligned to the true spirit of federalism as defined in the directives of policy and the 1973 constitution by devolving power to provincial governments.

However, Pakistan remains a country mired in poverty. It has some of the lowest social indicators, especially in education and health, in the world, and is racked by political polarization, economic backwardness and societal insecurity. Despite claiming economic growth during 2002-2007, the promised benefits of development have still not reached the majority of the population. The fledgling democratic government is weak, the country has been fighting a war against extremists, both foreign and home grown, and has incurred billions of dollars in cumulated losses since the beginning of the so-called "war on terror".

Moreover, the failure of highly centralist policymaking, disconnect between the state and people, and the state fragility are some of the more pressing drivers that should enable federalism in Pakistan to be practiced more effectively. International experience shows that countries that have continued governing on the basis of a federal structure have done so on the basis of strong democratic principles.

While there are no set tools to determine the effectiveness of any particular federal model, there are certain parameters that may be measured to assess the relative impacts. In its Annual Review of Social Development (2007), SPDC looked at some of the impacts of the local governance system introduced in 2001 by the military government. A presidential ordinance certainly did not meet any criteria of democracy. It also bypassed the provincial governments to put into place an elaborate system of local government bodies.

PROPOSED PRINCIPLES OF DEVOLUTION FOR PAKISTAN

The 18th Amendment, which has paved the way for maximal provincial autonomy, was formally approved as a constitutional obligation in April 2010. Consequently, the implementation process has devolved ministries and institutions from the centre, set up new structures at provincial levels and put into place fora for debate and discussion. The impacts of the process can only be measured after a few more years have passed, but it is important to examine the manner in which devolution is taking place and how relevant authorities, at both central and provincial levels, are responding to their changed responsibilities.

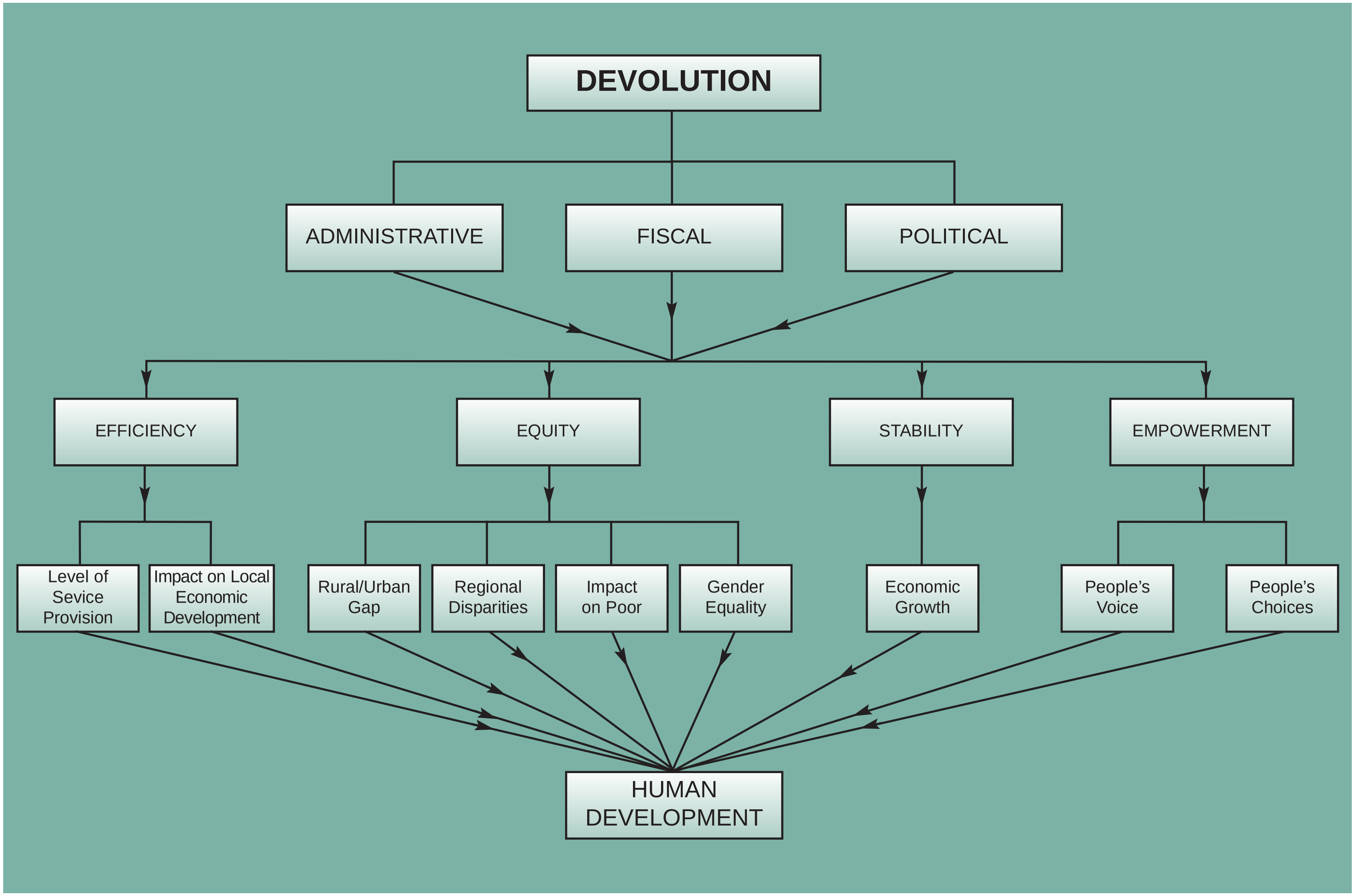
We propose a set of principles that may be used to guide which functions of the devolved sectors should be devolved and which should be retained or taken at the central level. The Constitution of Pakistan allows for national functions to be performed at the centre, and also underscores decentralisation and devolution to where development affects the lives of people the most. Only then the real spirit of the 18th Amendment, which we believe is to ensure quality services to the citizens of Pakistan and to improve the state of human development in the country, may be realised.

The conceptual framework linking decentralisation and human development is presented in Chart 1.3. It shows how administrative, political and fiscal decentralisation would lead to macroeconomic stability, efficiency, empowerment and equity. According to this framework, macroeconomic stability would promote economic growth; efficiency would further enhance local service provision and the degree of economic development; equity would reduce urban/rural gaps and regional disparities; and empowerment would enable the people to raise their voice, be heard and make choices. These combined would produce improvement in human development.

Some keys principles emanating from the above framework are as follows:

- **Common Markets:** Allocation of expenditures and fiscal powers should not disrupt the operation and functioning of national common markets.
- **Macroeconomic stabilisation:** Allocation of expenditure responsibilities should be consistent with allocation of revenue assignment. Sub-national governments should have the resources to fulfill fundamental responsibilities and be allowed to access capital markets to expand their resources envelopes. However, as central government is generally the "guarantor and provider of last resort", fiscal prudence requires agreement on limits to borrowing and some regulation through promulgation of fiscal rules by both the federation and the federating units.
- **Promotion of growth through uninterrupted investments on key sectors:** There is need for sectoral policies in key areas including social and economic infrastructure. In these areas, not only should public investment continue uninterrupted, but there should be planning in which the provinces and the federal government play their respective roles.
- **The incentive environment:** Another factor which will determine the impact on growth is the extent to which decentralisation will influence the level of fiscal effort in terms of impacting the national tax-to-GDP ratio and thereby generate more resources for development. The financing arrangements for devolved functions should, to the extent possible, also be devolved. For example, some slackening in resource mobilisation from own sources has been witnessed following receipts of larger intergovernmental revenue sharing transfers in Pakistan.
- **Subsidiarity:** The efficient provision of government services requires that government satisfy the needs and preferences of tax payers as well as possible. This is best achieved through the subsidiarity principle. The principle of subsidiarity allows for decisions to be taken at a level closest to where the impacts of the decisions take place.

Chart 1.3 **Conceptual Linkage between Devolution and Human Development**



- **National Public Goods:** Linked closely to the principle of subsidiarity is the argument that leaving the supply of public services with wider benefits areas to smaller units of government is likely to result in inefficient underprovision of services. For example, when a tertiary hospital providing regional services is solely financed by a single municipality. Likewise delegation of decisions with interstate impacts (externalities) to the state may result in spillover effects. For example, leaving drug quality regulation to the provincial level with little monitoring.
- **Linking costs to benefits:** Efficiency in the provision of public services is enhanced if consumption benefits are linked to costs of provision via fees, charges and /or taxes.
- **Income Equalisation:** Expenditures undertaken by the government for equity or income equalisation reasons, such as social welfare, are generally thought to be the domain of the central government. The general argument is that regional governments would not be able to sustain independent programmes of these natures because they would attract the needy from other areas. While funding of these expenditures should be a central government responsibility, implementation can be left to state/local governments which may have informational and other comparative advantages.
- **Equity among federating units and reduction of inequality and disparity:** To the extent that mobility of households is limited, regional governments may effectively be able to carry out their own distributional policies. Each province differs from others socially, economically and in its resource base. These differences have been hugely compounded by negligent, inequitable, partisan and patronage-oriented development that has take place for the last 64 years. One of the core principles which should form the cornerstone of the devolution process is that actions ensure equitable division of benefits with preference to those that are less developed.
- **Minimum standard of service provision:** To address disparities in interstate and intra-state service provisions, introducing policies that guarantee desired minimum standards is an important principle. National standards can be enforced in several ways such as incentivising provincial governments with matching grants programme or penalising underperforming governments through denying full receipt of grants. Programmes in which national standards may be required include social services like education, health, population welfare, water supply and sanitation. However, restrictions should be imposed carefully to protect provincial autonomy.
- **National unity and integrity:** Where issues are related to the country as a whole and require a single, shared and common approach, it is best to consider placing these at a central level although the basic principles of a federation require even such a process to be consultative and participatory. National decisions need to be taken by consensus and all provinces need to be a part of the decision-making process.
- **Recognition and promotion of diversity and differences:** Pakistan's constitution places value on diversity and real democracy

can be strengthened only in a multicultural environment. The decision to devolve or not to devolve must recognise that the objective of unity should not be to create a homogenous, unidimensional population but to promote diverse views and opinions.

- **Cooperation between federating units:** Federations are successful where shared resources and benefits are distributed through a cooperative and consultative process, and a policy of cooperation is adopted over competition and confrontation.
- **Resolution of issues through consensus and debate:** Institutional fora should be made effective, as the mark of an effective and workable devolution process, where political resolutions that are widely debated are non-personalised and can be said to have general agreement. This would be the approach preferred over legal battles fought in courts.
- **Explicit inclusion in constitution:** If a particular sector, function or institution is stated by the constitution to be devolved, it should be after consideration of what the devolution would mean in terms of discharging relevant duties and responsibilities, and what resources may be required.

The expenditure assignment based on the above conceptual basis is presented in Box 1.3.

The above provides a guideline and assessment tool if it were to be nested within an overarching framework of centre-province and province-province relations. Decisions related to what is devolved, with which responsibility, authority and resources, and whether and how the devolved functions would take into consideration the needs and aspirations of the people would all be checked against the filters of macroeconomic stability, efficiency, equity and empowerment.

Box 1.3 Conceptual Basis of Expenditure Assignment

Expenditure Category	Policy, Standards & Oversight	Provision Administration	Comments
Defense	F	F	Benefits and costs are national in scope
Foreign Affairs	F	F	Benefits and costs are national in scope
International Trade	F	F	Benefits and costs are national in scope
Monetary policy, Currency, Banking	F	F	Benefits and costs are national in scope
Interstate Commerce	F	F	Benefits and costs are national in scope
Transfer Payments to Persons	F	F	Redistribution
Subsidies to Business and Industry	F	F	Regional development, industrial policy
Immigration	F	F	Benefits and costs are national in scope
Unemployment Insurance	F	F	Benefits and costs are national in scope
Airlines and Railways	F	F	Benefits and costs are national in scope
Fiscal Policy	F,S	F,S,L	Coordination is possible
Regulation	F	F,S,L	Internal common market
Natural Resources	F	F,S,L	Promotes a common market
Environment	F,S,L	S,L	Benefits and costs may be national, regional, or local in scope
Industry and Agriculture	F,S,L	S,L	Significant inter-jurisdictional spillovers
Education	F,S,L	S,L	Transfers in kind
Health	F,S,L	S,L	Transfers in kind
Social Welfare	F,S,L	S,L	Transfers in kind
Police	S,L	S,L	Primarily local benefits
Water, Sewerage, Refuse	L	L	Primarily local benefits
Fire Protection	L	L	Primarily local benefits
Parks and Recreation	F,S,L	F,S,L	Primarily local responsibility, but national and provincial governments may establish own parks.
Highways			
Interstate	F	S,L	Internal common market
Provincial	S	S,L	Provincial benefits and costs
Interregional	S	S,L	Interregional benefits and costs
Local	L	L	Local benefits and costs
Spending Power	F,S	F,S	Fiscal transfers to advance own objectives

Note : F is federal responsibility, S is state or provincial responsibility, and L is local responsibility.

Source: Shah (1994)

Photography by Nadeem Ahmed

Federalism – The International Experience

2

The costs and dangers of federalism are perceived as greater than the benefits thereof.

2

Federalism – The International Experience

Federalism seems to have made a good beginning as a form of governance in Pakistan. The 18th Amendment has given considerable autonomy to the four provinces. This is not the first time in Pakistan for a devolved system to come into play, earlier Local Government Ordinance (2001) was put into place by the previous military regime that had devolved power to the third tier, bypassing the provinces. In its Annual Review on Social Development in Pakistan (2007), SPDC had concluded that provincial governments were unwilling to devolve power and resources to districts, and this was perhaps a direct consequence of the direct intervention of the centre in local governments and because no devolution took place from the centre to the provincial governments.

With the 18th Amendment, this can no longer be a hindrance. Local government, as well as several subjects that were earlier within the jurisdiction of both the centre and the provinces, have been devolved to provinces. Indeed, the entire concurrent list has been abolished, legislative and implementation responsibility being divided among the centre, provinces and a strengthened Council of Common Interests (CCI). It has now been two years since the amendment was signed, and a comparative study of the devolution process and system in other countries may provide useful lessons for Pakistan as it moves forward in its quest for good governance. With an overview of selected indicators in federations, some examples in specific countries have been discussed with respect to their federal experiences. While each offers a unique approach given the history, politics and culture, they also afford a set of variables against which these approaches may be assessed for relevance to the Pakistan example.

Globally, there are 28 federations, 10 in developed countries and 18 in developing countries. They cover about 40 percent of the world's total population. This includes large countries, both in terms of area and population, such as India, USA and Brazil and small countries such as Comoras, Federated States of Micronesia. They are spread over all continents. Some federations have a long history, such as the US, Australia and Austria, and have been in existence since 1901, and some have been established only recently, including South Sudan in 2011. In South Asia, the two major federal countries are India and Pakistan. Nepal also has a federal character. Bangladesh and Sri Lanka are both unitary states.

The question is why there is a relatively low percentage of countries in the world which are federations, at 15 percent only. This is, perhaps, due to the fact that the costs and dangers of federalism are perceived as greater than the benefits thereof. Also, the emergence of federal structures is the consequence of the history of a country, its cultural and ethnic diversity and the nature of its freedom struggle for nationhood from colonial domination or the result of a political understanding reached after a period of internecine conflict.

Box 2.1 Federal Constituent Units in Key Federations and Their Populations

Federation	Federated Units	Other Units	Total Population	Population/Unit
Argentina	23 provinces	1 autonomous city		
Australia	6 states	10 territories	21875000	From 24% (New South Wales) to 2% (Tasmania)
Austria	9 states			
Canada	10 provinces	3 territories	31559186	38.4% (Ontario) to 0.4% (Prince Edward Island)
Germany	16 states		82542000	21.9% (North-Rhine Westfalen to 0.8% Bremen
India	28 states	7 union territories	1048279000	16.1% (Uttar Pradesh) to 0.006% (Lakshadweep)
Malaysia	13 states	3 federal territories	24305000	18% (Selangor) to 0.3% (Labuan)
Mexico	31 states	1 federal district	100921000	13.4% (Mexico) to 0.4% (Sur)
Nigeria	36 states	1 capital territory	132785000	6.5% (Lagos) to 0.4% (Abuja)
South Africa	9 provinces		43580000	21% (KawaZulu-Natal) to 1.8% (Northern Cape)
Switzerland	26 cantons		7228000	16.9% (Zurich) to 0.2% (Inner Rhoden)
United States	50 states	1 federal district, 5 unincorporated territories	290809777	12.1% (California) to 0.17% (Wyoming)
Venezuela	23 states	1 federal district, 1 federal dependency	25549084	13.3% (Zulia) to 0.4% (Amazonas)
Pakistan	4 provinces	13 federally administered areas; 1 disputed area; 1 federal district	144902000	55.6% (Punjab) to 0.6% (Islamabad)

Note: Population figures are based on 2002 published figures and are for comparison purposes only.

The number of federating units also varies greatly among countries. At one extreme is the United States of America with 50 states. At the other extreme are countries like Pakistan, Australia and UAE with only 4, 6 and 7 federating units respectively (see Box 2.1).

KEY FISCAL DECENTRALISATION INDICATORS

Table 2.1 makes a comparison of key decentralisation indicators between a sample of countries which are federations and those which are not. One of the key indicators is the share of sub-national (state/ provincial + local) governments in total public expenditure. Although the highest percentage of almost 54 percent is observed in the case of China, which is not a federation, the average share for federal countries is higher, ranging from a high of 45 percent in the case of India to a low of 19 percent in Malaysia. Pakistan appears to be at the intermediate level of fiscal decentralisation at 30 percent (prior to the 7th NFC Award and 18th Amendment). It may be observed that in some unitary states the expenditure share of sub-

Table 2.1 Key Fiscal Decentralisation Indicators for a Sample of Countries

	Subnational Expenditure as % of Total Expenditure	Subnational Revenues as % of Total Revenues	Extent of Vertical Imbalance**	Subnational Expenditure as % of GDP	Subnational Revenues as % of GDP
FEDERATIONS					
India	45.2	33.0	12.2	12.6	6.1
Brazil	42.8	33.8	9.0	18.3	12.5
Argentina	42.3	39.8	2.5	11.3	9.2
South Africa	34.2	10.2	24.0	15.5	3.1
Pakistan	30.0	5.6	24.4	6.0	0.7
Mexico	29.0	22.9	6.1	6.6	4.4
Malaysia	19.1	15.1	4.1	5.1	4.7
Average	**34.6**	**22.9**	**11.8**	**10.8**	**5.8**
OTHERS					
China	53.9	51.3	2.6	10.7	6.6
Peru	19.9	6.0	13.9	4.8	1.1
Indonesia	10.1	3.1	7.0	2.0	0.5
Chile	8.5	8.2	0.3	2.0	2.0
Thailand	8.4	8.0	0.4	2.0	1.4
Bangladesh	4.0	2.8	1.2	0.4	0.3
Sri Lanka	3.7	3.6	0.1	1.2	0.8
Kenya	3.5	5.4	-1.9	1.3	1.6
Average	**14.0**	**11.0**	**3.0**	**3.1**	**1.8**

**Difference between share of subnational governments in revenues and expenditures.

Source:

national governments is very small at 4 percent respectively in Bangladesh, Sri Lanka and Kenya.

The share of revenues generated by sub-national governments in federations is generally higher, with the exception once again of China. The highest percentages among federal countries are observed in Argentina, Brazil and India at over one-thirds. Pakistan appears to have a very low share of revenues generated by sub-national governments. The implied level of vertical imbalance, which is the difference between the share of sub-national governments in revenues and expenditure, is quite large in the case of some federations like South Africa and Pakistan at 24 percent. Consequently, the gap has to be filled by larger transfers from the national / central government.

Table 2.1 also gives the estimate of sub-national expenditure as a percentage of the GDP. It ranges from a low of 5 percent in the case of Malaysia to a high of 18 percent in Brazil. Here again, Pakistan is at a relatively low level of 6 percent as compared to India at almost 13 percent. A similar pattern is reflected in sub-national revenues as a percentage of GDP, with Pakistan being the lowest at less than one percent of the GDP.

Allocation of Functions

Box 2.2 indicates which functions are performed by different levels (central, intermediate, local) of government in a sample of countries. Functions have been grouped into social services, utility services, transportation and other services.

The dominance of the intermediate (state / provincial) government in the provision of social services is clearly indicated. However, there are some noticeable differences. While primary and secondary level

Box 2.2 Allocation of Functions[1] in A Sample of Countries[2]
(C= Central, I = Intermediate**, L= Local)

Function	Argentina	Brazil	Mexico	Peru	India	Pakistan	South Africa
SOCIAL SERVICES							
Primary Education	I	L	I	I	I	I	C,I
Secondary Education	I	I	I	I	I	I	C,I
Universities	C	C,I	I	I	C,I	C,I	C
Public Health	C,I	C,I,L	I	I	I	I	C,I,L
Hospitals	I	C,I,L	C,I	I	I,L	I,L	C,I
Nutrition Programs	I	C	C,I	I	C,I		C
Social Welfare	C,I	C,I,L	-	I	C,I	C,I	C
Housing	I	I	C,I	C	C,I	C,I	C,I,L
UTILITY SERVICES							
Waste Collection	L	L	L	L	L	L	L
Water Supply & Sanitation	C,I	C,L	C,I,L	L	I,L	I,L	L
Electricity	I	-	C	C,I	C,I	C,I	L
Telecommunications	C	-	C	-	C	C	-
TRANSPORTATION							
Urban Highways	L	I,L	I,L	I,L	I,L	I,L	L
InterUrban Highways	C,I	C,I	C,I	C	C,I	C,I	C,I
Ports	C,I	C,I	C	C	C,I	C	C
Airports	C,I	C,I,L	C	C	C	C	C,I,L
Urban Transportation	-	I,L	I,L	I,L	I,L	I,L	C,I,L
OTHER SERVICES							
Police	C,I	I	C,I,L	-	I	I	C
Irrigation	I	C	C,I	C,I	I	I	C

[1] Primarily of execution
[2] Mostly federations

** state / provincial
Source: World Bank, Decentralisation Indicators

education is the responsibility of the intermediate level of government, in at least one country, Brazil, primary education is managed by local governments. As opposed to this, universities are either a central function or jointly the responsibility of central and intermediate level governments.

Turning to health, both preventive and current services appear generally to be in the domain of state / provincial governments, with some involvement of local governments in countries like Brazil, India and Pakistan. Social welfare is largely a shared responsibility between central and intermediate level governments. Waste collection, a basic municipal function, rests with local governments. Water supply and sanitation is jointly provided by local and intermediate governments, with some role of central government also in three Latin American countries in the sample. Electricity is mostly a shared subject between central and intermediate levels of government. Telecommunications is exclusively the responsibility of the central government.

In the area of transportation, there is a clear hierarchy of provision. Intra-urban highways are managed either by local or state governments, while inter-urban highways are the responsibility of the central and intermediate level governments. Ports are mostly under central control, with some smaller ports being managed by state / provincial governments in Argentina, Brazil and India. Airports are largely the responsibility of a central agency. Urban transportation is generally managed by intermediate and local governments.

The function of law and order, performed by the police, is in most countries in the sample executed and managed by state / provincial governments, with some central role in countries like Argentina and Mexico. Finally, management of irrigation is generally with state / provincial governments.

Allocation of Taxes

There appear to be fewer differences in the allocation of taxes among different levels of government than in the allocation of functions. Income tax, both corporate and personal, and customs duties are collected by the central government. Sales tax is either a central tax or the tax base is split between state / provincial governments. Excise duties are mostly in the federal domain. Payroll taxes revert frequently to intermediate level governments.

Taxes which are generally sub-national in character include taxes on land and immoveable property, taxes / surcharges / royalties on natural resources, stamp duties and motor vehicle taxes. In some countries, fuel taxes are allocated to state / provincial governments or there is a small sub-national income tax. India is the only country in the world which still has an octroi, a tax levied at the point of entry of goods for consumption within a municipal jurisdiction.

SUB-NATIONAL BORROWING POWERS

Access to borrowing by sub-national governments is a somewhat contentious issue in many countries, due to concerns about a possible impact on macroeconomic stability and debt sustainability. Table 3 gives the sub-national borrowing powers in a sample of 19 countries.

It is interesting to note that in 12 of these countries borrowing at the sub-national level is allowed. But such borrowing is subject to some controls. In six of the twelve countries, the controls are administrative in character, while in three they are market based and in three other countries, namely, Estonia, Peru and Venezuela, they are largely rule based. In nine countries borrowing has to be approved by the central government, whereas in three countries, Czech Republic, Estonia and Mexico, this is not required. In the case of India and Pakistan permission has to be sought only if there is an outstanding loan with the central governments.

To look at the specific countries being considered, Canada is not only one of the most fiscally decentralised countries, it is also one of the best managed. All of the ten provinces have full freedom to borrow any amount without restrictions. They do, however, follow their own rules, ensuring that subsequent administrations do not get encumbered with a deficit. Also, if the deficit of a province increases beyond a certain ceiling, its international credit rating falls, and it is, therefore, less likely to attract funds.

Borrowing by provinces and local government in South Africa is strictly controlled under national legislation which has a tight framework. Thus, borrowing is rare. Brazil has been a special case of highly liberal

Box 2.3 Decentralisation and Destabilisation: The Case of Brazil

Following devolution in 1988 while sub-national governments incurred large expenditures, many states and municipalities were unable to collect revenues of their own, (given the lack of economic activities and the poverty of their populations). Such sub-national governments heavily relied on federal transfers. The states and municipalities bloated their payrolls, retirement pensions, started costly public works especially to impress voters during election years and states borrowed against inflation from their own state banks and then from the World Bank and the Inter American Development Bank. By the end of 1990s, most of the state banks had gone bankrupt. States also started heavy competition to attract investors by giving tax breaks, donating land and credit concessions and waiving value added tax. Thus there was a "fiscal war" in the country.

The federal government had to bring in measures to curb the financial mismanagement that was hindering Brazil's economic competitiveness at international level and raising its debt. Fiscal imbalance and public debt had become so out of control that they threatened Brazil's anti inflation plan. In 1996, the insolvent banks were given three choices: to privatise, liquidate or transform into regional development agencies. An incentive to reduce the burgeoning payrolls was introduced by putting a ceiling of 60 percent. States that spent more than 60 percent of their net receipts on payroll risk suspension of federal funds. The Congress also passed the Fiscal Stabilisation Fund that enabled the federal government to divert funds meant for the states towards emergency fiscal measures.

In addition to the above steps, the main tool used by the federal government to impose financial discipline was to put strict contractual terms and conditions when renegotiating state and municipal debts. Thus, state enterprises (electricity, water and sanitation related) that ran into deficits were privatized, certain types of loans were restricted or prohibited, the principal had to be paid for existing loans and personnel had to be reduced. Such conditions also had to be tempered with the need for political support. Thus, federal control policy has been practiced with "leniency, in return for promises of austerity and fiscal discipline from the state governors." (Politics of Federalism: Selcher)

In 1997, the Senate, which is the constitutional regulator of debt procedures, approved a system that required states to use 50 percent of their revenues gained through privatisation of state enterprises for debt repayment, or forfeit Senate support for loans. This rule was suspended by the Supreme Court.

While the states have lost some financial control collectively as a result of their excesses, the federal government has adopted a strategy that is both adaptive and gradual. There is certainly no drive to recentralise, and the fact that the federal government has always been there to bail out states that have become insolvent has added to the complexity of the problem.

policies for sub-national borrowing that led to national fiscal destabilisation and caused the central government to impose fiscal controls (see Box 2.3).

In India, the constitution allows both the centre and the states to borrow. States can do so either from the centre or the market. If a state is indebted to the centre, it has to seek the latter's permission. Since all states are to some extent financially in debt, they are controlled by the centre but many have found other ways to get around this problem. According to Rao (2000), one reason for fiscal deterioration is the centre's inability to control its own deficits and to impose hard budget constraints on states. States create contingent liabilities by floating corporations on major projects implemented by them and borrow from the market; or they borrow from public enterprises in times of need, or from public account or take overdrafts from the Reserve Bank of India.

CENTRE-STATE RELATIONS AND DISPUTE RESOLUTION

Intergovernmental relations change over time, and with changes in political, social and economic conditions. The most significant issues in such relations are political, and as such, they require a degree of flexibility to accommodate both formal and informal means of negotiations that could create a firm basis for cooperation without compromising basic principles of fairness, transparency and communication.

After the partition of the subcontinent in 1947, India faced the challenge of dealing with the repercussions of the breakaway Muslim majority. No longer needing to cater to the autonomy demands of Muslims, those in charge of framing the first constitution of independent India decided to make the constitution the single binding force that would withstand the changes over the years, and to ensure the unification of its several components – the states, territories, and differences in language, ethnicity, culture and tradition under one "Indian" identity. It was felt that the centre needed to be strong and have control over economic and fiscal matters. Constitution makers came up with the concept of a quasi federation, a strong centre with relatively weak states. Until 1956, this system worked very well with smooth state-centre relations, partly because of the one party rule at both levels, and partly because of the style and personality of Nehru who was able to deal with issues of state governments. "Thus political process and not the Constitutional machinery played a major part in Centre-State relationship during this period" (Commission on Centre-State Relations, 2010). Indeed, until the 1990s, India was run with highly centralist policies.

The debate over strong centre and strong states started as early as the 1950s. During the 1970s and 1980s, the federal system and centre-state relations were the subject of several academic studies and committees within and outside government purview. While the centre made attempts to centralise more powers, the states and regional parties clamoured for more regional autonomy. An atmosphere of confrontation prevailed and was exacerbated by the imposition of the emergency rule by Indira Gandhi. In 1983, Indira Gandhi announced the formation of the Commission on Centre-State Relations, to be headed by Justice R.S. Sarkaria.

Since 1950, 97 amendments have been introduced until January 2012 within the Constitution, of which at least 30 are related to aspects of devolution.

On conflict resolution outside courts (many state-centre conflicts have been taken to court), the Indian constitution envisaged the National Development Integration Council, the National Development Council and the Planning Commission which have not worked. Article 263 provides for an Inter-State Council which was invoked only in 1990 after the Sarkaria Commission set up in 1983 recommended the same. It is supposed to be a body for intergovernmental consultation and co-operation, to inquire and advise on disputes between states, investigate and discuss subjects of common interest and make recommendations on any subject for better coordination and action. The other body for conflict management is provided for in Article 262 for the resolution of interstate water disputes. The working of dispute resolution mechanisms in India have, however, been of concern and changes recommended in the laws and procedures.

The most commonly expressed concerns have been a) the infrequent holding of meetings; b) the underrepresentation of members from states; and c) the lack of seriousness of the centre in implementing the decisions of such meetings.

However, the Finance Commission of India is an effective constitutional body which decides, in particular, the sharing of resources between the centre and states.

South Africa faced national unity, stability and diversity as major challenges, before formulating its constitution in 1996, along with the need for reinforcing human rights, nondiscriminatory policies and reconciliation to address the painful legacy of the apartheid period. It decided to decentralise, and to share powers between the central and nine provincial governments through concurrent legislative lists. They were assumed to be service delivery arms, while standards would be retained with the central government. However, they lacked both capacity and resources, and have been weak in their performance. Mismanagement, corruption and waste led to many voices calling to scrap the decentralised system. The report of the Maphai Commission recommended more control of provinces by the centre.

The three spheres of government in South Africa are "distinctive, interdependent and interrelated" (section 40). Despite the deliberate use of the phrase "sphere of government", rather than "tier", which implies a vertical hierarchy, the system does have a hierarchy of sorts. Centre-province and local government relations are fraught with demands for greater autonomy. The constitution spells out both concurrent and exclusive subjects for legislation by provinces. There are a number of conditions under which the centre may intervene within provincial jurisdiction, mainly where it is felt that national interests or standards are not being followed.

Despite the extent of diversity (there are eleven officially recognised languages, and most people are divided ethnically, linguistically and religiously), provincial boundaries do not coincide with any of these divisions and South Africans do not identify themselves as belonging to any one province. "South African constitution makers explicitly rejected the models adopted by many other federations, which are designed to empower distinct national or ethnic groups with their own political institutions. Cultural differences are recognised in the Constitution, but these cultural identities are not empowered by federalism itself. As a result, debates about federalism in South Africa are not primarily about the resolution and accommodation of ethnic difference; rather, the provincial system is designed to deepen democracy and to enhance the equitable delivery of services" (Murray, n.d).

The National Council of Provinces (NCOP) has several functions, including monitoring relations between various spheres of government. It is a house of provinces, bringing issues of provinces and municipalities to the attention of the national government, and complementing the national assembly. However, the Constitutional Court has the final say in interpreting the constitution and is an independent organ.

South Africa does not have a competitive, water tight federal structure, but a loose, "cooperative" system with a dominant centre, and the control of a central political party. The "cooperative governance" implies coordination, sharing of resources, and involvement of local people. The issues of lack of capacity at lower forms of government have been consistently dealt with through political and fiscal mechanisms. In 2000, a President's Coordination Council was set up to assist provinces, implement national policies and coordinate amongst each other. Consecutive efforts have been made to increase revenues for provinces through grants and transfers.

While the Constitution calls for harmonious working relations between various spheres of government, it does not specify any formal mechanism for dispute resolution. An act of parliament is required to put this into place. The central government has formed the Intergovernmental Forum, Ministers and Members of the Executive Council and various technical committees. However, these have not been very effective in addressing substantive issues.

In Brazil, too, the federal government can overrule state legislature if national interests so determine, or if there is serious breakdown of public law and order, or in case of serious financial problems. Such interventions can only take place on the orders of the Supreme Court, after a lengthy process of talks between the state and federal government. Intergovernmental relations in Brazil are informal, involve much lobbying, brokered deals and a number of people from local government upwards.

Intergovernmental relations often result in agreements that play a key role in federal functioning. They "fulfill at least five major functions: substantive policy co-ordination, procedural co-operation, para-constitutional engineering, 'regulation by contract' and 'quasi-legislation' (or soft law)" (Poirier, 2001).

In Canada, several bilateral intergovernmental agreements were concluded between the Canadian federal government and the provinces on labour training. This became necessary because the federal government has constitutional jurisdiction over unemployment insurance, whereas education and social assistance are provincial matters. Until now, the federal government had financed and managed training programmes for the unemployed. The responsibility has now largely been 'administratively' transferred to the provinces.

In Pakistan, informal channels of negotiations and bargaining are common, but formal mechanisms between the centre and provinces, and across provinces, are provided for under the constitution. The Council of Common Interests (CCI) which deals with centre-provincial and interprovincial disputes and issues of concern to all provinces has been revitalised and strengthened by the 18th Amendment. The National Economic Council (NEC) and its Executive Committee (ECNEC) has been a regular body with representation from all provinces and has been recently reconstituted which higher provincial representation. A new Ministry of Inter-Provincial Coordination has been set up to deal with issues of coordination between the provinces and with the centre. The National Finance Commission (NFC) as a constitutional body which decides on intergovernmental revenue sharing between the federation and federating units.

LOCAL GOVERNMENTS

In India, the 1990s form a period of decentralisation and economic liberalisation through the 73rd and 74th amendment which brought in a huge network of local institutions with the mandate for service delivery. These local governments have been endowed with responsibilities and funds to undertake local projects. At present, there are about 3 million elected representatives at all levels of the panchayat, one-third of which are women. These members represent more than 260,000 gram panchayats, about 6,000 intermediate level tiers and more than 500 district panchayats. Spread throughout the country, the panchayats cover about 96 per cent of India's more than 580,000 villages and nearly 99.6 per cent of the rural population. The basic level is at village (gram panchayat), followed by the intermediate or block (panchayat samiti) and district (zilla parishad) levels. In some states, such as Orissa, the gram panchayat is at cluster level, with the palli sabha at village level.

The seats in a panchayat at every level are to be filled by elections from respective territorial constituencies. One-third of the total seats for membership as well as office of chairpersons of each tier have to be reserved for women. Orissa has reserved 50 percent seats for women while Andhra Pradesh has drafted a bill to do so.

Reservation for weaker castes and tribes are provided at all levels in proportion to their population in the panchayats. A state election commission is constituted in every state union territory. The Act has ensured constitution of a state finance commission in every state and union territory, for every five years, to suggest measures to strengthen finances of these institutions and to promote bottom-up planning, the district planning committee in every district has been accorded constitutional status. Functions performed by local governments are presented in Box 2.2.

Several forms of financing are available to the panchayats. These include their own revenues such as house tax, professional tax and water charges that they are allowed to levy; taxes that they receive from the state government and are collected by the same on their behalf and direct grants that they receive from state governments based on recommendations of the state finance commissions. Grants form about 80 percent of the total revenues of the panchayats. Gram panchayats in some states can access loans for infrastructure schemes and others can ask for funds for specific development projects.

In Brazil, local governments were initially used as instruments to practice the newly found democracy through the 1988 Constitution after years of authoritative military rule. There are five regions in Brazil, and 5,560 municipalities that are not a creation of the states, but are part of the federation, along with the states. The 1988 Constitution allocated unprecedented fiscal resources (and powers to both states and municipalities). There were no rules for creation of new municipalities, and 1580 new ones were created between 1980 and 2000. The main reason for this proliferation was to bring in addition financial resources. In 1996, a constitutional amendment imposed stricter rules for new municipalities as the increasingly large number was hindering the federal government's fiscal goals.

The five regions of Brazil are the North, North East, Centre West, South East and South. Brazil has deep rooted and very old regional inequalities, in economic, political and social terms. In 1997, the South and South East accounted for 77 percent of the total GDP, while the North and Centre West regions were only 10 percent. The constitution allows for concurrent responsibility of functions between the three tiers of government (see Box 2.2).

Brazil is one of the most decentralised countries in the developing world. Decentralisation of social services in Brazil has been a complex process and one that includes both successes and failures. Primary education and health have been successful, bringing in addition resources for health and supplementing teachers' salaries in poor communities, and penalising municipalities that did not increase school attendance. Sanitation, housing and social welfare failed because of the high costs of transferring the policy, either "because there were no resources available (sanitation), or excessive accumulated past debt (housing) or no regular scheme of resource transfers (welfare). Furthermore, there were no political or financial sanctions levied against local governments if they did not adhere to the policy as these three policies had never been under local government jurisdiction (Souza, n.d).

Decentralisation in Brazil goes down further to communities to "community councils" that are formed as a result of federal legislation. These councils decide on allocation of resources, defend rights and evaluate and monitor use of resources. Local governments also initiate what is called "participatory budgeting" in which members of a community come together to prepare a budget for infrastructure projects.

South Africa is not strictly a federation per se. It is a unitary state, but highly decentralised, and a member of the Forum of Federations. The government is constituted of national, provincial and local levels. The constitution stipulates that the three levels of government are distinctive, interdependent and interrelated and that they work according to the principle of cooperative governance. The principles for this kind of cooperation as prescribed in the constitution obliges the governments to cooperate, legally enforcing negotiation, rather than litigation, in resolving any political disputes that might arise between them.

The national sphere of government consists of a parliament, which is the legislative authority of South Africa. The parliament consists of the national assembly and the National Council of Provinces (NCOP). The National Council of Provinces must have a mandate from the provinces before it can make certain decisions.

There are currently nine provinces in South Africa. Each province has its own legislature, and each province is comprised of three levels of municipal authorities: 1) metropolitan 2) district 3) local councils. The provincial legislation must determine for each category of municipality the different types of municipality that may be established in that category in the province. The municipalities make up for the local sphere of government. There are currently in total 284 municipalities in South Africa.

The Constitution allocates several functions to municipalities, pursuing the concept of a development local government. These functions include control of primary education and health, transport as described in Box 2.2. To finance their functional responsibilities, municipalities and provinces raise revenues and also receive grants from national and provincial governments. There are huge differences between municipalities as poverty and the tax base is variable. The pattern of revenues for local authorities in 2006/2007 was: grants and subsidies at 50 percent, own contributions at 24 percent, external loans at 18 percent and other income and donations at 8 percent.

Women have played a very important role in politics but did not have representation in government during the transition post apartheid. Since then, various legislations and efforts have enhanced women's participation in government, increasing the number of women as local councillors in 200 from 29.6 percent to 40 percent in 2006.

In Canada, the federal or national government is responsible for areas of jurisdiction such as national defence, foreign policy, criminal law, and citizenship. Provincial governments have their own political institutions and leaders and their own jurisdictions which are provided for under the Canadian Constitution, such as health care, education, transportation (highways), and property and civil rights. The local level of government has responsibility over policy fields directly related to local communities and it varies from province to province. Generally, they would be responsible for police, Local transportation and municipal roadway construction and maintenance, Planning and development, including municipal zoning and industrial/economic development local sewage systems, water treatment, and electric utilities, Local social-welfare services, and Parks, recreation, and culture.

The main revenue source for local government is property or real estate taxes. In some cases, local governments are also permitted to collect consumption taxes. They also collect monies on the public services they provide (such as public transit fares and parks and recreation fees), as well as through the assessment of fines (such as parking tickets). Local governments receive large funding transfers from other levels of government, in particular their respective provincial government. These come in the form of General Purpose Transfers (which the local government may use for any purpose) or Specific Purpose Transfers (which must be used for specific local services or capital projects). In Canada, 83 percent of the municipal government revenue is raised through their own sources, and legally their accounts cannot go into deficit, safeguarding the provinces from unintentionally guaranteeing their municipal governments' debts.

Canada's Constitution recognises federal and provincial governments as relatively independent entities but local governments are recognised as creatures of the provinces, and derive their powers from provincial law (usually in the form of a Municipal Act created by the provincial legislature). The provinces also often play a large role in the day-to-day operation of local governments. Many provinces also control municipal borrowing for capital projects; either directly through provincial ministries of municipal affairs or indirectly through provincially appointed municipal boards.

The above comparison among various federations shows that with the exception of Brazil, other countries recognise local governments as creations of the second tier, although they may still receive funds directly from both the federal and state or provincial levels. As with the design of the federation and its "tool kit", much depends on a country's history, socio political legacy, economic issues and ethnic and linguistic mix, and its internal inequalities and levels of (dis)empowerment. The key lessons for Pakistan that can be extracted from experiences in other countries are:

- Local government really must be local in nature and its structure must avoid dangers of "capture by the elite". Thus, village level representation and community involvement in development processes and monitoring must be ensured.
- Equalisation programmes including special initiatives such as affirmative actions must be ensured to ensure substantive and meaningful inclusion of women, minorities and peasants.
- Local governments should have clearly defined functions and responsibilities, together with responsibilities for local revenue generation. In addition, they must be provided additional funds if their own expenditures exceed their own revenues.
- The system should have in built incentives for improving social indicators such as of health, education and environment, and penalties for increasing administrative expenses such as salaries and pensions.
- A bottoms up village development planning process such as the one used in India, with monitoring through village and district monitoring committees would be very useful.

SOME SPECIAL EMERGING ISSUES

The Formation of New Provinces

In 1947, there were over 500 princely states that were given the option of acceding with India or Pakistan. Many acceded to the former. Until 1956, India was divided into three types of states, according to the type of governance structure and legislature- commissioner, governor, state or elected legislature. These totaled 17 in all. Even during Nehru's time, linguistic problems arose and a political movement for creation of new states along linguistic lines took momentum. The movement to create states based on language gained momentum in the early 1950s starting with the demand for a separate state for Telugu-speaking people. A railway employee and Gandhian, Potti Sriramulu, started a fast to press the demand. Nehru ignored this and Sriramulu died on the 56th day of his fast. After Sriramulu's death, the States Reorganisation Commission was appointed for the creation of states along linguistic lines.

Fourteen states and four union territories were redefined, the former with autonomous governments that would govern according to the legislative lists which distribute powers over subjects to either the centre or the state. Over the past decades, the number of states has risen to 28.

The creation of new states in India is a relatively well-defined process. According to Article 3 of the Indian constitution, parliament can form a new state by separating a territory from any state or by merging two or more states or parts of states. Parliament can also reduce or increase the area or alter the boundary of any state or even change the name of any state. But first, a bill on the matter has to be referred by the president to the legislative council of whichever state (or states) is affected, to express its views within a stipulated period. A resolution is then tabled before the assembly which passes a bill creating the new state. Finally, a separate bill on the matter is introduced and passed in parliament by a simple majority on the recommendation of the president. Once the bill is ratified by the president, the new state is formed.

South Africa has nine states that were built from the existing four and ten "homelands" of blacks under the apartheid. Their boundaries were not determined on ethnic or language basis. These were negotiated behind closed doors by the makers of the constitution and are similar to the nine development areas outlined by the African Development Bank in the 1980s. South Africans have been too occupied with deepening democracy and their existing inequalities and have so far retained the nine provinces, with a strong national government, and some provincial autonomy.

The Brazilian constitution provides for creation of new states and municipalities if approved by the people through plebiscites and the National Congress in case of the states and state assemblies in case of municipalities. Anticipating an increase in funds, the number of municipalities has increased by 31.4 percent in ten years. In 2009, there was a move by the Congress to increase the number of states by 14.

Provinces in Pakistan were not reorganised strictly on the basis of language. Apart from their core communities, these provinces contained large ethnic minorities, which retained provincial aspirations of their own, e.g. Pakhtuns in Balochistan, mohajirs (Urdu speaking migrants from India) in Sindh, Siraiki-speakers in south Punjab and Hindko-speakers in the Hazara division of the then NWFP. The ruling elite in Pakistan found language unacceptable as a legitimate source of identity. Like India, the constitution of Pakistan defines the process of creation of new provinces. Article 239 (4) of its Constitution lays down that no bill to alter the limits of a province can be presented to the President unless it has been passed by the provincial assembly of that province by a two-thirds majority. It also requires a two-thirds majority in both houses of parliament to be passed.

In recent times there has been public talk of more provinces in Pakistan. Perhaps the size, diversity and population, and challenges of governance demand that Pakistan should have more federating units. Box 2.1 shows that of all the federations in the world, Pakistan has the lowest number of constituent units with very high populations per unit. An argument can therefore perhaps be made that Pakistan should have smaller, more manageable federating units where people are able to participate more fully and directly in development decisions that affect them. The question is what should be the basis of this division. Should new provinces be created on administrative or on ethno-linguistic lines? Many advocate the latter, as this would represent the social, cultural, linguistic and historical values and the aspirations of the diverse groups of peoples in the federation of Pakistan. Others fear that such a move could destabilise and create pockets of ethnicity that may be difficult to address. Balochistan could claim some areas currently under Sindh and Punjab, and Khyber Pakhtunkhwa may be up to obtain parts of Balochistan. A division based on linguistic reasons could be problematic as single language units are rare in the country. Some argue that provinces be created following proper research and debate regarding the social, cultural and very importantly the economic viability on administrative basis, using population, area, resource base and source of income.

Oil and Gas Ownership in Federations

Countries that have some form of federal governance produce a large proportion of the oil and gas reserves in the world. The ways in which they manage these resources is important to understand how federations have evolved over time. A summary of issues prepared by the Forum of Federations (2010) gives an idea both of the range of problems and how these have been addressed. Key issues identified are cited below:

- In Nigeria, there has had a long-running debate over the allocation of oil revenues as between the federal government and the producing and non-producing states. The country has a serious insurgency because of local discontent around oil and gas management and revenue sharing.
- In Russia, the central government has reasserted control of the oil and gas resources after a period when it was highly decentralised. Producing subjects of the federation now get only 5 per cent of oil revenues and none of gas revenues.
- In Canada, provinces own the oil and gas reserves in their jurisdiction except for off shore areas. However, the offshore petroleum-producing provinces launched a successful political challenge to federal control of the offshore and have recently won concessions regarding how oil and gas revenues are treated in the federal-provincial fiscal arrangements.
- Argentina turned over ownership of non-renewable mineral resources to provinces when it amended its constitution in 1994. Some of the smallest provinces in the country now control this increasingly strategic resource.
- Both Sudan and Iraq are fragile, transitional democracies which have so far failed to resolve conflict over the ownership and control of oil resources.
- Mexico has a highly centralised regime based on a state oil company that has proven unable to meet public demands on it for revenue while ensuring adequate longer-term investment.
- Brazil and India both control oil and gas from the centre, but have provisions for providing a share of oil and gas revenues to the state of origin. These provisions are often contested and there are also demands for a greater local role in regulatory decisions.

Pakistan's Constitutional provisions favour the province in which the well heads are located. Preference is given in consumption and revenue proceeds as indicating by the following: According to Article 158 "The province in which a well-head of natural gas is situated shall have precedence over other parts of Pakistan in meeting the requirements from the well head, subject to the commitments and obligations as on the commencing day".

According to Article 161,

a) The net proceeds of the Federal duty of excise on natural gas levied at well-head and collected by the Federal Government, and of the royalty collected by the Federal Government, shall not form part of the Federal Consolidated Fund and shall be paid to the province in which the well-head of natural gas is situated.

a) The net proceeds of the Federal duty of excise on oil levied at well-head and collected by the Federal Government shall not form part of the Federal Consolidation Fund and shall be paid to the province in which the well-head of oil is situated.

"Constitutional Provisions exist regarding equal and joint federal and provincial ownership also. According to Article 172(3) "subject to the existing commitments and obligations, mineral oil and natural gas within the province or the territorial water adjacent thereto shall vest jointly and equally in that Province and the Federal Government". What is not clear, however, is does this imply joint ownership and sharing of profits/dividends of oil and gas companies like Oil and Gas Development Company (OGDC). The issue of sharing of such revenue from minerals has the potential of developing into a contentious issue in Pakistan also. This topic will be dealt with in some detail in chapter 8.

Photography by Nasim Akhtar

18th Amendment: Mapping the Transition

3

The creation of new ministries has been termed as an attempt to roll back the 18th Amendment.

3

18th Amendment: Mapping the Transition

The 18th Amendment is a major charter of political rights as far as decentralisation and devolution of power to the provinces in Pakistan is concerned. It contains far-reaching stipulations for empowering Pakistan's four federating units – intended to give them unprecedented autonomy. This chapter discusses major changes related to legislative and fiscal autonomy, and the status of the implementation of the 18th Amendment.

It identifies, in specific terms, the changes brought about by the 18th Amendment related to legislative responsibilities and fiscal powers. The chapter reviews the nature and status of the implementation of the transfer of functions to the provinces. It also sheds light on the financial and development implications of the 18th Amendment given the implementation of the changes to date.

CHANGES DUE TO THE 18th AMENDMENT

Legislative Responsibilities

The demarcation of legislative authority between federal and provincial governments is very clear in the Amendment. The Concurrent Legislative List (CLL), formerly a part of the constitution, stands abolished, devolving the functions contained in it to the provincial governments. This significantly enhances the range of legislative and functional responsibilities of provincial governments. Some changes have also been made in the Federal Legislative List (FLL). As shown in Chart 3.1, only a provincial assembly will have the power to legislate with respect to any matter not spelled out in the FLL. The only exception is that legislation with respect to criminal law, criminal procedure and evidence can be made both by parliament and the provincial assembly.

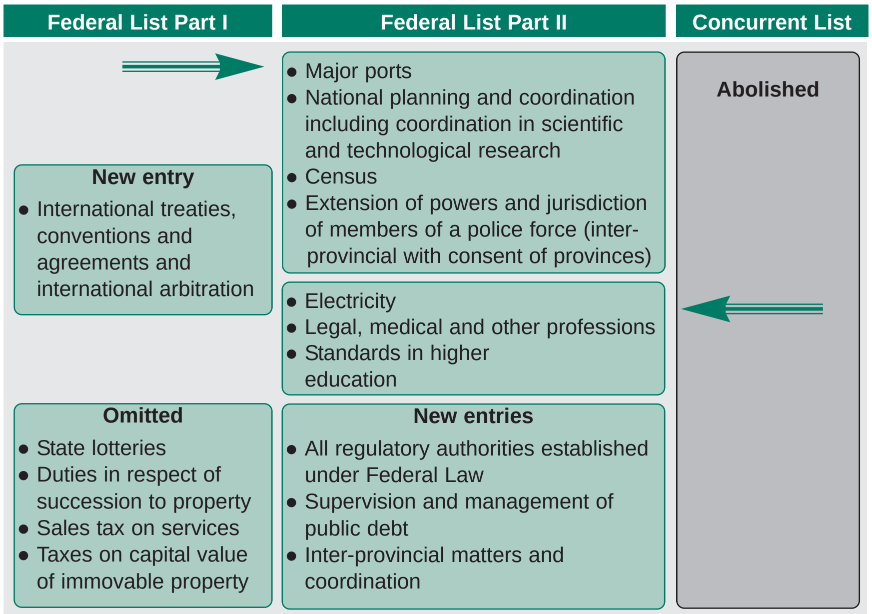
Chart 3.1 Changes in Legislative Responsibilities Due to the 18th Amendment

Article 142(b)	Article 142(c)
Parliament and Provincial Assembly shall have power to make laws with respect to criminal law, criminal procedure and evidence.	Provincial Assembly shall, and Parliament shall not, have power to make laws with respect to any matter not enumerated in Federal Legislative List.

Source: The Constitution of the Islamic Republic of Pakistan 1973, The Ideal Publishers, Karachi, 2011

The erstwhile Concurrent List contained 47 subjects that have now been transferred to the provinces. However, some subjects such as electricity; legal, medical and other professions; and standards in higher education have been added to FLL Part I[1], as shown in Chart 3.2. The role of provinces has also been enhanced by transferring a few subjects from FLL Part I to FLL Part II since the latter comes under the Council of Common Interests (CCI). These subjects include major ports, census,

Chart 3.2 Changes in the Legislative Lists



Source: The Constitution of the Islamic Republic of Pakistan 1973, The Ideal Publishers, Karachi, 2011

national coordination and planning, and interprovincial jurisdiction of the police force. Moreover, the CCI has been given control over the management of public debt and all regulatory authorities established under federal law.

Some subjects have been omitted from FLL Part I, implying that legislative authority for these subjects will now be the prerogative of provincial governments. These include state lotteries, duties in respect to succession to property, sales tax on services and taxes on capital value of immovable property (Chart 3.2). On the other hand, international treaties, conventions and agreements along with international arbitration have been added to the FLL.

More autonomy to the federating units requires greater coordination between the provincial and federal governments. In this regard, an important and welcome step is the revitalisation of the CCI. In the past, the CCI has, at times, played a key role in reaching agreements on disputed issues. For example, the 1991 Water Accord was agreed upon during a CCI meeting.

Under the 18th Amendment, the composition of the CCI has been changed. Although the total number of members remains unchanged – four from the provinces and federal government each – the prime minister has been appointed a permanent member as well as the chair of the Council (Chart 3.3). Earlier, the prime minister would chair only if he/she happened to be a member of the Council. Otherwise, the president would nominate a federal minister as the chair.

The Council has been given the power to formulate and regulate policies in relation to matters enumerated in Part II of the FLL as well as exercise supervision and control over related institutions. In order to make the CCI an effective body, the constitution has provided that it would have a permanent secretariat and meet at least once in three months. Consequently, the CCI has become a powerful and key dispute

Chart 3.3 Changes in the Composition of CCI due to 18th Amendment

Before	After
• Chief Ministers of the Provinces • Equal number of members from federal government *(Prime Minister will be the Chair if he/she is a member; otherwise a federal minister nominated by the President)*	• Prime Minister (Chair) • Chief Ministers of the Provinces • Three members from federal government

Source: The Constitution of the Islamic Republic of Pakistan 1973, The Ideal Publishers, Karachi, 2011

resolution body where top representatives of federal and provincial governments can frequently meet to resolve emerging inter-governmental conflicts.

Fiscal and Borrowing Power Autonomy

In addition to an enhanced transfer of resources to provinces, under the 7th National Finance Commission (NFC) Award, major changes related to fiscal powers under the 18th Amendment include sales taxation of services by provinces; no reduction in the share of provinces in future NFCs; borrowing powers; transfer of proceeds from federal excise duty to provinces; and the strengthening of the National Economic Council (NEC) with greater representation of the provinces.

As mentioned earlier, entry on sales taxation in the FLL Part I has been amended to exclude sales tax on services implying that provincial governments have the authority to levy/collect sales tax on services if they so desire.

An important change has been brought about in Article 160, regarding constitutional provisions for the NFC, which states that "the share of the Provinces in each Award of National Finance Commission shall not be less than the share given to the Provinces in the previous Award." Moreover, the federal and provincial finance ministers have been given the responsibility to monitor the implementation of the Award biannually and report to both houses of parliament and the provincial assemblies.

Provinces have also been given additional resources through federal excise duty on oil. Amended Article 161 provides that "the net proceeds of the Federal duty of excise on oil levied at well-head and collected by the Federal Government shall not form part of the Federal Consolidated Fund and shall be paid to the Province in which the well-head of oil is situated."

International loans to provinces were formerly routed through the economic affairs division of the federal government. There have been concerns about cumbersome procedures involved in the sanctioning of these loans as well as higher interest rates charged by the federal government. Under the 18th Amendment, provinces have been given borrowing powers. Article 167 (4) states that "a Province may raise domestic or international loan, or give guarantees on the security of the Provincial Consolidated Fund within such limits and subject to such conditions as may be specified by the National Economic Council."

Another important step is the revival and strengthening of the NEC. Changes have been made in the size and composition of the NEC; it is now tilted in the favour of provinces. The number of members has been

Chart 3.4 Changes in the Composition of NEC after the 18th Amendment

Before	After
• Prime Minister (Chair) • One member from each province nominated by the President on recommendation of provincial government	• Prime Minister (Chair) • Chief Ministers of the Provinces • One member from each province nominated by Chief Minister • four other members as the Prime Minister may nominate from time to time

Source: The Constitution of the Islamic Republic of Pakistan 1973, The Ideal Publishers, Karachi, 2011

increased from five to 13 including chief ministers of provincial governments (Chart 3.4). Altogether, eight out of 13 members will be from provincial governments. The Council will be required to meet at least twice a year and submit an annual report to each house of parliament.

The mandate of the NEC has traditionally been to review the overall condition of the country and formulate plans in respect to financial, commercial, social and economic policies. An important enhancement in its responsibility is that the NEC is now required to ensure balanced development and regional equity in policymaking.

In addition, several other changes have also been made under the 18th Amendment which may have direct implications for social development in the country. These include the right to free education and information; safeguards against discrimination in services; promotion of social and economic well-being of the people; and establishment of local governments (see Box 3.1).

Box 3.1 Some Other Changes in the Constitution

Right to information: 19A. "Every citizen shall have the right to have access to information in all matters of public importance subject to regulation and reasonable restrictions imposed by law".

Right to education: 25A. "The State shall provide free and compulsory education to all children of the age of five to sixteen years in such manner as may be determined by law."

Safeguard against discrimination in services: 27 (1). "Provided-also that under-representation of any class or area in the service of Pakistan may be redressed in such manner as may be determined by an Act of Majlis-e-Shoora (Parliament)".

Promotion of social and economic well being of the people: 38 (g). "The shares of the Provinces in all federal services, including autonomous bodies and corporations established by, or under the control of, the Federal Government, shall be secured and any omission in the allocation of the shares of the Provinces in the past shall be rectified."

Local government: 140(A) - (1) Each Province shall, by law, establish a local government system and devolve political, administrative and financial responsibility and authority to the elected representatives of the local governments.

2) Elections to the local governments shall be held by the Election Commission of Pakistan.

Source: The Constitution of the Islamic Republic of Pakistan 1973, The Ideal Publishers, Karachi, 2011

Chart 3.5	Changes in Federal Ministries after 18th Amendment
Dissolved Ministries	
• Culture • Education (excluding HEC) • Environment • Food and Agriculture • Health • Labour and manpower • Livestock and dairy Development • Local Government and Rural Development	• Population welfare • Social Welfare and Special Education • Special Initiatives • Sports • Tourism • Woman Development • Youth Affairs • Zakat and Ushr • Minorities
Newly formed Ministries	
• Capital Administration and Development • Climate Change • Food Security and Research • Human Resource Development	• National Harmony • National Heritage and Integration • National Regulation and Services • Professional and Technical Training

Source: Cabinet Division, Government of Pakistan (http://www.cabinet.gov.pk)

STATUS OF IMPLEMENTATION

Transfer of Functions to the Provinces

As highlighted above, the 18th Amendment has resulted in the redistribution of functional responsibilities of the federal and provincial governments. The federal government devolved its 17 ministries – mostly related to social sectors. On the contrary, eight new ministries have been created by the federal government (Chart 3.5).

There appear to be two major factors behind the motivation of the federal government to create new ministries. Firstly, to continue with retained functions and services after the 18th Amendment, particularly those which are national in character. This is reflected in a press release by the federal government which states:

In order to ensure clarity in role, integrated service delivery and efficiency in administering the federal administrative function after the implementation of the 18th Amendment, restructuring has been done and new administrative units (Ministries) have been created by Prime Minister...." (The News, 2011)

Secondly, the creation of new ministries enables the ruling party to accommodate its coalition partners. It is interesting to note that out of 11 federal ministers and ministers of states, appointed for newly created ministries, six belong to coalition partners.

The creation of new ministries has been questioned and termed as an attempt to roll back the 18th Amendment. According to a news report:

> *"Senator Mian Raza Rabbani[2] adopted a strict stance on the creation of new ministries and said that the rights of provinces had been usurped after the 18th Amendment. He opined that 17 ministries were abolished through the 18th Amendment, and that seven ministries were created unconstitutionally. The ruling party senator questioned as to what was the need for the new ministries. He said that if there was an objection to the devolution of ministries, why did the cabinet approve it in the first place? He opined that some political personalities did not want the implementation of the 18th Amendment. He said that*

Chart 3.6 Functions of Two Old and New Ministries

Ministry of Environment (abolished)	Ministry of Climate Change (new)
1. National policy, plans and programmes regarding:- (a) Environmental Planning, Pollution and Ecology; (b) Physical Planning and Human Settlements including urban water supply, sewerage and drainage 2. Dealing and agreements with other countries and international organizations in the fields of Environment, Housing, Physical Planning and Human Settlements. 3. Pakistan Environmental Planning and Architectural Consultants Limited (PEPAC) 4. Economic Planning and Policy making in respect of Forestry and Wildlife. 5. Administrative control of- i. National Council for Conservation of Wildlife in Pakistan. ii. Pakistan Forest Institute. iii. Zoological Survey of Pakistan. 6. Administrative Control of ENERCON.	1. National Disaster Management Authority 2. Pakistan Environmental Protection Council 3. Pakistan Environmental Protection Agency 4. Pakistan Environmental Planning and Architectural Consultants Ltd (PEPAC) 5. Global Environmental Impact Study Centre, Islamabad 6. Coordination, monitoring and implementation of environmental agreements with other countries, international agencies and forums.
Ministry of Minorities (abolished)	**Ministry of National Harmony (new)**
1. Safeguarding the rights of minorities. 2. Promotion of welfare of minorities. 3. Protection of minorities against discrimination. 4. Representation of Pakistan in international bodies and conferences relating to minorities, including U.N. Sub-Commission on Prevention of Discrimination to Minorities. 5. International Agreements and commitments in respect of minorities and their implementation. 6. All other matters relating to minorities. 7. Evacuee Trust Property Board. 8. Policy and legislation with regard to evacuee trust property	1. Policy and legislation with regard to interfaith harmony 2. International agreements and commitments in respect of all religious communities and implementation thereof 3. Representation of Pakistan at UN Sub-Commission on Prevention of Discrimination to Minorities 4. Minorities Welfare Fund 5. National Commission for Minorities 6. Evacuee Trust Property Board

Source: The Rules of Business, 1973, The Ideal Publishers, Karachi, 2012

the federal education ministry had been created illegally and this act was tantamount to withdrawing power from the provinces" (The News, 2012).

It is also interesting to note that some new ministries are performing functions that are almost similar to those of their predecessors. This is evident in Chart 3.6 which presents examples of two such ministries. The Ministry of Climate Change is the new face of the Ministry of Environment while the Ministry of National Harmony has been created in place of the Ministry of Minorities. It is evident form the chart that most of the functions of new ministries are essentially the same as their predecessors.

Box 3.2 Stated Outcome of New Ministries

Capital Administration and Development
- Preservation of cultural heritage
- Promotion & development of tourism in Pakistan
- Promotion of Arts & culture
- Provision of formal / informal education facilitation to the general public
- Mainstreaming, Education and Rehabilitation
- Improved Public Health

Climate Change
- Protection of Environment, Energy and Conservation of Wild Life

Human Resource Development
- Administration and Policy
- Provision of overseas employment opportunities and management of emigration

Food Security and Research
- Productivity enhancement of crops and efficient / vibrant agriculture research
- Promotion of private sector growth & stabilization of farm incomes consumer prices
- Productivity enhancement of livestock & fisheries
- Provision of regulatory & assessment services
- Administration

National Harmony
- Prevention against discrimination to minorities and promotion of their welfare
- Interfaith Harmony

National Heritage and Integration
- Preserved cultural heritage Promoted arts and culture
- Research and Training
- Land Reforms
- Urdu as Official Language

National Regulation and Services
- Effective implementation of regulatory services

Professional and Technical Training
- Availability of integrated national pool of highly trained manpower, in consonance with indigenous needs of socio-economic development

Source: Federal Medium Term Budget Estimates for Service Delivery, 2012-15, Finance Division, Government of Pakistan

Outcomes of the new ministries as stated in the Federal Medium Term Budget Estimates for Service Delivery, 2012-15 are shown in Box 3.2.

Furthermore, a number of departments and institutions related to the devolved ministries were transferred to the provinces while others were retained by the federal government (as shown in Appendix A-II). A number of issues, however, emerge regarding the retention of various institutions/departments by the federal government and their placement within federal divisions. It is also not clear on what grounds the functions have been retained.

As highlighted earlier, it is widely accepted that the allocation of functions among different levels of government must adhere to the principle of subsidiarity whereby a service is provided at the appropriate level and inter-jurisdictional spillovers are minimised. The principle of subsidiarity states that a central authority should have a subsidiary function, performing only those tasks which cannot be performed effectively at a more immediate or local level. In other words, any activity that can be performed by a more decentralised entity should be given to that entity if there is cost saving and efficiency improvement. Keeping this

Chart 3.7 Retention and Placement of Various Attached Departments/ Semi-Autonomous Bodies

Institution/Department	Federal Division
Service Delivery Institutions	
• Tuberculosis Centre Rawalpindi	Cabinet
• Women And Chest Diseases Hospital Rawalpindi	Cabinet
• Zayed Post-Graduate Medical Institute Lahore	–
• Shaikha Fatima Institute of Nursing and Health Sciences Lahore	–
• Worker's Welfare Fund	Human Resource Development
• Employees Old Age Benefits Institution	Human Resource Development
• National College of Arts Lahore and Rawalpindi	Cabinet
• Marine Biological Research Laboratory Karachi	Ports and Shipping
Institutions Requiring National Coordination and Regulation	
EDUCATION	
• Academy of Educational Planning and Management, Islamabad	Professional and Technical Training
• Federal Board of Intermediate and Secondary Education, Islamabad	Professional and Technical Training
• National Education Assessment Centre, Islamabad	Professional and Technical Training
• Urdu Science Board and Urdu Dictionary Board merged With National Book Foundation	Cabinet
• Directorate of Federal Government Educational Institutions	Capital Administration & Development
• Private Educational Institutions Regulatory Authority	Capital Administration & Development
HEALTH	
• Pakistan Medical And Dental Council	National Regulations and Services
• Pakistan Nursing Council	National Regulations and Services
• College of Physicians and Surgeons	National Regulations and Services
• National Council for Tibb	National Regulations and Services
• National Council for Homeopathy	National Regulations and Services
• Pharmacy Council of Pakistan	National Regulations and Services
• Pakistan Veterinary Medical Council, Islamabad	Inter-Provincial Coordination
• Pakistan Medical Research Council	Cabinet

Source: The Gazette of Pakistan (various notifications) [SRO 294/2011, SRO 788/211, SRO 1088/2011 and others]

in view as well as the spirit of the 18th Amendment, institutions involved in service delivery in the provincial jurisdiction should be transferred to the provinces, while the functions that are national in character, and involve planning and coordination at higher levels, remain within the domain of the federal government or be dealt with by the CCI.

As shown in Chart 3.7, several institutions involved in service delivery have been retained by the federal government including the Employees' Old-Age Benefits Institution (EOBI) and Workers Welfare Fund (WWF). The latter have been transferred to the newly formed federal Ministry of Human Resource Development. The provinces of Punjab and Sindh have raised concerns about the retention of these institutions (the issues related to EOBI and WWF are discussed in detail in Chapter 8).

Also, there appears to be a dichotomy in the policy of the federal government as it has transferred some institutions providing health and education services to the provinces while retained others that are seemingly strong candidates for devolution. For example, two federally run hospitals, the Jinnah Post Graduate Medical Centre, Karachi and Sheikh Khalifa Bin Zaid Hospital, Quetta have been transferred to the Government of Sindh and Balochistan respectively. On the other hand, the Shaikh Zayed Postgraduate Medical Institute, Lahore and Shaikha Fatima Institute of Nursing and Health Sciences, Lahore have not been transferred to the Government of Punjab. Similarly, the federal government has retained the Tuberculosis Centre and Women and Chest Diseases Hospital (both based in Rawalpindi). These should have been handed over to the province. In the same manner, the National Colleges of Arts (Lahore and Rawalpindi) and Marine Biological Research Laboratory, Karachi have been retained by the federal government.

The placement of retained departments and semi-autonomous bodies within federal divisions was initially conducted in a haphazard manner. However, after various exercises of reshuffling of ministries and divisions, most of the placements have now been finalised. Nevertheless, a number of departments/institutions have not been accommodated in relevant divisions. For example, the Cabinet Division is running hospitals and colleges of arts.

In some cases, institutions of a similar nature are under the control of different ministries. As shown in Chart 3.7, six councils related to medical professions have been put under the Ministry of National Regulation and Services while the Pakistan Medical Research Council and Pakistan Veterinary Medical Council are working under the Cabinet Division and Inter-provincial Coordination Division respectively.

Similarly, the Federal Board of Education, Islamabad is under the Ministry of Professional and Technical Training while the Directorate of Federal Government Educational Institutions is under the jurisdiction of the Capital Administration Development Division (CADD). Moreover, Private Educational Institutions Regulatory Authority, which is an institution at the national level, is being controlled by CADD.

In the agricultural domain, three institutions namely the Pakistan Agricultural Research Council (PARC), Pakistan Central Cotton Committee (PCCC) and Federal Seed Certification and Registration Department have not been devolved to the provinces. Parallel structures of these institutions are already operating at the provincial level with similar mandates. According to NSPP (2012), "It appears that lack of coordination has resulted in duplication of effort and waste of resources. As an example, the eight provincial research institutes operating under respective provincial governments have mandate similar to the mandate of PARC and PCCC."

On the whole, some subjects performed by the devolved ministries have not been fully devolved. As shown in Chart 3.8, there were 301 entries in the allocated business of devolved ministries and divisions. Altogether, only 94 functions have actually been devolved while 207 functions have been retained by the federal government (NSPP, 2012).

Chart 3.8 Devolution of Subjects after 18th Amendment

Number of entries in the allocated business of devolved ministries	301
Number of functions retained at federal level	207
Number of functions devolved to provinces	94

Source: NSPP(2012)

Retention of most institutions/departments and creation of new divisions have been done on the basis of various constitutional provisions, as contained in FLL Part I and II. These include the following:

- National planning and national economic coordination including planning and coordination of scientific and technological research (Item 7 FLL-Part II).
- Standards in institutions for higher education and research, scientific and technical institutions (Item 12 FLL-Part II).
- External affairs; the implementing of treaties and agreements, including educational and cultural pacts and agreements…. (Item 3 FLL-Part I).

Further, a new Item 32 has been introduced via the 18th Amendment in FLL Part I, which enables the federal legislature to legislate on subject matters covered by "international treaties, conventions and agreements and International arbitration".

On top of that, an umbrella clause 270AA(6) has been introduced through the 18th Amendment in order to explicitly protect the status of existing federal laws and statutory bodies which states:

> *"Notwithstanding omission of the Concurrent Legislative List by the Constitutional (Eighteenth Amendment) Act, 2010, all laws with respect to any of the matters enumerated in the said List (including Ordinances, Orders, rules, bye-laws, regulations and notifications and other legal instruments having the force of law) in force in Pakistan or any part thereof, or having extra-territorial operation, immediately before the commencement of the Constitution (Eighteenth Amendment) Act, 2010, shall continue to remain in force until altered, repealed or amended by the competent authority."*

Chart 3.9 Some Laws that Need to be Amended or Replealed after 18th Amendment

- Employees' Old-Age Benefits Act, 1976
- Workers' Welfare Fund Ordinance, 1971
- Companies Profits (Workers' Participation) Act, 1968
- Higher Education Commission Ordinance, 2002
- Pakistan Environmental Protection Act (PEPA) 1997

As such, in the aftermath of the 18th Amendment, a great deal of legislation has to be done by the federal and provincial governments. The UNDP (2011) points out that as a consequence of the 18th Amendment, more than 100 laws and more than 200 minor acts need to be amended or replaced. In addition, a large number of subordinate legislation needs to be amended in sync with the superior legislation. Some of the major laws (along with their subordinate rules) that need to be amended or repealed for smooth functioning of devolved subjects and transfer of retained institutions to provinces are listed in Chart 3.9.

There is a major legislative gap which is hindering the full implementation of the 18th Amendment. As Jillani (2011) states, "the irony is that the provinces are failing to legislate on these subjects while the Centre is also not moving to repeal the laws that no longer fall within its jurisdiction."

In this state of uncertainty, the provinces have three options. First, they may pass a resolution, under Article 144(1)[3], authorising parliament to continue to regulate the matter. Second, the provinces can ask the federal government to repeal the law. In case of unwillingness of the federal government to do so, the province can challenge the continuous existence of the federal law on the statute books in the supreme court since it conflicts directly with the spirit of the abolition of the Concurrent List . Third, the provinces may legislate on their own for application within their respective jurisdiction, notwithstanding the existence of the federal law (Jillani, 2011).

IMPLICATIONS FOR FINANCE AND DEVELOPMENT

This section quantifies the potential and actual financial implications of the 18th Amendment for the provincial and federal governments respectively. For the provinces, this includes higher wage bills and pension liabilities due to the transfer of human resources, higher operations and maintenance costs since infrastructure is transferred in the devolved subjects, and provincial outlays for development for the new functions (UNDP, 2011). This should imply corresponding savings for the federal government.

Table 3.1 Current Expenditure of Federal Government *(Rs. in Million)*

Expenditure on Devolved Divisions	2010-11	Expenditure on New Division	2012-13
Education*	4,316	Capital Administration & Development	8,946
Health	5,435	Climate Change	309
Social Welfare & Special Education	2,841	Human Resource Development	304
Youth Affairs	3,708	National Food Security & Research	2,586
Food & Agriculture	1,959	National Harmony	209
Culture	649	National Heritage & Integration	775
Sports	549	National Regulations & Services	439
Others	2,043	Professional and Technical Training	996
Total	**21,500**	**Total**	**14,563**

* Excluding HEC

Source: Budget documents, Government of Pakistan

As shown in Table 3.1, current expenditure on the devolved divisions was Rs21.5 billion in 2010-11 which could have potentially been saved. However, the establishment of new divisions has placed an additional burden of Rs14.6 billion in 2012-13 leading to an overall reduction in current expenditure at the federal level of only Rs6.9 billion. The increase in current expenditure liability of provincial governments due to devolution is estimated to be Rs5.0 billion in 2011-12, as shown in Table 3.2.

Table 3.2 Increase in Current Expenditure Liability of Provincial Governments due to Devolution, 2011-12 *(Rs. In Million)*

Punjab	1,205
Sindh	2,555
Khyber Pakhtunkhwa	433
Balochistan	773
Total	**4,966**

Source: Finance departments of provincial governments.

A number of federal PSDP projects/schemes relating to devolved subjects have also been transferred to the provincial governments. The basic issue that arose was the financing of these projects. The provincial governments were of the view that since the 7th NFC Award preceded the 18th Amendment, the additional liabilities transferred to the provinces were not coupled with the transfer of additional resources. Hence, the provinces cannot continue the execution of these projects without a meaningful transfer of additional resources at least till the currency of 7th NFC Award. As opposed to this, the federal government has argued that the provinces are already enjoying enhanced fiscal space under the 7th NFC Award. Therefore, they should be able to finance the additional responsibilities which have been constitutionally transferred to them (GOP, 2011).

However, the CCI in its meeting on April 28, 2011 made the following decisions:

a) The federal government will continue to fund higher education till the next National Finance Commission (NFC) award due in 2014-15.

b) The federal government will provide financing for vertical programmes of the health and population sectors.

c) All projects located in the provinces except those being carried out under the president and prime minister's directives would be financed by the provinces.

As far as allocations for vertical programmes are concerned, an analysis of PSDP (2011-12) reveals that the federal government has actually performed well in allocating resources to them. Altogether, an allocation of Rs 17.9 billion was made for 17 vertical programmes in the sectors of health and population welfare in the budget 2011-12. As shown in Table 3.3, actual releases to these projects during 2011-12 have been Rs 16.5 billion - 92 percent of the total allocations. In most of the cases,

Table 3.3 PSDP Allocation and Releases for Vertical Programs, 2011-12

(Rupees)

	Budget	Releases	%
Population Welfare Program Punjab	1,549	1,549	100
Population Welfare Program Sindh	885	885	100
Population Welfare Program Khyber Pakhtunkhwa	477	477	100
Population Welfare Program Balochistan	391	391	100
Population Welfare Program GB	41	41	100
Population Welfare Program AJK	78	78	100
Population Welfare Program FATA	35	35	100
National Program for Family Planning & Primary Health	8,000	8,790	110
National MNCH Programme	2,281	1,046	46
Expanded Programme on Immunization	2,716	1,917	71
Roll Back Malaria Control Programme	123	122	99
National TB Control Programme	123	131	106
National Programme for Prevention of Blindness	247	257	104
National Program for Prevention of Avian Influenza	37	37	100
PM's Program for Prevention & Control of Hepatitis	600	593	99
Strengthening National TB Control Programme	81	81	100
Enhanced HIV / AIDS Control Programme N.I.H (World Bank)	247	61	25
Total	**17,913**	**16,491**	**92**

Source: Status of PSDP Releases as on 29th June, 2012, Planning Commission, Government of Pakistan (www.pc.gov.pk)

Table 3.4 PSDP Project Transferred to Provinces (excluding vertical programmes)

(Rs. in Million)

	Project Transferred Cost	Project Transferred Expenditure upto 2011	Project Discontinued Cost	Project Discontinued Expenditure upto 2011
Punjab	34,991	13,455	14,347	1,257
Khyber Pakhtunkhwa	22,518	2,714	1,724	453
Balochistan	9,114	4,085	3,925	1,246
Sindh	40,917	19,371	n.a.	n.a.
Total	**107,540**	**39,625**	**19,996**	**2,957**

Source: Public Sector Development Programme 2012-13, Planning Commission, Government of Pakistan

the actual release has been close to 100 percent. This is an encouraging step towards sustainability of important social programmes in the preventive health sector. The buffer provided by the federal government till 2014-15 will help provincial governments in integrating these programmes into the mainstream system of health service delivery. However, greater ownership of these programmes by the provincial governments could have been created by including them in the provincial Annual Development Programmes (ADPs) with financing through development grants by the federal government.

Table 3.4 presents a summary of PSDP projects transferred to the provinces. These include projects located in the provinces, except those being carried out under the directives of the president and prime minister. The total cost of the projects transferred to the provinces was Rs 108 billion while expenditure incurred on these projects up to June 2011 was Rs 40 billion implying a throw forward of Rs 68 billion. The provinces had the option to continue or discard these projects according to their own development priorities. An analysis of provincial ADPs of 2011-12 and 2012-13 indicates that most of the projects have been continued in the provinces of Punjab, Khyber Pakhtunkhwa and Balochistan. These projects have been integrated into their respective ADPs. As shown in Table 3.4, the total cost of the projects, which have apparently been discontinued, amounts to Rs20 billion. Expenditure already incurred on these projects was Rs3 billion, which is naturally a sunk cost.

In the case of Sindh, however, devolved projects do not appear to have been integrated into ADP as regular schemes. In Sindh's ADP of 2011-12, a block allocation of Rs3.4 billion was made for devolved projects. Total cost mentioned for all projects was Rs41 billion with a throw forward of Rs21.5 billion. No details of individual schemes have been provided. However, in the next year's ADP (2012-13) the total cost given for all devolved projects is Rs754 million with the same amount of throw forward. It is not clear whether all the remaining projects have been discontinued.

As opposed to this, a significant number of projects related to devolved subjects are still found in the federal PSDP. Table 3.5 presents a snapshot of projects which should ideally be transferred to the provinces. Altogether, an allocation of Rs69.5 billion has been made for these projects, which is equivalent to 29 percent of the total PSDP allocations to the federal ministries in 2012-13.

Table 3.5 Federal PSDP 2012-13: Projects Related to Devolved Subjects

(Rs. in Million)

	Total Allocation	Allocation to Projects of Devolved Subjects	Type of Projects Schemes
Professional and Technical Training	2,952	2,462	• National Commission for Human Development • Basic Education Community Schools
People Works Program	27,000	27,000	• Mostly in devolved subjects
Hihger Education Commission	15,800	9,293	• Projects related to educational infrastructure located in provinces
Finance Division	13,616	9,496	• Capacity Building of Teachers Training Institutes • Projects related to sewerage, water supply • Various development packages such as Hyderabad Package, Lyari Package, etc.
Planning and Development	37,840	21,159	• Vertical Programs on health and population welfare
Human Rights	126	96	• Shaheed Benazir Bhutto Women Centres
Total	**97,334**	**69,504**	

Source: Public Sector Development Programme 2012-13, Planning Commission, Government of Pakistan

In conclusion, while the 18th Amendment has had the intention of providing greater autonomy to the provinces, during the process of implementation a large number of functions have effectively been retained by the federal government along with financing responsibilities. Political and bureaucratic compulsion to retain control and power has led to a potential roll back of the 18th Amendment. The time has come, perhaps, for the establishment of a commission to determine the extent to which the goals of the 18th Amendment have been achieved and prescribe the necessary steps to ensure full implementation.

NOTES:

1 Federal Legislative List has two parts (Part I and II). Although, federal government has exclusive powers to make laws with respect to any matters in the both parts of FLL, the Council of Common Interests (CCI) is given the authority to formulate and regulate policies in relation to matters enumerated in Part II. The CCI is represented by federal and all provincial governments.

2 Senator Rabbani belongs to the ruling party and was the chairman of the Implementation Commission on 18th Amendment.

3 "If one or more Provincial Assemblies pass resolutions to the effect that Majlis-e-Shoora (Parliament) may by law regulate any matter not enumerated in the Federal Legislative List in the Fourth Schedule, it shall be lawful for Majlis-e-Shoora (Parliament) to pass an Act for regulating that matter accordingly, but any act so passed may, as respects any Province to which it applies, be amended or repealed by Act of the Assembly of that Province."


Photography by Hassan Zaheer

Implications of the 7th NFC Award on Sub-national Finances

4

The distribution of resources among provinces is based on multiple criteria.

4

Implications of the 7th NFC Award on Sub-national Finances

The financial state of provincial governments in Pakistan largely depends on intergovernmental revenue transfers which take place according to the provisions of the National Finance Commission (NFC) awards. These awards design the formula for the sharing of resources between federal and provincial governments, and distribution among the four provinces for five years. Since both the federation and each federating unit want to maximise their share in resources, consensus building has been difficult. As a result, since the separation of East Pakistan, there have been only three conclusive NFC awards (1974, 1991 and 1997) and one presidential distribution order (2006) prior to the 7th NFC Award. Five NFCs were unable to reach a consensus; and therefore, there was no award.

Against this backdrop, the 7th NFC Award can clearly be claimed as an achievement of the present democratic government. It has substantially changed the formula for resource distribution. For the first time after the secession of East Pakistan, the distribution of resources among provinces has been based on multiple criteria, breaking from the tradition whereby the shares of provincial governments were based solely on population. Other factors now accepted as basis for distribution among provinces include backwardness, inverse population density and revenue collection/generation. The 7th NFC has also resolved other outstanding provincial concerns related to gas development surcharge (GDS) and hydroelectricity profit.

This chapter analyses the financial implications of the 7th NFC Award and its impact on provincial governments. Going further, it also looks at the level of intergovernmental revenue transfers, from the provincial to local governments, in the pre- and post- 7th NFC eras and highlights the concerns of financial sustainability of large cities.

AN OVERVIEW OF THE NFC AWARDS

The history of intergovernmental fiscal transfers, from the federal government to the provincial governments, in the subcontinent, dates back to 1919. Since the independence of Pakistan in 1947, intergovernmental transfers have undergone many changes in line with constitutional developments. Similar to other countries, the purpose of the fiscal transfer system in Pakistan is primarily to correct the vertical fiscal imbalances between the federal and the provincial governments, and horizontal imbalances between provinces.

According to the Constitution of Pakistan, the NFC is set up by the president of the country every five years. This Commission has the responsibility to decide the allocation of total revenues collected during a fiscal year between the federal and four provincial governments with their consent.

Table 4.1 gives the chronology of NFCs in Pakistan. As mentioned above, it shows that since the separation of East Pakistan, there have been only three NFC awards (1974, 1991 and 1996) in addition to the distributional order of 2006. Thus, the NFC was successful in building a consensus among its members only thrice in a period of 32 years. After the NFC Award 1974, two attempts were made for the revision in the design of intergovernmental transfers but these were unsuccessful in evolving a consensus among the members and hence an award could not be announced. The much-awaited NFC Award was materialised in 1990-91. This was followed by the NFC Award of 1997 which remained operative till 2005-06 due to the lack of consensus in 2002. In 2006, the Distribution of Revenues and Grants-in-Aid (Amendment) Order (DRGO) by the President of Pakistan replaced the NFC Award 1997. Again the presidential order was necessitated by the lack of consensus among the members of the NFC.

Table 4.1 Chronology of NFCs

S.No.	Name	Status
First	**NFC 1974**	**Conclusive**
Second	NFC 1979	Inconclusive
Third	NFC 1985	Inconclusive
Fourth	**NFC 1991**	**Conclusive**
Fifth	NFC 1995	Inconclusive
	NFC 1997	**Conclusive**
Sixth	NFC 2002	Inconclusive
	DRGO 2006	-
Seventh	**NFC 2010**	**Conclusive**

Source: SPDC compilation

On the distribution method, NFCs up to the fifth NFC (1997) followed the 'gap-filling' approach. This approach estimated provincial revenue receipts and expenditures, based on the actual numbers and trend growth rate, and recommended deficit grants to fill the financing gaps. This approach encouraged the provincial governments to understate the growth of their own tax revenues, increase expenditures, and run deficit budgets in the expectation that their financing gaps would be filled by grants from the NFC. Apart from encouraging fiscal indiscipline and inefficiency, this approach was inequitous as it resulted in grant transfers to the larger provinces, clearly, at the cost of the smaller, more backward provinces.

The fifth NFC abandoned this approach and adopted new bases for the allocation of federal transfers. It introduced two new concepts: (1) revenue share based on the national resource picture and (2) inclusion of all federal taxes in the divisible pool with revised shares. In addition, it provided constitutional subvention for the two relatively backward provinces – Khyber Pakhtunkhwa and Balochistan.

The DRGO 2006, promulgated by the president, differed from other NFC awards in three ways. First, it introduced an increased share for the provincial governments (increasing from 41.5 percent in 2006-07 to 46.25 percent in 2010-11). Second, it brought in two distribution bases: 1) the divisible pool (which included all taxes except one-sixth of sales tax) and 2) one-sixth of the sales tax (which was given in lieu of the abolition of octroi/zila tax). The former was distributed among provinces solely on the basis of population while the latter on the basis of the OZT tax collection, at that time, which implied shares of 50 percent, 34.85 percent, 9.93 percent and 5.22 percent for Punjab, Sindh, Khyber Pakhtunkhwa and Balochistan respectively. Third, it separately awarded grants-in-aid to all provinces based on an unknown criterion.

KEY ELEMENTS OF THE 7th NFC AWARD

The 7th NFC Award has brought some profound changes in the resource distribution formula. The changes can be classified under three broad groups: (1) divisible pool, (2) straight transfers and (3) grants/others.

Changes in Divisible pool

1. The collection charges of the federal government have been reduced from five percent to one percent thereby enlarging the overall size of the divisible pool.
2. The federal government and all four provincial governments recognised the role of Khyber Pakhtunkhwa as a frontline province in the war on terror. One percent of net proceeds of the divisible pool has, therefore, been earmarked for Khyber Pakhtunkhwa for the entire award period. In 2010-11 for example, Khyber Pakhtunkhwa received an additional Rs15 billion because of this provision.
3. Provincial share in the remaining divisible pool has been increased from 46.25 percent to 56 percent in 2010-11 and then to 57.5 percent for the rest of the award period. This means that the share of the federal government in the net divisible pool would be 44 percent in 2010-11 and 42.5 percent during the remaining period.
4. This award ensures that Balochistan gets at least Rs83 billion out of the divisible pool transfers. In case the estimated share of Balochistan is less than Rs83 billion, the balance funds will be contributed by the federal government.
5. GST on services collected in the central excise (CE) mode was accepted as a provincial tax; and therefore, its revenue proceeds are to be reverted to the provinces and not be part of the divisible pool.

Changes in Straight Transfers

1. As mentioned above, along with provincial sales tax, GST on services collected on CE mode is also accepted as a provincial tax. Provinces were given the choice to collect GST on services provincially or allow the Federal Board of Revenue (FBR) to collect it on their behalf with proceeds reverted back as a straight transfer.
2. On the demand of the Government of Balochistan, the formula for the computation of gas development surcharge (GDS) was revised.
3. The rate of excise duty on gas was increased from Rs5.09 to Rs10 per MMBTU.
4. Arrears on the payment of hydel profits to Khyber Pakhtunkhwa were ensured.
5. GDS arrears are to be paid retroactively to Balochistan. Although hydel profits and GDS are straight transfers, we treat payment of the arrears of both as grants in the analysis below.

Table 4.2 Provincial Share in Divisible Pool Taxes

(Percent)

Divisible Pool Taxes	NFC 1974	NFC 1991	NFC 1997	DRGO 2006	NFC 2010
Income Tax & Corporation Tax*	80	80	37.5	41.50 - 46.25	56.0 - 57.5
- Other Direct Taxes	-	-	37.5	41.50 - 46.25	56.0 - 57.5
Sales Tax	80	80	37.5	41.50 - 46.25	56.0 - 57.5
Central Excise Duty**	-				
- Tobacco	-	80	37.5	41.50 - 46.25	56.0 - 57.5
- Sugar	-	80			
Import Duties	-	-	37.5	41.50 - 46.25	56.0 - 57.5
Export Duties					
- Cotton	80	80	-	-	-

*Excluding taxes on income consisting of remuneration paid out of federal consolidated fund.
**Excluding Central Excise Duty on Natural Gas
Source: SPDC compilation

Changes in Grants/Others

1. Discretionary grants-in-aid to all provinces were abolished.
2. Sindh was given a grant of Rs6 billion to partly offset losses due to the merger of one-sixth of GST in the divisible pool.

Vertical Distribution of Divisible Pool

Table 4.2 presents the formula for vertical distribution or the provincial share in the divisible pool of NFC awards. It indicates that until the NFC Award 1991, provincial governments had been receiving 80 percent of two major and buoyant federal taxes: sales tax, and income and corporation tax. The 1991 NFC also gave provinces a share in the federal excise duty on tobacco and sugar.

The NFC Award 1997 included all federal taxes in the divisible pool and decreased the provincial share from 80 percent to 37.5 percent – less than half of their previous share. Thereafter, the trend has been to increase the share of provinces in the divisible pool of taxes.

Horizontal Distribution of the Divisible Pool

Table 4.3 shows the formula for horizontal distribution of the divisible pool in NFC awards. It points out that the entire distribution of the divisible pool among provinces in the first three NFC awards and the DRGO was based only on population. However, the NFC Award 2010 expanded the distribution criteria for the divisible pool. The criteria now includes: population (82 percent), poverty and backwardness (10.3 percent), revenue collection/generation (5 percent) and inverse population density (2.7 percent).

Table 4.3 Factors used in Horizontal Distribution of Divisible Pool Taxes

(Percent)

Divisible Pool Taxes	NFC 1974	NFC 1991	NFC 1997	DRGO 2006*	NFC 2010
Population	100.0	100.0	100.0	100.0	82.0
Poverty/Backwardness	-	-	-	-	10.3
Revenue Collection/Generation	-	-	-	-	5.0
Inverse Population density	-	-	-	-	2.7

*Other than 1/6th of sales tax on goods collected and distributed in lieu of Octroi/Zila Tax
Source: SPDC compilation

FINANCIAL IMPLICATIONS OF THE 7th NFC AWARD

The changes made in the 7th NFC Award have significant implications on federal and provincial finances. This section provides quantitative estimates of these changes for both federal and provincial finances for the years 2010-11, 2011-12 and 2012-13. It also provides a comparison with the DRGO 2006 and highlights the magnitude of change in the financial resources of the federal and provincial governments.

Federal and Provincial Revenues from Divisible Pool Taxes

Table 4.4 presents the vertical implications of the 7th NFC award on FBR taxes since 2010-11. The FBR tax revenue for 2010-11 was Rs1,567 billion and is projected to increase to Rs2,363 billion by 2012-13. However, the divisible pool is formed after excluding federal excise duty on natural gas, export duties, provincial GST and collection charges from the FBR tax revenue. As highlighted earlier, the 7th NFC Award made two changes in the divisible pool: it reduced collection charges and excluded GST CE mode from it. While the first change increased the size of the divisible pool, the second change reduced it. The net impact is presented in Table 4.4.

The combined federal transfers to provinces increased by over Rs160 billion in 2010-11, Rs230 billion in 2011-12 and Rs285 billion in 2012-13. In percentage terms, transfers to provincial government are higher by 23 to 28 percent as a result of changes made in the distribution formula in the 7th NFC Award. This increase in transfers reduces revenues of the federal government from the divisible pool by about one-fifths.

Table 4.5 presents the horizontal distribution of FBR taxes as per the 7th NFC Award and DRGO 2006. This estimation is based on the tax-wise estimates of FBR taxes, and the assigned share to each province in the 7th NFC Award and the distribution order 2006, incorporating all the four changes in horizontal distribution as described in the earlier section. The

Table 4.4 Vertical Implications of the 7th NFC Award on Divisible Pool Transfers

(Rs. in Billions)

	FBR Tax Revenue	Divisible Pool	Federal Share	Provincial Share
Divisible Pool Transfers as per 7th NFC Award				
2010-11 RE	1567.7	1463.1	628.0	835.0
2011-12 RE	1937.0	1837.5	773.1	1064.4
2012-13 BE	2363.0	2252.0	947.5	1304.5
Divisible Pool Transfers as per Distribution Order 2006				
2010-11 RE	1567.7	1458.3	783.8	674.5
2011-12 RE	1937.0	1801.5	968.3	833.2
2012-13 BE	2363.0	2203.0	1184.1	1018.9
Impact of change in Design (in absolute terms)				
2010-11 RE	0.0	4.8	-155.8	160.6
2011-12 RE	0.0	36.0	-195.2	231.2
2012-13 BE	0.0	49.0	-236.6	285.6
Impact of change in Design (in percentage terms)				
2010-11 RE	0.0	0.3	-19.9	23.8
2011-12 RE	0.0	2.0	-20.2	27.7
2012-13 BE	0.0	2.2	-20.0	28.0

Source: SPDC compilation

Table 4.5 Horizontal Implications of the 7th NFC Award on Divisible Pool Transfers

(Rs. in Billions)

	Punjab	Sindh	Khyber Pakhtunkhwa	Balochistan
Divisible Pool Transfers as per 7th NFC Award				
2010-11 RE	419.7	199.1	133.2	83.0
2011-12 RE	541.2	256.8	171.3	95.1
2012-13 BE	663.3	314.7	209.9	116.5
Divisible Pool Transfers as per Distribution Order 2006				
2010-11 RE	380.0	170.3	89.6	34.6
2011-12 RE	468.6	211.7	110.2	42.7
2012-13 BE	572.5	259.6	134.5	52.2
Impact of change in Design (in absolute terms)				
2010-11 RE	39.7	28.9	43.6	48.4
2011-12 RE	72.6	45.1	61.1	52.4
2012-13 BE	90.7	55.1	75.4	64.3
Impact of change in Design (in percentage terms)				
2010-11 RE	10.4	16.9	48.7	140.1
2011-12 RE	15.5	21.3	55.4	122.6
2012-13 BE	15.8	21.2	56.1	123.1

Source: SPDC estimates based on Explanatory Memorandum on Federal Receipts various issues, Ministry of Finance, Government of Pakistan

Award has, expectantly, had a differential impact on the four provinces, benefiting disproportionately the smaller provinces. For example in 2010-11, Balochistan was the largest gainer acquiring an additional Rs48 billion (equivalent to a 140 percent increase) followed by Khyber Pakhtunkhwa. In percentage terms, gains of Balochistan, Khyber Pakhtunkhwa , Sindh and Punjab are more than 100 percent, 50 percent, 20 percent and 15 percent respectively due to a change in the formula. Clearly, it can be concluded that the 7th NFC is fiscal equalizing and the objective to ensure horizontal equalisation through non-discretionary, transparent mechanisms appears to be successful.

Impact of 7th NFC Award on Straight Transfers

An interesting implication of the 7th NFC Award for straight transfers is the acceptance of provincial rights over GST on services in any mode. As per the constitution, GST on services is a provincial tax. However, previously the FBR collected it under two heads: GST services (CE Mode) and GST services (provincial). While the latter was directly transferred to provincial governments after deducting collection charges, GST on services (CE Mode) was treated as GST on goods. This was distributed among the federal and provincial governments as any other divisible pool tax. The 7th NFC Award requires reversion of all revenue proceeds from taxation of services to provincial governments after deducting collection charges. While the anomaly in vertical distribution of GST on services has been resolved in the 7th NFC Award, the horizontal distribution of this tax has remained unsettled – the issue is to be resolved through dialogue between the federation and federating units.

However, the 7th NFC Award gives the right to provinces to collect GST on services if they wish to. Consequently, both Sindh and Punjab have established their respective revenue authorities and are endogenizing the collection of sales tax on services. Sindh took the lead in setting up the Sindh Revenue Board (SRB) to collect GST on services at provincial level in 2011. Punjab has followed and has now set up a Punjab Revenue Authority to collect GST on services from July 2012.

Other than GST on services, the 7th NFC Award changed the GDS distribution formula to accommodate Balochistan's point of view, increased the rate of excise duty and ensured release of arrears on GDS to Balochistan and hydel profits to Khyber Pakhtunkhwa.

Table 4.6 shows the comparison of province-wise revenues from straight transfers under the 7th NFC Award with the DRGO 2006. It indicates that the revenues of the Government of Punjab increased massively due to the transfer of GST on services (CE mode) from the divisible pool to straight transfers. In absolute terms the increase is more than Rs30 billion throughout the post-NFC period. Similar to Punjab, the transfer of GST services (CE mode) has also benefitted Khyber Pakhtunkhwa. The province is expected to receive more than Rs8 billion per year from this source.

In the case of Balochistan, changing the GDS distribution formula gave an additional Rs2 billion increase per annum. Moreover, inclusion of GST (CE mode) in straight transfers also helped increase Balochistan's revenues. Sindh lost Rs2 billion due to the change in the GDS distribution formula, however, the province benefited from an upward revision of excise duty from Rs5.09 to Rs10. Moreover, its efforts to collect GST services by setting a provincial revenue board also helped the province to maximise gains from the 7th NFC Award.

Impact of 7th NFC Award on Grants and Arrears

Another important domain of the NFC is to allow or withdraw grants/constitutional subventions to provinces. The 7th NFC award had taken four decisions. First, it abolished the grants-in-aid to all provinces given under the DRGO 2006. Second, Sindh was given a grant of Rs6 billion or 0.66 percent of the provincial divisible pool to offset losses resulting from the abolition of a separate basis of distribution of one-sixth of GST revenues. Third, it allows GDS arrears to be paid retroactively to Balochistan on the basis of the new formula. Fourth, it agreed to the payment of the long held arrears of hydel profits to Khyber Pakhtunkhwa and Punjab.

Table 4.7 presents the estimates of the increase or decrease in provincial revenues due to the four changes mentioned above. The 7th NFC Award's decision to abolish grants to provinces cost all provinces heavily. However, this decline in grants was partly offset by arrears of net hydel profit to Khyber Pakhtunkhwa and Punjab, arrears of GDS to Balochistan and the grant to Sindh. Consequently, during the post-NFC period, the decline in grants to provinces ranges from Rs6.5 billion to Rs31.5 billion. On average, grants to Sindh, Balochistan and Punjab declined by roughly 50 percent, 46 percent and 30 percent respectively. Khyber Pakhtunkhwa was initially better off due to the 7th NFC Award, however, in 2012-13 it may experience a decline in its revenues compared to DRGO 2006. The estimates for 2012-13 are based on the revenue targets of the FBR.

Aggregate Financial Implication of the 7th NFC Award on Provinces

Having estimated the financial implications of changes in the divisible pool, straight transfers and grants, this subsection assesses the overall

Table 4.6 Province-wise Implications of the 7th NFC Award on Straight Transfers *(Rs. in Billions)*

	Punjab	Sindh	Khyber Pakhtunkhwa	Balochistan	Total
Straight Transfers as per 7th NFC Award					
2010-11 RE	44.12	78.84	23.77	16.31	163.04
2011-12 RE	45.42	82.00	26.42	16.73	170.56
2012-13 BE	47.76	91.25	32.04	16.86	187.92
Straight Transfers as per Distribution Order 2007					
2010-11 RE	11.35	62.51	15.04	10.65	99.54
2011-12 RE	14.56	54.35	18.30	10.84	98.05
2012-13 BE	13.85	56.60	22.74	11.18	104.36
Impact of the 7th NFC Award (in absolute terms)					
2010-11 RE	32.77	16.33	8.73	5.66	63.49
2011-12 RE	30.86	27.65	8.11	5.89	72.51
2012-13 BE	33.91	34.66	9.31	5.68	83.55
Impact of the 7th NFC Award (in percentage terms)					
2010-11 RE	288.8	26.1	58.1	53.1	63.8
2011-12 RE	212.0	50.9	44.3	54.3	73.9
2012-13 BE	244.7	61.2	40.9	50.8	80.1

Source: SPDC estimates based on Explanatory Memorandum on Federal Receipts (various issues), Ministry of Finance, Government of Pakistan; Annual Budget Estimates - Provincial (various issues)

Table 4.7 Province-wise Implications of the 7th NFC Award on Grants and Subventions *(Rs. in Billions)*

	Punjab	Sindh	Khyber Pakhtunkhwa	Balochistan	Total
Grants as per the 7th NFC Award					
2010-11 RE	5.17	6.00	25.00	12.00	48.17
2011-12 RE	5.17	7.00	25.00	12.00	49.17
2012-13 BE	5.17	9.00	25.00	12.00	51.17
Grants as per Distribution Order 2006					
2010-11 RE	6.02	11.48	19.14	18.05	54.69
2011-12 RE	7.43	14.19	23.64	22.29	67.56
2012-13 BE	9.09	17.35	28.91	27.26	82.61
Impact of the 7th NFC Award on Grants (in absolute terms)					
2010-11 RE	-0.85	-5.48	5.86	-6.05	-6.52
2011-12 RE	-2.27	-7.19	1.36	-10.29	-18.39
2012-13 BE	-3.92	-8.35	-3.91	-15.26	-31.45
Impact of the 7th NFC Award on Grants (in percentage terms)					
2010-11 RE	-14.1	-47.8	30.6	-33.5	-11.9
2011-12 RE	-30.5	-50.7	5.7	-46.2	-27.2
2012-13 BE	-43.2	-48.1	-13.5	-56.0	-38.1

Source: SPDC estimates based on Explanatory Memorandum on Federal Receipts (various issues); Demand for Grants and Appropriations (various issues), Ministry of Finance, Government of Pakistan

impact of the 7th NFC Award. Table 4.8 presents province-wise financial implications of the 7th NFC Award in comparison with the DRGO 2006. It indicates that as per the revised estimates of 2010-11 and 2011-12, in absolute terms Punjab has been the biggest beneficiary of the 7th NFC Award followed by Khyber Pakhtunkhwa, Sindh and Balochistan.

Table 4.8 Province-wise Aggregate Impact of the 7th NFC Award

(Rs. in Billions)

	Punjab	Sindh	Khyber Pakhtunkhwa	Balochistan	Total
Transfers and Grants as per the 7th NFC Award					
2010-11 RE	468.96	283.97	187.98	111.31	1,052.22
2011-12 RE	591.78	345.79	228.72	123.81	1,290.10
2012-13 BE	716.21	414.97	272.98	145.39	1,549.55
Transfers and Grants as per Distribution Order 2007					
2010-11 RE	397.38	244.26	129.77	63.26	834.68
2011-12 RE	490.58	280.20	158.17	75.85	1,004.79
2012-13 BE	595.48	333.53	192.17	90.68	1,211.87
Financial implications of the 7th NFC Award (in absolute terms)					
2010-11 RE	71.58	39.71	58.22	48.04	217.54
2011-12 RE	101.20	65.60	70.55	47.96	285.31
2012-13 BE	120.73	81.44	80.81	54.71	337.68
Financial implications of the 7th NFC Award (in percentage terms)					
2010-11 RE	18.0	16.3	44.9	75.9	26.1
2011-12 RE	20.6	23.4	44.6	63.2	28.4
2012-13 BE	20.3	24.4	42.1	60.3	27.9

Source: SPDC estimates based on Explanatory Memorandum on Federal Receipts (various issues); Demand for Grants and Appropriations (various issues), Government of Pakistan; Annual Budget Estimates - Provincial (various issues)

However, in percentage terms, Balochistan is the largest beneficiary, with an increase of more than 60 percent throughout the tenure of the NFC Award, followed by Khyber Pakhtunkhwa. The relative picture substantiates the point made earlier that the 7th NFC Award will be fiscally equalizing as its provisions disproportionately benefit the relatively backward provinces more.

LOCAL GOVERNMENT FINANCES AFTER THE 7th NFC AWARD

Prior to the 7th NFC Award, one-sixth of GST on revenues in the provincial divisible pool were earmarked for local governments as compensation for the abolition of the octroi and zila tax (OZT). This amount was distributed on the audited collection share of the OZT. The distribution basis was, however, disputed and Punjab had severe reservations, in particular. The 7th NFC award abolished the separate basis of distribution of one-sixth of GST goods and merged it with other divisible pool taxes to be shared on the basis of multiple criteria discussed earlier. Sindh, on the other hand, was additionally compensated for the OZT losses by giving an additional grant of 6 billion annually. As a result of this change, earmarking of revenues for the local governments has ceased and the transfer is now at the discretion of the provincial governments. It is against this backdrop that this section looks into transfers from provincial governments to local governments in pre- and post- NFC Award periods.

Table 4.9 Transfers from Provincial Governments to Local Governments

(Rs. in Billions)

	Pre 7th NFC Award	Post 7th NFC Award		
	2009-10 Revised	2010-11 Revised	2011-12 Revised	2012-13 Budget
Punjab	124.5	152.7	191.6	213.6
Sindh	104.3	124.4	73.9	37.9
Khyber Pakhtunkhwa	38.9	54.8	74.5	93.1
Balochistan	20.9	2.70	0.0	0.0
Total	**288.5**	**334.6**	**340.1**	**344.6**
Growth Rate (%)				
Punjab		22.7	25.5	11.5
Sindh		19.3	-40.6	-48.8
Khyber Pakhtunkhwa		40.7	36.1	25.0
Balochistan		-87.1	-100.0	
Total		**16.0**	**1.7**	**1.3**

Source: Annual Budget Estimates - Provincial (various issues)

Transfers from Provinces to Local Governments

Table 4.9 shows the province-wise transfers from the provincial to local government in pre- and post- 7th NFC Award periods. There appear to be significant variations in the pattern of growth of intergovernmental fiscal transfers from provincial to local governments across provinces. In Balochistan, a massive decline was witnessed immediately after the NFC Award. No transfer from provincial governments to local governments is reflected in budget documents 2011-12 onwards. In Sindh, these transfers declined from Rs124 billion in 2010-11 to Rs74 billion in 2011-12 and are budgeted at just Rs38 billion in 2012-13. In contract, in Punjab and Khyber Pakhtunkhwa the transfers exhibit growth in the last two fiscal years. In Khyber Pakhtunkhwa , for example, local transfers which were Rs39 billion in 2009-10, are budgeted to increase to Rs93 billion in 2012-13. Similarly, in Punjab, local transfers are to increase from Rs125 billion in 2009-10 to Rs214 billion in 2012-13.

Financing of Large Cities

Large cities represent a concentration of population in a relatively small geographical area arising primarily from the presence of locational advantages and agglomeration economies in production. Currently, there are nine cities in Pakistan, as shown in Table 4.10, which were estimated to have a population of over 1 million each in 2012. The combined population in these cities is over 35 million, equivalent to almost half the urban population in the country.

Table 4.10 Estimated Population in Large Cities of Pakistan, 2012

(000s)

Name of City	Population
Karachi	13,925
Lahore	8,124
Faisalabad	3,286
Rawalpindi	2,261
Multan	1,796
Gujranwala	1,756
Hyderabad	1,675
Peshawar	1,556
Islamabad	1,159
Total of Above	**35,538**

Source: Pakistan year book based on projection of the 1998 census population by the inter-censal growth rate between 1981 and 1998.

There has been growing concern about the financial viability of large cities in face of the pressures of rapid urbanisation. This is also an emerging issue in Pakistan although it is yet to hit the headlines.

There are two basic problems. Firstly, financing needs per capita are higher than those of small cities. Secondly, the incremental costs of absorbing the additional population rise rapidly, especially of water supply (due to procurement from more and more distant sources) and urban road networks (due to the spatial expansion of metropolitan areas).

Potentially, the tax base should also be larger due to greater economic activity but this is not adequately exploited either due to limited fiscal powers (usually the same for small and large cities) or because of underdevelopment of the tax machinery and high levels of tax evasion (especially due the sizeable informal economy in large cities). Therefore, there is a tendency for the financing gap to rise on a per capita basis as cities expand.

The financing gap of large cities, especially of mega cities like Karachi and Lahore, has been greatly accentuated in recent years by the sharp escalation of power tariffs in the country. Power is a key input in the provision of water supply as it is required for pumping water. Power tariffs to municipal water supply and sanitation agencies have virtually doubled in the last four years.

A case study of Karachi, the largest metropolitan city in Pakistan, reveals the magnitude of the problem. The combined budget of municipal agencies, KMC and KWSB , for 2012-13 is Rs62 billion, of which the share of water supply and sewerage (of KWSB) is almost half. Development expenditure on these services has an even higher share of 68 percent. Out of the recurring budget of KWSB, the share of the electricity bill is as high as 51 percent. But the extent of recovery through user charges is only 42 percent. Not only is the development expenditure financed by the Government of Sindh or KMC but a recurrent subsidy of six billion rupees is also required.

This has created an unsustainable situation. The outstanding arrears of KWSB with KESC have already risen to Rs12 billion and have contributed significantly to the problem of circular debt of the power utility. KWSB has requested the Sindh government to pay the outstanding arrears but this has recently been refused. On an annualised basis, the financing gap is equivalent to about 150 percent of revenues collected from user charges. The consequence is that the city is facing a water supply shortage – of up to 10-15 percent – due to a reduction in the electricity supply from KESC to KWSB. Water riots were observed in some parts of the city and the situation could deteriorate further.

Karachi is not the only city with a water supply problem. In Punjab, water and sanitation agencies (WASAs) in large cities like Lahore, Faisalabad, Gujranwala and Rawalpindi require ever-growing subsidies from the Government of Punjab to sustain their supplies. The Lahore WASA alone receives a subsidy of over Rs3 billion. In the city of Hyderabad in Sindh, payment of salaries to WASA employees has become problematic.

The financing problems are a result of poor billing and payment processes, highlighting yet another area of poor governance. Further, the level of water and sewerage tariffs is not high enough to even recover operations and maintenance (O & M) costs, including that on power.

The solutions have to be both of immediate short term and medium term in character. In the short term, the focus has to be on solving liquidity problems of water supply and sanitation agencies. In the medium term, local revenue sources will have to be better exploited and possibly more fiscal powers given to the municipal governments of large cities.

In most cities, user chargers are linked mostly (except for metered bulk consumers) to the gross annual rental values (GARVs), assessed for the purpose of levy and collection of the urban immoveable property tax (UIPT). These GARVs have not been revised in most cities and are only a fraction (one-fifth to one-fourth) of current market rental values. Consequently, in the presence of high inflation in rents there is simultaneously low revenue generation both from UIPT and water charges. This is, of course, primarily attributable to political economy considerations.

The UIPT is levied and collected by the provincial excise and taxation departments of the provincial governments. These governments have little incentive to collect more revenues from the tax because the bulk (up to 85 percent) has to be reverted to local governments. Clearly, the time has come for the UIPT to be transferred to large city governments which are big enough to have their own specialised tax machinery. In the interim period, water and sewerage charges should be enhanced on an ad hoc basis by up to 150 percent to cover the financing gap and stronger measures adopted to enforce payment of bills. This should be done keeping affordability considerations in mind with regard to the poorer segments of the population.

Over time as the costs of development and maintenance of urban infrastructure mounts, special measures, in the form of additional fiscal powers, may have to be granted to metropolitan governments. This could include a local income tax (like the professions, trades and callings tax) 'piggy backing' on the federal income tax. Also, a small surcharge on the provincial sales tax on services, especially on hotels and restaurants, banking and insurance could be introduced. These are needed especially for compensating for losses resulting from the abolition of the octroi which had traditionally served as the mainstay of municipal governments.

Photography by Majid Hussain

Resource Mobilisation by Provincial Governments

5

The federal government collects almost 96 percent of the taxes while the four provinces combined collect only four percent of tax revenues.

5 Resource Mobilisation by Provincial Governments

A growing number of countries around the globe are re-examining the roles of various levels of government, and Pakistan is not an exception. In this regard, the 18th Amendment and 7th NFC Award have taken major steps towards fiscal decentralisation by abolishing the Concurrent Legislative List (CLL), devolving 17 federal divisions/ministries and allocating more fiscal power to the provincial governments. This process of decentralisation provides the provinces with an opportunity to prioritise their expenditures as per their respective needs and raise their own resources to finance them. This chapter focuses on the implications of the reallocation of fiscal powers. The previous chapter has already derived the implications for sub-national expenditure.

Historically, tax decentralisation has been considered a complex issue in Pakistan. There are arguments both in favour and against this aspect of decentralisation. Its proponents argue that tax decentralisation is an important principle of governance. They identify three advantages of fiscal decentralisation including preference matching, efficiency through tax competition and increased accountability. In particular, a rational assignment of taxing powers enables each level of government control over its fiscal destiny by allowing it to choose its level of spending in the presence of hard budget constraints. Tax decentralisation also assures taxpayers that they are getting what they paid for and consequently may stimulate greater tax compliance and introduce accountability.

On the other hand, opponents argue that provinces lack the capacity to collect taxes. Moreover, the bulk of taxes in Pakistan are usually paid at the headquarters of firms that may lead to an unfair allocation of revenues after decentralisation and the ‘exporting’ of the tax burden.

The experience of Pakistan with respect to devolution of taxes indicates that the federal government collects almost 96 percent of the taxes while the four provinces combined collect only four percent of tax revenues (see Table 5.1). This confirms the point that provinces hither to have had a limited role in taxation policy in Pakistan.

This overriding centralisation of revenue collection has implied large vertical fiscal imbalances (gap between own spending and own revenues at the sub-national level) in Pakistan. Consequently, the financial status of provincial governments largely hinges on federal transfers mandated through the NFC Award to finance their expenditures rather than on a rational tax assignment. From the perspective of sustainable public service provision provincial governments should have enough 'own' revenues to finance the goods and services they provide rather than relying on federal transfers and grants. This over-reliance may not only lead to excessive dependence but also create uncertainty in designing provincial fiscal policies.

The objective of this chapter is to analyse the allocation of fiscal powers between federal and provincial governments. It presents the

Table 5.1 Tax Collection by Federal and Provincial Governments

	Tax Collection (Rs in Billion)			Share in Tax Collection (%)	
	Federal	Provincial	Total	Federal	Provincial
2000-01	422.5	19.1	441.6	95.7	4.3
2001-02	459.3	18.8	478.1	96.1	3.9
2002-03	534.0	21.8	555.8	96.1	3.9
2003-04	583.0	28.0	611.0	95.4	4.6
2004-05	624.7	34.7	659.4	94.7	5.3
2005-06	766.9	36.8	803.7	95.4	4.6
2006-07	852.9	36.8	889.7	95.9	4.1
2007-08	1,009.9	40.8	1,050.7	96.1	3.9
2008-09	1,266.1	46.1	1,312.2	96.5	3.5
2009-10	1,444.0	55.0	1,499.0	96.3	3.7
2010-11	1,642.6	64.6	1,707.2	96.2	3.8
2011-12*	1,321.5	57.6	1,379.2	95.8	4.2
Average Share				**95.9**	**4.1**

*July - March
Source: Pakistan Economic Survey (various issues), Government of Pakistan

economic rationale for devolution of taxes and the principles that need to be adhered to in the allocation of taxes. It also describes the current assignment of revenue sources with particular focus on the general sales tax (GST) on services which has been allocated to the provinces in the 18th Amendment. It further discusses the resource mobilisation strategy for other provincial taxes, namely taxes on agricultural income and real estate, and takes up the issue of the granting of borrowing powers to the provincial governments.

ECONOMIC RATIONALE FOR DEVOLUTION OF TAXES

The economic theory of tax assignment leads to the conclusion that the level of sub-national government taxes should more or less match the level of sub-national government expenditures that are characterised by local benefits. In the real world, the overall level of sub-national government taxes is much higher in most industrialised countries than in developing countries. The tax centralisation in developing countries leads to vertical imbalances and exacerbates some fiscal problems (Bahl and Cyan 2010).

According to Bahl (1999), fiscal decentralisation assists in revenue mobilisation, innovation in economic activity, accountability of elected officials and grassroots participation in governance. Given this, it is probable that fiscal decentralisation leads to improved efficiency in the use of resources as residents in sub-national governments can decide their desired mix of public services and revenues that best suits them. Moreover, these decentralised provisions of goods and services is generally intended to better take into account differing local references and enhance the accountability of sub-national authorities (Eyraud and Lusinyan, 2011 and Oates, 1972).

A common view in the normative literature is that large transfers may 'soften' the budget constraints of sub-national governments, lead them to overspend and lower their tax effort – mainly because they do not fully internalise the cost of spending and/or anticipate that their financing gap will be covered by additional transfers. The local governments' lack of discipline may spill over to the centre if the latter is pressed to bail sub-national authorities. Transfers may thus lead to excessive and unproductive spending, inefficient revenue mobilisation, higher borrowing costs and lower accountability of local authorities. Conversely, allowing sub-national governments to access own revenue through taxation is seen as essential to promoting fiscal discipline (Eyraud and Lusinyan, 2011, Oates, 2006, IMF, 2009 & Blochliger and Petzold, 2009).

In a recently conducted empirical study, Eyraud and Lusinyan (2011), based on their econometric results, confirmed the widespread view that spending decentralisation financed through own revenues is beneficial and that increasing the share of transfers and borrowing in sub-national spending deteriorates the general government balance. Their findings also suggested that the combination of vertical and horizontal imbalance is particularly damaging to fiscal balances. Finally, they showed that reducing the vertical fiscal imbalance lowers primary expenditure but also increases revenue, which may create trade-offs for governments seeking to reduce the tax burden.

REVENUE ASSIGNMENT AS PER CONSTITUTION

In Pakistan the constitution and certain statutes designate the revenue assignments between the federal and provincial governments. After the abolishment of the CLL, following the 18th Amendment, the revenue source assigned to the federal and provincial governments is through an express provision in an article of the constitution or through classification by various subjects in the FLL under the Fourth Schedule, Article 70(4) of the Constitution. In the case of the FLL, if the revenue source is mentioned it belongs to the federation only, and if a revenue source is not mentioned it then belongs to the province only.

Federal Revenue Assignment

Federal taxes under the Fourth Schedule, Article 70(4), of the Constitution of Pakistan, are given in Table 5.2. The Article states that among the indirect taxes the federal government has a constitutional right to collect taxes only on the sale and purchase of goods (imported, exported, produced, manufactured or consumed) but not on sales of services. This provides autonomy to the provincial governments to levy sales tax on services. It is to be mentioned that income tax, capital value tax, duties of customs, excise duty and sales tax on goods are shared revenues under the NFC clause (Article 160) of the constitution. The base and rate of these taxes are, however, set by the federation.

Provincial Revenue Assignment

The revenue assignment of provincial governments according to the new constitutional scheme is given in Table 5.3. These tax assignments have left the provinces with tax bases that are hard to reach (the income tax on agriculture) or costly to administer (the property tax). It is also argued that the constitution closes off possibilities for tax base sharing between the federal and provincial levels by allowing only separate tax bases to each level of government (Bahl, Wallace and Cyan 2008).

In the presence of existing tax assignment in Pakistan, it is doubtful that local residents see much connection between the level of taxes they pay to provincial governments and the expenditure benefits they receive.

Table 5.2 Federal Revenue Assignment as per Constitutional Provision

Federal Taxes	Federal Legislative List
Direct Taxes	
Personal income tax (excl. agricultural income)	subject 47
Corporate income tax	subject 48
Capital value tax (excl. immovable property)	subject 50
Indirect Taxes	
Duties of customs (including export duties)	subject 43
Excise duty (except on alcohol, narcotics)	subject 44
Taxes on the sales and purchases of goods (except sales tax on services)	subject 49
Mineral oil, minerals, natural gas	subject 51
Tax on production capacity	subject 52
Terminal taxes on goods transport and passengers	subject 53

Source: Constitution of Pakistan

Table 5.3 Provincial Revenue Assignment as per Constitutional Provision

Provincial Taxes	Constitutional Schemes
Direct Taxes	
Property tax	Residuary but there is bar in the Federal List (subject 51)
Capital gains	Assigned through bar on the federation in the Federal List (subject 50)
Agriculture income tax	Through bar on the federation in the Federal List (subject 47)
Indirect Taxes	
Excise duty on alcohol/ liquor/narcotics	Assigned to province by bar on the federation in the Federal List (subject 44)
Sales tax on services	Residuary assignment
Tax on professions	Article 163 of the constitution
Motor vehicle tax	Residuary assignment
Stamp duty	Residuary assignment
Registration fee	Residuary assignment
Mutation fee	Residuary assignment
Natural gas excise duty	Article 161 of the constitution
Net hydro profits	Article 161 of the constitution
Electricity duty	Article 157(2) (b)of the constitution

Source: Constitution of Pakistan

In other words, this tax assignment erodes one of the most important advantages of fiscal decentralisation – taxpayers holding their elected provincial officials accountable for the quality of services delivered, as per Bahl, Wallace and Cyan (2008).

THE SALES TAX ON SERVICES

History

The GST on services fell under the domain of provincial governments even before the 18th Amendment. It was for this very reason that provinces levied sales tax on services on July 15, 2000 which was collected by the Federal Board of Revenue (FBR) on their behalf. However, it has been observed that the federal government levied and collected GST on telecommunications (which is basically GST on services) as a federal tax without the consent of the provinces. To legitimise this levy, it collected this tax in the central excise mode till 2009-10.

Table 5.4 Collection and Growth Rates of GST Services

Years	Collection (Rs in Million) CE Mode	Provincial	Total	Growth Rates (%) CE Mode	Provincial	Total
2000-01	6,607	1,978	8,584			
2001-02	8,810	2,964	11,774	33.4	49.9	37.2
2002-03	11,527	2,622	14,148	30.8	-11.6	20.2
2003-04	12,119	3,335	15,454	5.1	27.2	9.2
2004-05	20,406	3,596	24,003	68.4	7.8	55.3
2005-06	26,895	4,134	31,029	31.8	14.9	29.3
2006-07	36,868	4,967	41,835	37.1	20.1	34.8
2007-08	45,485	6,193	51,678	23.4	24.7	23.5
2008-09	50,130	6,465	56,595	10.2	4.4	9.5
2009-10	44,853	16,750	61,603	-10.5	159.1	8.8
Annual Average Growth Rate				**25.5**	**33.0**	**25.3**

Source: SPDC estimates based on Explanatory Memorandum on Federal Receipts various issues, Ministry of Finance, Government of Pakistan

This arrangement affected the provincial revenues negatively because the FBR had greater incentive to collect and increase the base of GST on telecommunications and little incentive to collect or expand the base of GST (provincial). This was due to the reason that the former was treated as a federal tax and collection of GST provincial was transferred to provinces after deducting two percent collection charges. This lack of incentive of the FBR resulted in a relatively lower growth in GST services (provincial) and negatively affected provincial revenues.

Table 5.4 shows the collection of GST services during 2000-01 to 2009-10. In 2000-01, GST on services in CE Mode was Rs6.6 billion while GST (provincial) was around Rs2.0 billion. By 2008-09, GST in CE mode had reached Rs50.1 billion whereas GST (provincial) hardly increased to Rs6.5 billion. However, in 2009-10, when the discussion on devolution of GST started in the NFC, the GST CE mode declined to Rs44.9 billion and GST provincial increased to Rs16.7 billion (more than doubled in just one year).

Table 5.5 presents the effective loss in revenues to the provinces due to the GST in CE mode being in the divisible pool rather than fully

Table 5.5 Financial Implications of GST CE Mode to Provinces

(Rs. in Millions)

Years	GST CE Mode Collection	2% Collection Charges	Provincial Revenues De Jure	De Facto	Difference
2000-01	6,607	132	6,474	2,354	-4,121
2001-02	8,810	176	8,634	3,139	-5,495
2002-03	11,527	231	11,296	4,106	-7,190
2003-04	12,119	242	11,877	4,318	-7,560
2004-05	20,406	408	19,998	7,270	-12,728
2005-06	26,895	538	26,357	9,581	-16,776
2006-07	36,868	737	36,131	14,535	-21,596
2007-08	45,485	910	44,575	18,365	-26,211
2008-09	50,129	1,003	49,126	20,835	-28,292
2009-10	44,853	897	43,956	19,175	-24,781
Cumulative	**263,700**	**5,274**	**258,426**	**103,677**	**-154,749**

Source: SPDC estimates based on Explanatory Memorandum on Federal Receipts various issues, Ministry of Finance, Government of Pakistan transferred as a straight transfer on the basis of collection. In 2000-01, the first year of extension of the GST to the provinces, the revenue loss was Rs4 billion, which increased to almost Rs25 billion in 2009-10, the last year prior to the 7th NFC Award. Cumulatively, over the ten-year period, provinces have effectively been deprived of revenues of as much as Rs155 billion.

GST on Services after the 7th NFC Award

The post-NFC period can be divided into two parts: (1) during 2010-11 in which the FBR collected and distributed the sales tax on services and (2) 2011-12 and onward, in which Sindh set up the Sindh Revenue Board (SRB) in 2012-13. Punjab followed with the establishment of the Punjab Revenue Authority (PRA).

Table 5.6 presents the budget and revised estimates of GST on services as published in the Explanatory Memorandum of Federal Receipts 2011-12. During the first year after the 7th NFC Award, budget estimates show that the FBR targeted to collect and distribute Rs89.2 billion to provinces under GST services, including both GST CE Mode and GST provincial, which are renamed as GST telecommunication and GST services (others) respectively. However, revised estimates show that the FBR collected and distributed Rs66 billion. Moreover, province-wise estimates of revenues in both budget and revised estimates are based on population share of the province and not the collection share.

Table 5.6 Budget and Revised Estimates of GST Services

(Rs in Millions)

	GST Services 2010-11		
	Budget	Revised	Difference
Punjab	51,155	36,281	-14,874
Sindh	21,145	17,365	-3,780
Khyber Pakhtunkhwa	12,325	9,118	-3,207
Balochistan	4,557	3,220	-1,337
Total	**89,183**	**65,985**	**-23,198**

Source: SPDC estimates based on Explanatory Memorandum on Federal Receipts 2011-12, Ministry of Finance, Government of Pakistan

Three messages emerge from these statistics: (1) FBR renamed GST CE mode as a GST telecommunication and treated it as a provincial tax and not as a federal tax, (2) since revised estimates are 26 percent less than budget estimates, reliance on FBR targets of GST on services for expenditure planning may lead to uncertainty in the implementation of provincial budgets and (3) distribution of revenues among provinces in budget estimates was planned on the basis of population share. However, revised estimates indicate that the shares for distribution of revenues were different than those of the population shares where no proper explanation has been illustrated for this revision. The distributions of GST on services among provinces either on the basis of population or any other unknown criterion is against the spirit of tax decentralisation.

In fact three provinces, except Sindh, were in favour of distribution of GST on services on the basis of population. Sindh believed that its share in collection was much higher compared to its population share. Moreover, it also believed that there exists potential to tap more services and bring them into the tax net. Based on these considerations, it created an autonomous body – the Sindh Revenue Board (SRB) – that has been empowered to handle tax matters related to the GST on services.

The SRB works directly under the chief minister. By computerising all matters relating to taxes, it is attempting to introduce transparency into the system. Individuals can obtain online information about their tax obligations, pay their taxes and access the SRB's website to evaluate its performance. The aim is to create a new system in which both the individual taxpayers and the tax collection authority are accountable. The most interesting aspect of the SRB's work is to recognise that it should make an effort in the sectors that, being buoyant, have the capacity to yield resources (Burki 2011).

In 2011-12, both the FBR and SRB presented the budget estimates for GST services, however, in budget 2012-13 documents, the FBR does not show any budget estimates of GST services collection on behalf of Sindh for 2012-13.

Table 5.7 Collection and Distribution of GST Services

(Rs in Millions)

	2011-12 Budget	2011-12 Revised	2012-13 Budget
FBR Collection			
Punjab	39,909	36,564	40,496
Khyber Pakhtunkhwa	10,030	8,923	9,886
Balochistan	3,542	3,663	4,075
Total FBR Collection	53,481	49,150	54,458
SRB Collection	25,000	25,000	32,000
FBR+SRB Collection	78,481	74,150	86,458
Growth Rate in GST services (%)			
FBR Collection		-8.1	10.8
SRB Collection		0.0	28.0
FBR +SRB Collection		-5.5	16.6
Share in GST services (%)			
FBR Collection	68.1	66.3	63.0
SRB Collection	31.9	33.7	37.0
FBR +SRB Collection	**100.0**	**100.0**	**100.0**

Source: SPDC estimates based on Explanatory Memorandum on Federal Receipts 2012-13, Government of Pakistan, Annual Budget Statement 2012-13, Government of Sindh

Table 5.7 presents estimates of GST services collection for 2011-12 and 2012-13 for both the FBR, on the behalf of three provinces namely Punjab, Khyber Pakhtunkhwa and Balochistan, and by the SRB for Sindh. The FBR set a target of Rs53.5 billion for 2011-12. However, revised estimates showed a decline of eight percent. For the same year the SRB set a target of Rs25 billion. Even in the first year of its inception, revised estimates showed that the SRB successfully achieved its target. This success has not only yielded more revenues for Sindh but has also minimised uncertainties in expenditure planning and execution. Based on this achievement, the SRB has set a relatively high target of Rs32 billion for 2012-13 indicating a growth of 28 percent compared to revised estimates of 2011-12. For 2012-13, the FBR has set a relatively moderate target of Rs54.5 billion, which shows a growth of 11 percent compared to revised estimates of 2011-12.

The question is whether the SRB collected revenues from easy to tap services like telecommunications or showed greater efficiency in the collection of revenues from existing services or broadened its tax base by bringing new services in the tax net. In this regard, Table 5.8 presents both FBR budget estimates for GST services for Sindh and SRB revised estimates of GST services for 2011-12. It shows that in contrast to general perception GST on services is a hard-to-collect tax; the bulk of these revenues came from other than telecommunications. The SRB-collected Rs25 billion is Rs5.9 billion more than FBR estimates for Sindh. While, the SRB collected a slightly higher amount compared to FBR estimates in CE mode, its performance in collecting revenues from the rest of the services is commendable.

Table 5.8 FBR Estimates for Sindh and SRB Revised Estimates - 2011-12

(Rs in Millions)

	CE Mode	Provincial	Total
FBR Budget Estimates	15,647	3,455	19,102
SRB Revised Estimates	15,750	9,250	25,000
Absolute Increase	103	5,795	5,898
Relative Increase (%)	0.7	167.8	30.9

Source: SPDC estimates based on Explanatory Memorandum on Federal Receipts 2012-13, Government of Pakistan, Budget Memorandum 2012-13, Government of Sindh

Now the question is whether it is an outcome of improvement in tax efficiency or broadening in base. Burki (2011) mentioned that the SRB has identified 170 services but only 109 of these have been included in developing the tax base so far compared to only 26 services previously part of the tax net. A search of publically available documents did not prove or reject this claim because detailed minor head-wise collection data is so far not available. However, budget documents mentioned 21 collection heads for the SRB. A comparison of these heads with FBR's actual collection of 2010-11 yields a mixed result.

Table 5.9 shows the collection of revenues from services that are common in both the FBR yearbook 2010-11 and Sindh budget documents for 2012-13. These include laundries and dry cleaning services, personal care by beauty parlours and services provided by architects, town planners, interior designers showed It shows that the SRB collected more than the FBR collection for four provinces including Sindh in all the above-mentioned services except courier and logistics. This indicates that there is an improvement in tax collection at the SRB. Moreover, the SRB also shows revenues in some of the heads, which are not mentioned in the FBR yearbook like services provided by medical diagnostic laboratories, pathological laboratories, and property developers and promoters. This may be an indication of a broadening in the tax base of GST services.

Based on the successes of the SRB, the Government of the Punjab has also formed PRA to collect GST services from July 2012 onwards.

Table 5.9 GST Services Collected by FBR and SRB: Common Services

(Rs in Millions)

	FBR 2010-11 Actual	SRB 2011-12 Revised	Difference
Laundries and Dry Cleaning Services	0.4	250.0	249.6
Personal Care by Beauty Parlours	0.2	250.0	249.8
Architects, Town Planners, Interiors	23.8	250.0	226.2
Courier and Logistics Companies	1,403.6	250.0	-1,153.6
Services provided in matters of lease	265.5	500.0	234.5
Total	**1,693.5**	**1,500.0**	**-193.5**

Source: FBR Year Book 2010-2011, Ministry of Finance, Government of Pakistan, Budget Memorandum 2012-13, Finance Department, Government of Sindh

The Outlook

Despite the initial successes in Sindh and the setting up of the PRA by Punjab in 2011-12, the future of GST services, as a provincial tax, is not clear as the federal government is not in favour of its devolution and has counter arguments. The key arguments against devolution of GST can be summarised under the following three broad categories. First, the federal government wants to collect GST goods and services in an integrated value added tax (VAT) mode by naming it Reformed GST (RGST), and the SRB and PRA are a big handle in achieving this objective. It must be recognised that the constitution does not propose a VAT. Second, it is believed that GST services is a hard-to-collect tax and provinces do not have the capacity to collect it – an attempt to devolve it may result in a revenue loss. Third, distribution of the tax base on services is such that one province may capitalise on the advantage of having more headquarters in its geographical boundaries and other provinces may suffer revenues because of this disadvantage.

On the issue of an integrated VAT, the introduction of sub-national VATs can easily lead to chaos, as the experience of Brazil has shown in recent years. The crediting and debiting of VAT to different regions makes the VAT unsuited for direct revenue sharing on a derivation basis. Besides the arbitrariness of crediting and debiting of VAT across regions, the VAT has not truly been shared on a derivation basis (that is according to where the tax is generated) but rather it has been paid according to the place of registration of business firms.

Canada is probably the most interesting country in the world for analysing options for sales taxes. There is a federal VAT, the Goods and Services Tax (GST), that is imposed throughout the country. In one province (Alberta), the GST is the only sales tax. In four provinces (British Columbia, Saskatchewan, Manitoba, and Ontario), in addition to the GST there is a separate RST applied to the GST-exclusive tax base. In one province (Prince Edward Island), the provincial RST is applied to the GST-inclusive tax base. In three provinces (Newfoundland, Nova Scotia, and New Brunswick), there is a joint federal-provincial VAT, called the Harmonised Sales Tax (HST), administered by the federal government at a uniform rate. Finally, in one province (Québec) there is a provincial VAT, the Québec Sales Tax (QST), applied to the GST-inclusive tax base. The QST is administered by the government of Québec, which also administers the GST in the province on behalf of the federal government.

Based on the experience of Pakistan in implementing the VAT as well as the economic principles of intergovernmental relations and lessons learned from different countries, it can be concluded that after the 18^{th} Amendment and the 7^{th} NFC Award, transition from GST to RGST seems more challenging. It is apparent that raising revenues in the future from RGST, with or without the SRB, is extremely difficult. On the one hand, the culture of flying invoices issued by counterfeit firms and on the other difficulties in getting rebate based on genuine invoices is a far bigger challenge in the imposition of RGST compared to the SRB. In many countries, even without flying invoices, the VAT refund process is problematic. Based on initial successes of the SRB, it seems that raising revenues by devolving GST services is not only feasible but also has long-term, revenue-raising potential.

The last argument of location of headquarters and consumption of service in one province and taxing in another province are challenging issues. These issues may further aggravate in case of mobile base of services. This phenomenon is generally referred to as 'tax exporting'. Complete elimination of tax exporting is nearly an impossible task, even taxes on the supposedly immobile bases involve some exporting to non-beneficiaries (e.g., non-residential property taxes). In case of motor vehicle tax, it is a common practice in Pakistan that a vehicle registered in one province uses the road services of other provinces. Moreover, tax exporting can be minimised with the passage of time as regions develop and headquarters become more dispersed.

DEVELOPMENT OF AGRICULTURAL INCOME TAX

While the analysis in this chapter so far has focused on the GST on services, there are other provincial taxes, which are not properly developed and have significant revenue potential. The two major provincial taxes, with revenue potential are the Agriculture Income Tax (AIT) and taxes on real estate. We first take up the strategy for development of the AIT.

The 18th Amendment has retained the powers of the provincial governments to levy a tax on agriculture income. The 7th NFC Award had elicited the following commitment in clause 9 (2) on resource mobilisation during the tenure of the Award: "Provinces should initiate steps to effectively tax the agricultural and real estate sectors. Provincial governments may take necessary administrative and legislatives steps accordingly."

While the federal government has made some attempts to raise tax revenues in subsequent finance bills, the provincial governments have not embarked on any significant fiscal effort. In particular, no reforms have been introduced in the agricultural income tax and the provisions of the Agricultural Income Tax (AIT) Act of 1997 remain unchanged.

The Present Tax

Total collections of the four provinces combined aggregate to about Rs1 billion, only in 2011-12, with over 70 percent of the revenue being generated in the province of Punjab. This level of collection is an insignificant portion of the national value added by the agricultural sector. Therefore, the sector is effectively exempted from income taxation.

The AIT in Punjab is levied under two systems. The first system applies to farms up to the size of 50 acres of unirrigated land or 25 acres of irrigated land. This system is presumptive in nature, with an exemption limit of 12.5 acres. Beyond this, flat rates of tax are specified by acre, with a minor degree of progressivity (see Table 5.10).

The second system, which applies to larger farms, is based on a

Table 5.10 Present and Proposed Fixed Tax Rates per Acre*

(Rupees)

	Present	Proposed
Upto 12.5 Acres	-	-
Above 12.5 to 25 Acres	150[a]	300[b]
Above 25 to 50 Acres	250[a]	600[b]
Above 50 to 100 Acres	250[a]	900[b]
Above 100 Acres	250[a]	1200[b]

*un-irrigated acre. Irrigated acreage is taken as equivalent to twice the un-irrigated area | [a]for the entire acreage | [b]only for acreage above the lower point of the range.

progressive rate structure applied to actual income. In the derivation of income, the law allows a number of deductions from gross income including labour costs, purchase of inputs, hiring of machinery, costs of harvesting and marketing, any other taxes paid and depreciation of any buildings, plant and machinery. Therefore, the second tax system essentially corresponds to the conventional income tax in existence for non-agricultural income in Pakistan.

However, the problem lies in the derivation of net taxable income. The Provincial Board of Revenue (BOR), which collects this tax, has little capacity to undertake a proper assessment of individual tax returns. Therefore, under-declaration of gross income and over-declaration of expenses is a common practice. Also, the penalty for not filing a return is only Rs1,000. This is far too small to induce farmers to file returns voluntarily.

The Case for Higher AIT

Historically, the argument that was put forward against taxation of agricultural income is that there is 'disguised' taxation whereby prices domestically have been kept below corresponding world prices. As such, the implicit tax burden on the sector was quite high.

This is no longer the case. Since 2008, the present government has made conscious efforts to offer attractive prices to farmers, who form an important part of the PPP's vote bank. For example, the procurement price of wheat was raised substantially in 2009 by 52 percent. Since then, farmers have also enjoyed record high prices of cotton. The resulting jump in rural purchasing power has translated into a boom in the demand for consumer durables.

Rural incomes have also been bolstered by large, and rapidly growing, subsidies on inputs like fertiliser, irrigation and power. As shown in Table 5.11, these are estimated at Rs235 billion in 2010-11, over six percent of the value added by the sector.

Table 5.11 Subsidies to Agriculture in Pakistan: 2010-11

(Rs in Billion)

Type of Subsidy	Amount
Fertilizer Subsidy	87
on imports	45
on domestic production[a]	42
Power Subsidy[b]	81
Irrigation Subsidy	61
Others (Tractors, seeds, etc)	6
Total	235
Subsidies as % of Value Added	6.2

[a]on the prices of gas
[b]mostly on tube wells
Source: Budget Documents, Ministry of Finance, GoP

On top of all this, taxpayer compliance in Pakistan is seriously threatened by strong perceptions about both vertical and horizontal inequities in the tax system. A recent Taxpayer Perception Survey undertaken by IPP (2012) reveals that the majority of taxpayers justify their reluctance to pay more taxes because the privileged elite of the country does not pay its due share of taxes in the presence of wide-ranging exemptions and concessions. The absence of a proper AIT is seen as the prime symbol of inequity in the tax system. As such, development of the AIT can make a major contribution to improving general taxpayer compliance.

Table 5.12 Size Distribution of Farms in Pakistan

(000 Acres)

Size (Acres)	Number	% Share	Farm Area	% Share
Upto 12.5	17,841	95.00	21,914	34.45
12.5 to 25.0	580	3.10	9,614	19.06
25.0 to 50.0	261	1.40	8,210	16.28
50.0 to 100.0	78	0.40	4,847	9.61
100.0 to 150.0	15	0.08	1,687	3.35
150.0 and above	14	0.07	4,153	8.23
Total	18,789	100.00	50,425	100.00

Source:Agricultural Census, 2000

The Potential Tax Base

According to the Agriculture Census of 2000, the total farm area in Pakistan is just over 50 million acres. Approximately 22 million acres is in land holdings of up to 12.5 acres. Therefore, the potential tax base is 28 million acres, equivalent to 57 percent of the total farm area.

Table 5.12 shows the size distribution of farms. If allowance is made for the irrigation status of farms, almost 65 percent of the agricultural land in the country is potentially taxable under the existing tax laws.

Application of the simple presumptive tax regime yields a potential revenue estimate of over Rs10 billion. Therefore, even at the current low rate, the collection efficiency is only 10 percent. Reasons for under collection are, first, low rate of filing of returns and, second, substantial understatement of net incomes which remain largely undetected by the BOR.

Proposed Tax Reforms

Reforms in AIT are imperative for the reasons given above. Not only is this necessary to reduce perceptions of inequity in the tax system but the AIT also has the potential of significantly raising provincial tax revenues.

In view of complexities in declaration and assessment of agricultural incomes, all sizes of land holdings may be brought into the progressive fixed tax regime. This will not only greatly simplify the tax system but also reduce the possibilities of tax evasion.

Further, the progressivity in AIT needs to be enhanced in order to convey the signal of greater equity and, in effect, to also act as a proxy for land reform. The fixed rates also need to be enhanced in order to make the tax burden more significant, even though it is still much lower than that on non-agricultural incomes.

Even after the enhanced rates, the burden on net agricultural income (at an average of Rs30,000 per acre) will still only be a fraction of the corresponding non-agricultural income in different slabs. The penalty for non-filing of returns should be raised from Rs1,000 currently to 100 percent of the tax due following detection and assessment.

The estimated revenue yield from the reformed AIT is Rs35 billion for the four provinces combined, with 80 percent collection efficiency. This will increase provincial own-tax revenues by almost 50 percent Almost 95 percent of the farmers will remain exempt, while the remaining five percent, equivalent to 948,000 farmers, will come into the tax net.

Table 5.13	Taxes on Real Estate of Provincial Governments: 2011-12 *(Rs in Million)*				
	Punjab	Sindh	Khyber Pakhtunkhwa	Balochistan	Total
Stamp duty[1]	10,581	4,500	550	167	15,798
CVT	3,224	2,500	185	-	6,309
UIPT	7,597	2,710	620	80	11,007
Total	21,402	9,710	1,355	247	33,114
Total Own-Tax Revenue[2]	80,862	64,042	12,571	1,352	158,827

1 mostly on properties
2 Indusive of sales tax on services
Source:

DEVELOPMENT OF TAXES ON REAL ESTATE

The provincial governments already levy a number of taxes[1] on real estate including the following:

(i) stamp duty on property transaction
(ii) urban immoveable property tax (UIPT) on assessed rental values
(iii) capital value tax (CVT) on property transactions

As a result of the 18th Amendment, the CVT on property stands transferred to the provincial governments. In fact, this tax has been collected by the provincial governments since 2010-11.

Total revenues from the above taxes on real estate are estimated at Rs33 billion in 2011-12, for the four provinces combined (see Table 5.13), equivalent to 21 percent of total own-tax revenues (inclusive of the sales tax on services). Real estate taxes have the largest share in Punjab (26 percent).

There is evidence of multiple taxation on property transactions including stamp duty, CVT and TTP. Consequently, the combined tax rate is high and encourages under-declaration of property values. The desired reform in the area of taxation of real estate is to rationalise the tax rates, eliminate the tax on transfer of property and update the valuation lists of district collectors.

Urban Immoveable Property Tax (UIPT)

The UIPT on rental values is grossly underexploited currently, although it is the mainstay of local governments in most countries. This tax is collected by the provincial excise and taxation department, which has little incentive to collect this tax as the bulk of the revenue is reverted to local governments. The assessed rental values are only a minor fraction of the current market rental values.

Reforms of the property tax will include the following:

(i) decentralisation of levy and collection of the tax to at least the large municipal metropolitan governments.
(ii) extension of rating areas to cover the peripheral areas of metropolitan cities which have recently been developed but remain outside the tax net.
(iii) survey of properties to update rental values.
(iv) rationalisation of exemptions and concessions.

If properly managed, revenues from UIPT could be trebled in the next few years, to over Rs30 billion, in the country as a whole. This will make a major contribution to improving the resource position of local governments.

Capital Tax

The federal government, in the Finance Bill 2012-13, has introduced nationwide a short-term capital gains tax (CGT) on properties at the following rates:

(i) 10 percent for change of ownership within one year.
(ii) 5 percent for change of ownership within two years.

This has presumably been done with the intent of reducing speculation in real estate.

This tax has been introduced under the cover of the Income Tax Ordinance (ITO) of 2001, which includes capital gains as a form of income (under section 37). But in Section 37, the capital assets liable for CGT exclude immoveable property (part 5 (C)). Therefore, the original intent of the ITO was presumably to leave the CGT on immoveable property to the provincial governments. Given the multiplicity already of taxes on real estate, the introduction of CGT appears to be an ill-advised move. In the short run, the provincial governments may be given an opportunity to develop the CVT on properties which could be converted into a CGT at a later stage.

PROVINCIAL BORROWING POWERS

This section first expresses the benefits of granting borrowing powers to sub-national governments and then looks into the issues and risks attached with this power.

Legislation

The borrowing powers of the provincial governments have been enhanced in the 18th Amendment by appropriate changes to Article 167 of the Constitution, which now reads:

(1) Subject to the provisions of this Article, the executive authority of a Province extends to borrowing upon the security of the Provincial Consolidated Fund within such limits, if any, as may from time to time be fixed by Act of the Provincial Assembly, and to the giving of guarantees within such limits, if any, as may be so fixed

(2) The Federal Government may, subject to such conditions, if any, as it may think fit to impose, make loans to, or so long as any limits fixed under Article 166 are not exceeded give guarantees in respect of loans raised by, any Province, and any sums required for the purpose of making loans to a Province shall be charged upon the Federal Consolidated Fund.

(3) A Province may not, without the consent of the Federal Government, raise any loan if there is still outstanding any part of a loan made to the Province by the Federal Government, or in respect of which guarantee has been given by the Federal Government; and consent under this clause may be granted subject to such conditions, if any, as the Federal Government may think fit to impose.

(4) A Province may raise domestic or international loan, or give guarantees on the security of the Provincial Consolidated Fund within such limits and subject to such conditions as may be specified by the National Economic Council Clause 4, in particular, has been added by the 18th Amendment.

The NEC has been given the mandate to formulate plans in respect of financial, commercial, social and economic policies. The provinces have a strong voice in the NEC.[2] Periodically, once every five years, the NFC is also expected, under Clause 2(C) of Article 160, to make recommendations to the President of Pakistan on the exercise by the federal and the provincial governments of the borrowing powers conferred by the constitution.

Current Level of Provincial Borrowing

Historically, the provincial governments have engaged in very limited borrowing, not only because of a degree of fiscal prudence but also due to limited access to the banking system and the capital market. As of June 30, 2011 the combined outstanding debt of the four provinces is estimated at less than five percent of the GDP, with the share of external debt at approximately 70 percent. Interest payments constitute less than four percent of revenue receipts.

During the 70s and 80s, provincial governments had floated some long-term market loans as part of permanent debt. This practice has largely been discontinued. The federal government has also been making cash development loans (CDLs) to the provincial governments. The latter have argued that the interest rates charged by the former were high in relation to the cost of borrowing. Currently, most of the loans to the provinces are in the form of foreign assistance.

Given the low level of outstanding provincial debt, there is a case for enhancing the access of provincial governments to different sources of finance. This is important in view of expanded responsibilities including the need for capital-intensive investments in power generation (like development of the Thar coal reserves) and irrigation, while making a stronger effort to achieve the MDGs by faster expansion of the network of social services. In 2011-12, the total development outlay of the four provincial governments was only 13 percent of the GDP, even after the big increase in transfers after the 7th NFC Award.

Also, there are other advantages of sub-national access to the capital market. This will expose such governments to market discipline, greater reporting requirements and fiscal transparency. Further, this will ensure that since infrastructure investments also benefit future generations, they should also bear some of the cost.

However, it is important to ensure sustainability of sub-national debt if problems of financial insolvency are to be avoided in the medium to long run, leading to a situation where the federal government has to engage in bail out operations as 'lender of the last resort' Also, excessive sub-national borrowing could jeopardise the adherence to the macroeconomic and fiscal framework of the country.

The 7th NFC made no recommendations on borrowing except for emphasising in Paragraph (3) of the Miscellaneous Section of the Award that both governments would develop and enforce mechanisms for maintaining fiscal discipline through legislative and administrative measures.

International Experience

International experience is relevant in this area in terms of defining the limits and conditions for borrowing by sub-national governments. As a consequence of debt crises faced by such governments and large consolidated (federal plus sub-national) fiscal deficits (along with large hidden and contingent liabilities), countries like Brazil, Argentina and India, have proceeded to develop safeguard mechanisms and fiscal rules for sub-national governments to ensure long-run sustainability of debt.

Brazil has promulgated fiscal rules whereby the following limits have to be observed: (a) the ratio of outstanding debt to revenue receipts not to exceed 200 percent for states and 120 percent for municipalities (b) outlays on payroll (including social security benefits and pensions) not to exceed 60 percent of revenue receipts. Argentina requires states to ensure that the revenue budget is not in deficit and that debt servicing does not exceed 15 percent of revenue receipts

The states of India, which perform similar functions as the provincial governments (following the 18th Amendment) of Pakistan, manage a higher level of development expenditure approaching 2.5 percent of the GDP, with almost 40 percent going to investments in power and irrigation. But many states are running large revenue deficits and the combined state debt-to-GDP ratio has approached 30 percent. Currently, the contribution of the state governments to the overall fiscal deficit is as high as three percent of the GDP in India.

The emerging problem of fiscal insolvency has motivated many state assemblies in India to promulgate acts related to fiscal responsibility. The first states to pass fiscal responsibility and budget management acts were Karnataka in 2002, Kerala, Tamil Nadu and Punjab in 2003. Now 26 states have such legislation. The Fiscal Responsibility and Budget Management (FRBM) Acts set the following targets: (a) zero revenue deficit by a particular year (b) fiscal deficit below a specified percentage of the gross state domestic product (GSDP) (c) outstanding debt below a specified percentage of revenue receipts and (d) capping of guarantees to a specified percentage of the GSDP or revenue receipts.

Various mechanisms have been adopted to ensure compliance with the FRBM Act. These include six monthly reports to the state assembly or setting up of independent public expenditure review committees. In addition, states are expected to prepare medium-term fiscal plans. The 13th Finance Commission of India has linked the release of union grants and relief on interest payments to appropriate amendments in and adherence to the FRBM Acts.

Issues

The following questions are important in the context of borrowings by provincial governments:

(i) Should provincial governments be encouraged to float long-term market loans, subject to fulfillment of conditions contained in Clause 167 of the constitution? Should such operations be allowed only for commercially viable ventures?

(ii) Should there be pre-specified overdraft limits with the State Bank of Pakistan (SBP) for each provincial government, which should be strictly adhered to except in emergencies?

(iii) Should there be a reversion back to CDLs from the federal government, especially in the case of provinces which find it difficult to access directly the capital market, with the interest rate not exceeding the cost of borrowing?

(iv) Should ceilings on borrowings also specify the composition of borrowings in terms of foreign project assistance and domestic loans? Should, within the limits specified, provincial governments be allowed to negotiate directly with donors?

(v) Should provincial governments be given special access to funds available, for example, with the Postal Saving Scheme?

(vi) Should a tax break be given on interest income from provincial bonds, to increase their attractiveness and enable thereby greater penetration of the market?

It may be interest to note that currently the composition of the annual borrowing by states of India consists of market loans (76 percent), loans from state provident funds (14 percent), loans from the centre (4 percent) and other loans (6 percent).

Norms of Fiscal Responsibility

The federal government of Pakistan is operating under the Fiscal Responsibility and Debt Limitation (FRDL) Act since 2005. This Act sets the following limits: (a) reducing the federal revenue deficit to nil by June 30, 2008 (b) ensuring that by June 30, 2013, the total public debt-to- GDP ratio does not exceed 60 percent, and that starting in 2003-04 the public debt-to- GDP ratio is reduced annually by at least 2.5 percent of the GDP and (c) not issuing new guarantees (including renewal) beyond two percent of the GDP in any year.

The federal government has by 2005-06, seven years ahead of the stipulated time, brought the public debt-to-GDP ratio down to below 60 percent. Guarantees issued have generally remained within limits. However, revenue deficits have persisted and have increased in the last two years. Every year, as required, the Debt Policy Coordination Office of the Ministry of Finance, Government of Pakistan, submits to the national assembly a debt policy statement, indicating the trends in public debt and extent of adherence to the FRDL Act.

Key elements of the similar model draft legislation by the provinces will include quantification of targets related to the following: (a) minimum level of revenue surplus as a percentage of revenue receipts (b) maximum level of net borrowing as a percentage of revenue receipts (c) ceiling on outstanding debt as a percentage of revenue receipts and (d) limit on the level of new guarantees.

The first and second rules will ensure that provinces will continue to generate enough revenue surpluses to finance their annual development program and that all borrowings will be used for financing investment. The second and third rules will prevent the outstanding debt from rising to unsustainable levels. The final rule will prevent excessive resort to off-budget commitments and thereby avoid the risk of large contingent liabilities on the Provincial Consolidated Fund.

The NEC may monitor the adherence to limits imposed by the provincial Fiscal Responsibility Acts. In the absence of such an act enacted by the provincial assembly of a particular province, the NEC may specify the limits and the conditions for borrowing by such a province.

Overall, in line with the statement regarding resource mobilisation in the 7th NFC Award, the provincial governments will have to play a major role in raising the tax-to-GDP ratio of the country. They are now endowed with three large tax bases – services, agriculture and real estate. Much of the incremental revenue potential lies in the provincial domain. If provincial governments continue to make minimal attempts at tax reforms and present 'tax-free' budgets then it is unlikely that the tax-to-GDP ratio will rise significantly in coming years. Also, there will be a need to establish norms of fiscal responsibility through appropriated legislation which regulates provincial borrowing.

NOTES:

1 There is also a small tax on transfer of property (TTP).

2 It is chaired by the prime minster, with each province being represented by the chief minister and one member to be nominated by the chief minister. In addition, there are four other members nominated by the prime minister.


تین کی شمولیت
مختلف حیثیت سے شرکت کر سکتی ہیں:
لئے مختص کی گئی ہیں
مزدور اور ناظم و نائب ناظم کے لئے
لازمی ہے

The Future of Local Governments

6

The law for establishing a local government system is underway in the four provinces with varying degrees of success and political hitches.

6 The Future of Local Governments

The 18th Amendment has accepted the long-standing demand for granting constitutional recognition to the third tier of government in Pakistan. This has resulted in the incorporation of a new Article 140A which states:

Local Government

(1) Each province shall, by law, establish a local government system and devolve political, administrative and financial responsibility and authority to the elected representatives of the local governments.

(2) Elections to the local government shall be held by the Election Commission of Pakistan.

Local governments have had a chequered history in Pakistan. The above addition to the constitution aimed to give the due status to these governments, and make them more stable and effective in the performance of functions allocated to them under laws enacted by the provincial governments. This process was also expected to be expedited and facilitated by the devolution of a large number of functions from the federal to the provincial governments under the 18th Amendment. Consequently, it was thought the latter would in turn be willing to devolve more functions to local governments.

But the opposite has happened since the passage of the 18th Amendment. No new legislation has been passed yet by the provincial governments to strengthen local governments within their respective jurisdictions. Meanwhile, the system of local governments brought into operation under the Devolution Plan 2001, of the Musharraf government, has been largely abandoned and authority transferred from elected representatives to bureaucrats. The return to democracy has, if anything, weakened local governments up to now.

In this state of flux that local governments find themselves in, while laws are being drafted and discussed, it is important to remember the principles of good local governance. Also, there is a need to learn from the experience, internally and internationally, of establishing and managing the setting up and running of local governments so that mistakes are not repeated.

This chapter highlights the international experience with local governments and derives some principles which need to be followed in the design of the structure of local governments. It reviews the implementation of the Devolution Plan 2001, and gives the current status and key features of the proposed laws. It also analyses some of the draft laws/ordinances that are currently under discussion in different provincial governments.

LESSONS FROM INTERNATIONAL EXPERIENCE

These lessons have essentially been derived from Richard Bird (2000), Anwar Shah (2004, 2005) and Pasha (2000) as follows:

Allocation of Functions

The optimal distribution of resources among the three tiers of government – federal, provincial and local – is dependent on the allocation of functions among these governments and the preferences of citizens for services provided by each level of government. As highlighted in Chapter 1, the basis for allocation of functions is essentially the 'principle of subsidiarity' which states "A central authority should have subsidiary functions, performing only those tasks which cannot be performed effectively at a more immediate or local level."

A hierarchy of service provision can be developed on the basis of the size of the population or area served. A service which has 'local' coverage like primary schooling, water supply and sanitation, etc., should be delivered by the lowest level of government. The benefits of such local services should essentially accrue within a local jurisdiction and there should be no externalities or spillovers to neighbouring jurisdictions. As opposed to this, national 'public goods', like defence, should be provided by the highest level of government which effectively covers the whole country (see Box 1.1).

Local Resource Mobilisation

- Decentralisation of functions must be accompanied by sufficient resources to finance activities either through tax assignment, revenue sharing or grants.
- The component of own-revenues of local governments must be large enough to ensure accountability, ownership, efficiency and legitimacy of a decentralised system.
- There is a need for harmonising tax rates, especially of mobile tax bases, among local jurisdictions in order to avoid unhealthy 'tax competition' by intra- and inter- provincial coordination.
- In the presence of imbalanced allocation of fiscal powers among different levels of government, there is a case for allowing more tax base sharing through 'piggy backing' arrangements.
- There is a danger that if a local tax (like the property tax) is collected by a higher level of government and reverted mostly to local governments then the former will have little incentive to develop the tax.
- There is need for a judicious approach towards the issue of subnational borrowing – an approach that emphasises responsible credit market access.
- Local tax systems are frequently characterised by a multiplicity of small taxes and other revenue sources, which stretches the limited collection capacity. This presents a case for rationalisation of the tax structure to increase focus only on the relatively large and promising sources of revenue.

- Taxes should not be allocated to local governments which are prone to 'exporting' the tax burden to other jurisdictions; such taxes may be subject to a maximum tax rate or be taken over by the higher level of government and shared more equitably.
- There is the danger of uncoordinated tax base sharing (especially on property) among different levels of government, which raises compliance costs to tax payers and over taxation; the solution lies in handing over responsibility to the particular level of government which is best equipped to perform this function and the revenue shared according to a predetermined formula.

Transfers

- Excessively large transfers to local governments from higher levels of government can reduce fiscal effort by the former and create a culture of dependency.
- There should be incentives in the grant system to increase local governments' own revenues.
- Conditional grants can be used as an instrument to channel funds for service delivery. Strong earmarking of funds entails some pitfalls in compromised downward accountability, high administration and transactions costs from multiple planning, accounting, banking and reporting systems.
- A better balance and delineation of areas to be covered by unconditional and conditional grants should be pursued, closely linked to the services (basic versus devolved) that local governments are to perform.
- Equalisation grants work well when grant objectives are clear, grants are concentrated only on the most needy governments and they constitute a significant part of total transfers.
- Transfers must be timely and predictable so that local governments can plan, budget and implement projects.
- Performance-linked incentives in grants can lead to significant improvements in the quality of local governments' processes.
- Inter-jurisdictional fiscal equality in grants needs more serious attention, given the widening rural-urban gaps and regional disparities, through attempts at fiscal capacity equalisation and introduction of explicit national minimum standards grants for merit goods.
- Oversimplification of the grant system can be a problem if it does not recognise the need for equalisation of revenues and spending needs (including variation in unit costs).
- Fiscal need and equalisation are difficult to incorporate in transfers because of information constraints and lack of consensus on a fiscal equalisation standard; the pragmatic proxy is the use of multiple criteria in determining transfers.
- Fiscal equalisation concerns need to be reflected not only in revenue sharing or grant schemes but, perhaps, even more so in development transfers.

- The use of the gap-filling approach to grants creates a tendency for local governments to raise their expenditures (for higher benchmarking) and reduce fiscal effort. This can be avoided either by adopting a representative tax system approach to determine the potential level of local revenues or by averaging out per capita expenditures (allowing for variation in unit costs).
- Specific matching grants are frequently offered for development schemes in particular sectors which may have adverse equity and efficiency implications by distorting local preferences and benefiting richer jurisdictions, which have greater ability to generate funds for participation in such schemes.

Financial Management and Accountability

- Although there is generally only limited borrowing, many local governments tend to accumulate liabilities and to neglect operations and maintenance (O&M) obligations, suggesting the need for better oversight and control functions (internally as well as externally).
- For improved accountability there is a need for greater direct involvement of citizens, through more open planning and budget conferences, dissemination of information on the receipt and use of funds (on notice boards and websites), involvement of citizens in project implementation committees, etc.
- There is a need to improve the process of auditing, quality of financial reports and timely preparation of financial statements in order to reduce possibilities of corruption and enable better financial management and planning.

REVIEW OF THE DEVOLUTION PLAN 2001

This section summarises the principal findings, with regard to the implementation of the Devolution Plan 2001 (especially related to fiscal decentralisation, of studies undertaken by the ADB, World Bank and DFID (2004), SPDC (2007) and IPP (2008) as follows:

- The Devolution Plan 2001 led to the transfer of a large number of functions to local governments, largely adhering to the 'principle of subsidiarity'. However, the capacity to absorb so many functions was limited, especially given the restricted institutional capacity of most local governments. A more 'gradualist' or incremental strategy might have been more successful. Also, the lack of vertical integration between tiers of local government has hindered planning and delivery of services. In particular, the focus should have been on the delivery of basic local social and economic services, rather than on the management of law and order.
- Although many functions were transferred, the autonomy of local governments was restricted by the lack of devolution simultaneously of powers to hire or fire employees and make senior appointments. The presence of vertical programmes of provincial governments led to a lack of clarity and the duplication of functions.

- Inadequate attention was paid to capacity building in key areas like finance and accounts, administration and management, and development planning. With regard to transparency and accountability, the absence of proper financial controls, audit mechanisms and the lack of establishment of various monitoring and supervision bodies, provided for in Local Government Ordinance (LGO) 2001, led to widespread perception of corruption and leakages in the system.
- The overall extent of fiscal decentralisation was enhanced by the Devolution Plan 2001. The share of local governments in public expenditure has more than doubled, from about five percent only prior to this reform. Provincial governments have been transferring more than one thirds of their resources to local governments. Transfers grew rapidly in earlier years primarily because of the improvement in the macroeconomic environment after 2002 but have flattened out since 2007. These transfers account for over 90 percent of local resources.
- Within local budgets, the largest share, in excess of 60 percent, was accounted for by education. On the development side, construction of roads generally had the highest priority. The health sector appears to have been given relatively low priority.
- Fiscal equalisation through transfers has been limited, although some provincial finance commissions (PFCs), as in Sindh, have introduced multiple criteria for distribution of funds among districts. These criteria have sometimes conflicted with each other. Equity considerations have primarily entered in development transfers.
- Given the limited fiscal powers, efforts at resource mobilisation by local governments have been minimal. Taxes collected by provincial governments on behalf of local governments remained underdeveloped. For example, the property tax currently exploits only about one fifths of its revenue potential.
- Overall, in terms of the impact on the social indicators, there is some evidence of acceleration in the rate of improvement in literacy and coverage of water supply and sanitation. But there was little change in the trend of health indicators, gender equality and regional disparities.
- The devolution led to a significant empowerment of women, who were given 33 percent share in the local councils. Also, minorities were given some representation.

STATUS OF PROPOSED LEGISLATION

The process of finalisation of the law for establishing a local government system is underway in the four provinces with varying degrees of success in enactment and in the nature of local governments.

Balochistan has revived the local government system which is a replica of the Balochistan LGO 1979. In Khyber Pakhtunkhwa a draft bill was tabled before the provincial assembly in March 2010 seeking to restore the 1979 local bodies system and passed on May 18, 2012. But the bill is yet to be signed by the governor.

Punjab has prepared a draft local government law in 2010 which appears to be a hybrid of the Punjab LGO 1979 and the Devolution Plan 2001. However, the proposed bill has not been presented to the provincial assembly for approval.

The greatest difficulties in the finalisation of the relevant law are being experienced in Sindh. Given the nature of political representation in the province, with Muttahida Quami Movement (MQM) in the urban areas and the Pakistan People's Party (PPP) in the province as a whole, especially in rural areas, the two coalition partners have not been able to reach an agreement on the extent of devolution of powers to local governments. MQM wants to retain most of the features of the LGO 2001 while the PPP is keen to essentially revert to the LGO 1979.

The steps undertaken in the process of setting local governments in each province are described in Box 6.1.

In its bid to resolve the conflict, the Sindh Assembly repealed the Sindh Local Government Ordinance (SLGO) 2001 and restored the SLGO 1979 in July 2011. This decision offended the MQM in the provincial and federal governments. In order to placate the party the Governor of Sindh, of course, after consultation and agreement with federal and provincial government representatives, announced two separate local government systems in the province – one for urban areas like Karachi and Hyderabad (i.e.SLGO 2001) and the other for the rest of Sindh (i.e.SLGO 1979). This particular decision in early August 2011 unleashed a strong reaction from the people and they considered it a de facto act of partition of Sindh. Due to public pressure the Sindh government had to roll back its decision and restore the SLGO 2001 as a uniform local government system for the entire province, pending the preparation of a new law.

We have analysed the proposed contents of the Local Government Laws in two provinces, where the issues are currently being debated.

ANALYSIS OF PROPOSED LOCAL GOVERNMENT ACTS (LGAs)

We first analyse the proposed LGA of Punjab and then the key issues in the framing of this law in Sindh.

The Punjab LGA 2010

The main features of the proposed law are as follows:

Allocation of Functions

A comparison of the functions proposed to be devolved to local governments under the new Act in Punjab[1] with functions in the Devolution Plan reveals important differences as highlighted below:

i) The number of functions has been significantly reduced in light of the experience after 2001. Particularly, in education, local governments will have the responsibility only for primary education. Secondary education, colleges and technical education will (and already have) reverted back to the provincial governments. Beyond this, district and tehsil HQ hospital will (and already are) be managed by the provincial health department.

Box 6.1 Current Status of Local Government Across the Country

Province	Timeline of Key Developments
Sindh	**February 2010:** Sindh government was empowered to dissolve local bodies, appoint government officers as Administrators to replace nazims and hold fresh elections within 120 days from date of appointment of Administrators. It was also agreed that elections will be held on party-basis. **April 2010:** The period for holding local body elections was extended to 165 days. **June 2010:** A further extension increased duration for conduct of elections to 9 months. **July 2011:** Provincial government repealed SLGO 2001 and revived SLGO 1979. It also amended Land Revenue Act 1967 which divided the province into administrative divisions and districts led by a Commissioner and Collector respectively. Revival of commissionerate system led to intense confrontation between political stakeholders. **August 2011:** Sindh government restored SLGO 2001 in response to political confrontation and under pressure from the public. **November 2011:** Failure to reach consensus on a new bill resulted in restoration of commissionerate system across the province. **February 2012:** No consensus on a new system among political stakeholders led to de facto extension of the commissionerate system.
Punjab	**February 2010:** Punjab government dissolved all local councils and appointed government officials as Administrators in place of nazims. The period for conduct of elections was extended to 180 days. **October 2010:** A further extension increased period for holding local body elections to 365 days. **April 2011:** The Land Revenue Act 1967 was amended which divided the province into administrative divisions and districts led by a Commissioner and Collector respectively. Some functions were omitted from purview of local bodies, such as IT, Law and Revenue. **October 2011:** Punjab Cabinet approved a further 6 months extension for elections as electoral rolls were being updated. The proposed amendment was not placed before assembly for approval until December. **December 2011:** Punjab assembly approved 6 months delay in the deadline for issuance of schedule for local body elections. **January 2012:** Governor Punjab returned the Local Government Amendment Bill 2011 (which proposed the extension) unsigned to the provincial assembly. **June 2012:** Punjab Local Government Bill, 2012 has been introduced in the assembly session and sent to Committee on Local Government and Rural Development
Khyber Pakhtunkhwa	**February 2010:** Khyber Pakhtunkhwa government dissolved all local councils and replaced elected nazims with Administrators. It was decided that elections for local bodies will be held on party basis within 6 months. **March 2010:** Local Government Bill 2010 was tabled in provincial assembly aiming to repeal LGO 2001 and restore LGO 1979 instead. **September 2010:** Provincial government extended the tenure of Administrators after 6 months of interim set-up. **December 2010:** The North-West Frontier Province Land Laws Act 2009 was amended which divided the province into administrative divisions and districts led by a Commissioner and a Collector respectively. **September 2011:** The proposed bill remained pending before a select committee of the provincial assembly. **December 2011:** Khyber Pakhtunkhwa government asked Federal government to review amendments to Criminal Procedures code for revival of executive magistracy which was approved by the provincial government in 2008. **May 2012:** Local Government Bill , 2012 has been passed but yet to be signed by Governor
Balochistan	**January 2010:** Balochistan government was empowered to dissolve local councils and appoint government officers as Administrators. It was also decided that local body elections will be held not later than one year from dissolution of local councils. **March 2010:** Provincial government dissolved all local councils and appointed Administrators in place of nazims. **May 2010:** The BLGO 2001 was repealed and replaced with Balochistan Local Government Act (BLGA) 2010 which is a replica of the 1979 local bodies system. **December 2010:** Provincial government approved amendments to Code of Criminal Procedure 1898 which bi-furcated classes of magistrates into judicial and executive magistrates. Provincial government was empowered to appoint any person as district magistrate. **May 2011:** A further amendment to BLGA 2010 specified that local government elections will be held in 2012 instead of within one year from promulgation of the act. **November 2011:** Balochistan High Court declared amendment to criminal procedures as null and void and in violation of the fundamental rights contained in the Constitution.

ii) A number of other functions will also go back to the provincial government. This includes land, works and services. Also, the larger local governments will no longer perform functions of public enterprise and investment promotion.

Overall, the provincial government is being greatly enlarged not only by the transfer of Concurrent List functions under the 18th Amendment but also by the reversion of many local functions. This will inevitably raise the issue of 'spreading too thin' and the institutional capacity of the provincial government.

Structure of Local Government

The Devolution Plan 2001 had led to the establishment of district governments (covering both rural and urban areas) and the abolition of district councils (covering only rural areas). The Punjab government essentially proposes a reversion to the LGO 1979 whereby there will be urban municipal entities, with varying statuses depending on the size of population, and rural district councils. The lowest tier of local government will continue to be the union councils.

Allocation of Fiscal Powers

There are seven taxes allocated to urban local governments which are the same as in LGO 1979, as follows:

1. Entertainment tax
2. Tax on annual rental value of building and land
3. Tax on immovable property
4. Tax on all kind of vehicles
5. Tax on professions, trades, callings and employment
6. Tax on feasts where more than 20 people who do not belong to the host household attend
7. Tax for the construction or maintenance of any work of public utility

It is significant that a tax on all kind of vehicles can now be levied by local governments. Earlier on local governments had a share in the motor vehicle tax of the provincial governments. The new provision may represent a return to the old revenue sharing arrangement, and could add significantly to local revenues. Similarly, the tax on professions, trades, callings and employment is already levied by the provincial government.

The proposed LGA 2010 includes a residual provision, not present earlier, as follows: "Any other tax authorised by the provincial government in consultation with the Finance Department."

It appears that there is greater scope for 'piggybacking' on provincial taxes. However, the principal sources of revenue will continue to be the property tax. As far as non-tax revenue sources are concerned they are essentially the same as in LGO 2009. Recognition has not been given to the new constitutional provision following the 18th Amendment that education, up to the secondary level, must be provided free.

As far as district councils are concerned there is provision of the local rate whereby all land subject to land revenue shall be subject to the local rate. The local rate in each council will bear such proportion to the land revenue as the provincial government may notify from time to time. There is also a case for sharing the provincial agricultural income tax with the district councils.

The proposed law also allows for 'leasing' of collection of particular taxes. The past experience of leasing of octroi collection to contractors was disappointing, and this was one of the reasons why the tax was abolished. The scope for leasing should be restricted only to minor revenue sources like parking fees or tolls roads.

Borrowing Powers

A special provision has been included whereby the Lahore Metropolis and Metropolitan Corporations may borrow money with the approval of the provincial government in the prescribed manner. Clearly, limits will have to be set on such borrowing.

Financial Accountability

The proposed LGA rightly focuses on enhancing the financial accountability of local governments, given negative past perceptions of corruption and leakages. Local council accounts committees are to be set up to examine audit reports of local councils. However, it is perhaps better if this function is performed by the Provincial Local Government Commission on a regular basis.

Overall, the proposed LGA of Punjab represents a retreat from the wide-ranging functions transferred to local governments in 2001. However, revenue sources have been consolidated and some additional fiscal powers given along with the strengthening of financial controls. It is imperative that the new law be legislated quickly by the provincial assembly so that local elections are held soon, as per the directive of the supreme court.

The Sindh LGA

Deliberations have been ongoing between the PPP and MQM over the former's proposed Sindh Local Government Act 2009 draft in order to find middle ground, which is more or less a replica of Sindh LGO 1979, except few additional precisions like 33 percent of women representation and five percent for peasants and workers. The act envisages rural local councils and urban local councils with monitoring, supervisory and coordination role by the provincial government.

Allocation of Functions

The proposed allocation is given in Chart 6.1. In pursuit of the concept of an empowered local self government system the MQM has demanded that all devolved offices and group of offices under SLGO 2001 should

Chart 6.1 Proposed Allocation of Functions in Sindh LGA

Urban Councils	Rural Councils
Public Health	Rural Development
Water Supply	Public Works
Drains	Public Health
Article of Food and Drinks	Education
Animal and Cattles	Agriculture Development and Economic Welfare
Education	Article of Food and Drinks
Public Safety	Drainage
Town Planning	Livestock and Dairy Development
Building Control	Culture
Streets	Public Safety
Arboriculture	Other Functions

Source: The Constitution of the Islamic Republic of Pakistan 1973, The Ideal Publishers, Karachi, 2011 not only remain there but power of policing including traffic police and power to exercise control over all lands of the city district or the district should be vested in the city governments and be exercised by the mayor or chairman.

Allocation of Fiscal Powers

In the 2nd Schedule of the proposed Act there are four different parts indicating taxes by union councils, district councils, town and municipal committees, municipal and metropolitan corporations. The salient features are as follows:

i. No local rate (a land tax) is proposed for district councils as in the previous LGOs. This deprives rural councils of a key source of revenue. District councils will, however, have the right to levy a tax on the transfer of property.

ii. District councils will also be able to levy a tax on animal-drawn vehicles. The motor vehicle tax remains with the provincial government throughout the province.

iii. Urban local councils have been allowed to levy (and possibly collect) the tax on annual rental value of buildings and land.

iv. Other taxes within the local purview include an entertainment tax, health tax, education tax, tax on births, marriage tax and tax on feasts.

v. User charges can be levied on water, drainage and conservancy.

vi. The provincial government can authorise the levy of any taxes.

In this area also, the MQM believes that the provincial government's involvement in fixing, levying and collection of taxes amounts to a loss of local autonomy.

Provincial Financial Commission and Fiscal Transfers

The act envisages a Provincial Financial Commission (PFC) headed by a retired judge of the supreme or high court or a retired senior civil servant. Other members of the proposed commission are as follows:

- two members of the provincial assembly (one each from treasury and opposition)
- three secretaries of provincial departments (one each from finance, local government and planning & development)
- three members from the chairman or mayor of the councils (one each from metropolitan or municipal corporation, district council and municipal committees)
- three independent members to be nominated by the provincial government

The PFC shall make recommendations vis-a-vis local council grants, formula for distribution of grants, special grants with modalities and conditions, grant in aid and other matters relating to local council finance. While doing so, the commission shall take into account the principles of need, capacity, effort and performance of local councils.

Accountability

In order to ensure transparency, accountability and equity as well as quality service delivery in local government functions and affairs across the province, the PPP has proposed the constitution of the following committees/commision.

1. Local Government Commission
2. Local Council Accounts Committee to review audit reports of the local councils
3. Urban Development Committees
4. Municipal Standards Committees
5. Divisional Development and Coordination Committees

The MQM feels that some of the above mentioned committees will retard and hamper the working and smooth running of affairs of the local government.

During the 10 years when the 2001 LGO remained in force across the province, funds allocated to the district governments remained outside the Provincial Public Accounts Committee's purview. Most nazims failed to submit audit reports. This has lent credence to allegations of corruption and mal practices in local government affairs.

In conclusion, it needs to be reemphasised that the hiatus in local governments must be resolved urgently. The grassroots participation of citizens and the provision of basic services at the doorstep to the people are one of the fundamental pillars of democracy. The return to elected civilian governments in 2008 has yet to confer this benefit of the return to democracy. The supreme court directive on the holding of early local elections has not yet been implemented.

The constitution clearly recognises local governments as a provincial subject. Therefore, it is to be expected that different provinces will enact different LGAs within their respective jurisdictions, in line especially with the prevailing political economy and ground realities. But it is important that the broad principles for good local governance, as identified above, be adhered to in the law that must be enacted soon, to be followed by early elections.

NOTE:

1 Essentially the 2010 version, which may have since been revised. A revised version is not publicly available.

Photography by Majid Hussain

Initial Impact of the 7th NFC Award on Social Development

7

The fiscal space provided to provincial governments was primarily used to either generate budget surpluses or increase current expenditures.

7

Initial Impact of the 7th NFC Award on Social Development

Public expenditure on social services, such as education and health, contributes to human capital formation and the enhancement of human capabilities. It is, therefore, considered poverty-reducing in character. Moreover, higher public spending on social services is likely to contribute to the achievement of the Millennium Development Goals (MDGs) which the Government of Pakistan stands committed to. However, Pakistan currently spends a very low share of its GDP on the social sector. Since provincial governments are principally responsible for the provision of these services, one explanation generally presented for the low level of spending is the relatively low share of provinces in divisible pool taxes.

This situation has been rectified by the 7th NFC Award which not only substantially enhanced the share of provinces in divisible pool taxes but also devolved GST on services – a broad-based and buoyant source of tax generation for the provinces. This provides fiscal space to the provinces enabling them to focus more on the social sector, particularly after the 18th Amendment as it increases their responsibility in delivering social services.

This chapter discusses social sector financing by the provincial governments. It also highlights the impact of 7th NFC Award on social sector expenditure. Further, a comparative picture of various social sector indicators is presented to show the state of social development before and after the 7th NFC Award.

PROVINCIAL FINANCES BEFORE AND AFTER THE 7th NFC AWARD

The state of provincial finances has substantially changed in 2010-11 and 2011-12 compared to 2009-10 following the promulgation of the 7th NFC Award and the phase-wise devolution of some key ministries under the 18th Amendment. As mentioned earlier, while the former resulted in a sizeable increase in revenues, the latter increased expenditure responsibilities of the provincial governments.

As expected, Table 7.1 shows a large increase in provincial resources in 2010-11 and 2011-12 compared to 2009-10 indicating higher resource availability after the 7th NFC Award. As a consequence, provincial resources grew from Rs876 billion in 2009-10 to Rs1,211 billion in 2010-11, and Rs932 billion in the first nine months of 2011-12 (July-March only) as per the Provincial Government Fiscal Operations data released by the Ministry of Finance.

It was expected that this increase in fiscal resources will largely be diverted to social sector expenditures. However, the expenditures show a growth of 19 percent in 2010-11, compared to an increase of 38 percent in revenues. It is also noteworthy that the growth in expenditures is largely attributed to a hefty increase in current expenditures, while development expenditures show a decline of five percent. A major reason

Table 7.1 Provincial Governments Overall Budgetary Position

(Rs. in billions)

	2009-10	2010-11	2011-12*
Resources			
Federal Transfers, Loans and Grants	753.3	1,084.4	838.4
Provincial Tax and Non-tax Revenues	122.7	126.9	93.6
Total Resources	876.0	1,211.3	932.0
Expenditures			
Current Expenditures	646.2	831.2	687.1
Development Expenditure	258.4	245.6	175.0
Total Expenditures	904.7	1,076.8	862.1
Budget Deficit (-)/Surplus (+)	-28.6	134.5	69.9

*July 2011 to March 2012

Source: Provincial Government Fiscal Operations, Various issues, Ministry of Finance, Government of Pakistan

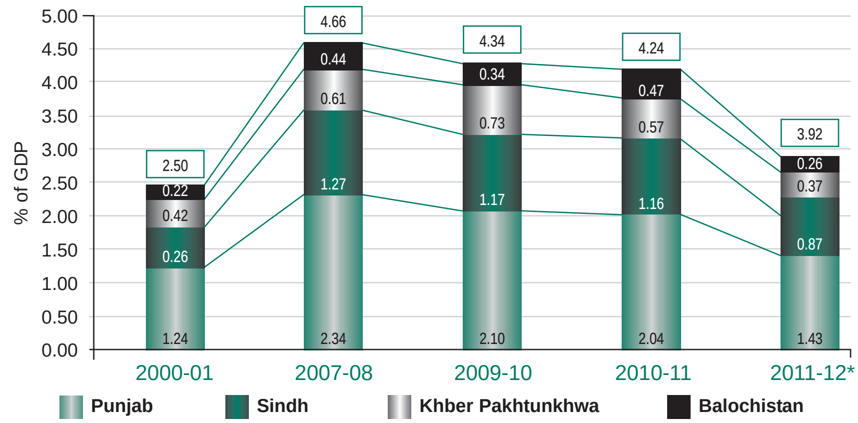
for the higher increase in current expenditures is the 50 percent increase in the salaries of provincial government employees consequent to the unilateral announcement by the federal government. Another unexpected outcome is that the provincial governments preferred to generate budget surpluses after the NFC Award rather than increasing development expenditures or initiating projects to enhance the pace of social development in their respective provinces. This surplus was used to retire domestic debt by the provinces. One reason for the lack of enhancement in development expenditures, particularly in the smaller provinces, could be the existing limited institutional capability to design and implement a larger development portfolio.

Provincial Governments' Pro-Poor Expenditures

The Government of Pakistan, in the PRSP-II, has identified 17 budgetary heads as expenditure related to pro-poor sectors. These include roads, highways and buildings; water supply and sanitation; education; health; population planning; agriculture; land reclamation; rural development; rural electrification; subsidies; social security and welfare; Food Support Programme; People's Works Programme-I; natural calamities; low-cost housing; justice administration; and law and order. The amount spent on these expenditures is regularly updated by the Ministry of Finance.

Chart 7.1 shows PRSP expenditures by each provincial government on pro-poor sectors as a percentage of GDP in 2000-01, 2007-08, 2009-10, 2010-11 and 2011-12. These years have been selected because 2000-01 was the base year for the PRSP process, 2007-08 was the transition period in which the Musharraf regime ended and the present democratic set-up took charge of government, 2009-10 was the pre-NFC year and 2010-11 and 2011-12 were the post-NFC years. Combined provincial shares of PRSP expenditures as a percentage of GDP are given in boxes above the bars in the chart. They show that PRSP expenditures, substantially increased from 2.5 percent in 2000-01 to 4.7 percent in 2007-08 and then declined to 4.3 percent in 2009-10. It was expected that these expenditures would increase after the 7th NFC Award but the data show a further decline of 0.1 percentage point of GDP in 2010-11. Moreover, the nine-month data of 2011-12 show that these expenditures were less than three percent of the GDP. If the same pattern continues, 2011-12 will close at the level of 3.9 percent of GDP. While Balochistan shows an increase in PRSP expenditures from 0.34 percent in 2009-10 to 0.47 percent in 2010-11, a decline is observed in the remaining three provinces.

Chart 7.1 Provincial PRSP Expenditures as a percentage of GDP

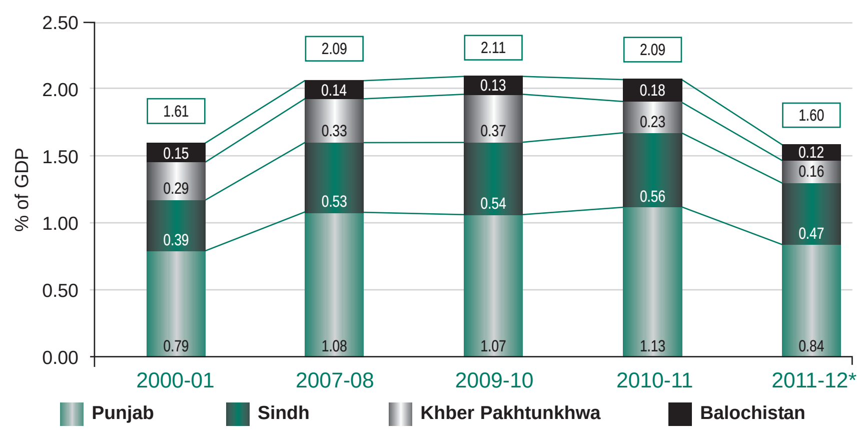


*July 2011 to March 2012
Source: SPDC Estimates based on Pakistan Economic Survey (various issues) Government of Pakistan; PRSP Budgetary Expenditures (various issues) Government of Pakistan

Provincial Governments' Social Sector Expenditures

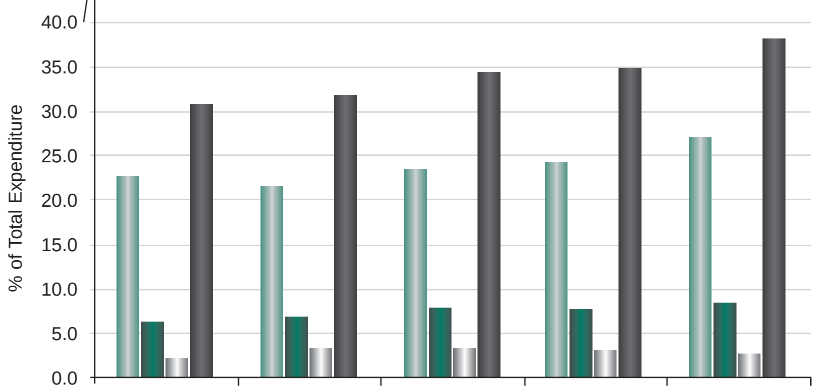
Chart 7.2 shows provincial government expenditures on social sectors as a percentage of GDP for the same five years: 2000-01, 2007-08, 2009-10, 2010-11 and 2011-12. Combined provincial shares of social sector expenditures as a percentage of GDP are given in boxes above the bars in the chart. The pattern is similar to that for the PRSP sectors. Expenditures show a significant increase from 1.16 percent in 2000-01 to 2.09 percent in 2007-08, and then to 2.11 percent in 2009-10. However, in the year after the NFC Award, these expenditures show a decline of 0.2 percentage points. In the first nine months of the fiscal year 2011-12, they reached 1.6 percent of the GDP. If expenditures continue to grow at the same pace, they will be 2.1 percent of the GDP, coming back to the pre-NFC level. A look into provincial ratio before and after the NFC Award

Chart 7.2 Provincial Social Sector Expenditures as a percentage of GDP



*July 2011 to March 2012
Source: SPDC Estimates based on Pakistan Economic Survey (various issues) Government of Pakistan; PRSP Budgetary Expenditures (various issues) Government of Pakistan

Chart 7.3 Provincial Social Sector Expenditures as a percentage of Total Expenditure



	2000-01	2007-08	2009-10	2010-11	2011-12*
Education	22.8	21.7	23.6	24.4	27.1
Health	6.2	6.8	7.9	7.7	8.5
Others	2.0	3.3	3.2	3.0	2.6
Social Sectors	31.0	31.8	34.6	35.1	38.3

*July 2011 to March 2012
Source: SPDC Estimates based on Provincial Government Fiscal Operations, Various issues, Ministry of Finance, Government of Pakistan

reveals that except Khyber Pakhtunkhwa, there is an increase in social sector expenditures in the other three provinces.

Chart 7.3 presents provincial government expenditures on social sectors as a percentage of total provincial expenditures. It also disaggregates these expenditures into: education, health and others (which is the sum of water supply and sanitation, and population planning). The social sector expenditures as a percentage of total expenditures show an upward trend. These expenditures were 31 percent of the total provincial outlays in 2000-01, which marginally increased to 31.8 percent in 2007-08. Thereafter, they consistently increased and reached to 38.3 percent of total spending in 2011-12.

Among social sector expenditures, education is the biggest component. It shows a marginal decline in 2007-08 compared to 2000-01, thereafter its share increases from 22 percent in 2007-08 to 27 percent in 2011-12. Health expenditures also show an increasing trend with the exception of 2009-10. The share of other expenditures shows a mixed trend. While it increased from two percent in 2000-01 to 3.3 percent in 2007-08, it persistently declined thereafter. Provincial expenditure priorities have shifted in favour of social sectors in the aftermath of the NFC Award. Thus, the expectation that the improvement in the financial position of the provinces will lead to an improvement in social sector allocations appears to be materialising. Our conclusion based on nine-month figures for 2011-12 shows a significant increase of three percentage points in the share of the social sector expenditures by the provincial governments. The annual number will give a better idea of whether this trend in provincial priorities will continue.

SOCIAL DEVELOPMENT BEFORE AND AFTER THE 7th NFC AWARD

This section discusses the progress in social development before and after the 7th NFC Award. Since 2000, Pakistan's social development strategy has been guided by the Millennium Declaration and the MDGs emanating from it. This chapter focuses on progress in poverty eradication, education, undernutrition and health-related MDGs.

Eradicate Extreme Poverty

Eradication of extreme poverty is Goal 1 of the MDGs. Jamal (2012) has estimated the incidence of poverty using the Pakistan Social and Living Standard Measurement (PSLM) Survey 2010-11 and the Household Integrated Expenditure Survey (HIES) 2010. Estimates show that an overall 36.6 percent of the population in Pakistan was poor in 2010-11. The incidence of poverty is slightly higher in rural areas, while the depth and severity of poverty are higher in urban areas (see Table 7.2). Results also show a rise of about seven percentage points in the incidence of poverty since 2004-05. The rise in urban poverty is relatively higher (28 percent) compared to that in rural poverty (20 percent). On the whole, about 61 million people in Pakistan lived in poverty in 2010-11, as compared to about 46 million in 2004-05.

Table 7.2 Poverty Estimates

(Percent)

	2004-05	2010-11	Percent Chage	Percentage Point Change
Poverty Incidence (HCI)				
Pakistan	29.85	36.55	22.45	6.70
Urban	27.70	35.49	28.12	7.79
Rural	30.85	37.08	20.19	6.23
Poverty Depth (PGI)				
Pakistan	6.51	7.93	21.81	1.42
Urban	6.62	8.13	22.81	1.51
Rural	6.45	7.83	21.40	1.38
Poverty Severity (FGT2 Index)				
Pakistan	2.13	2.44	14.55	0.31
Urban	2.29	2.65	15.72	0.36
Rural	2.06	2.34	13.59	0.28

Source: Estimated from household level data of HIES 2004-05 and 2010-11

The approach to measuring poverty in terms of financial deprivation has been widely criticised in the literature on welfare and well-being. It is argued that to understand the complex phenomenon of poverty or to evaluate household or individual well-being, a multidimensional exercise is imperative. The UNDP Global Human Development Report of 2010 has constructed a Multidimensional Poverty Index (MPI) for 142 countries for the first time (see Box 7.1). This is a very useful index which goes beyond income poverty and focuses on the extent of deprivation of household in a country in education, health and living standards. The MPI for a sample of countries is given in Table 7.3. Within South Asian countries, Pakistan has a lower MPI than India and Bangladesh but higher than Sri Lanka while its MPI is substantially lower than most East Asian Countries.

Table 7.3									Multidimensional Poverty Index (2000-2008)
		Population in Multidimensional Poverty			Population with at least one Severe Deprivation in			Populative below Income Poverty Line	
	Multidimensional Poverty Index	Headcount (%)	Intensity of depreviation (%)	Population at risk of Multidimensional poverty (%)	Education (%)	Health (%)	Living Standard (%)	PPP $1.25 a day (%)	National poverty line (%)
Pakistan	0.275	51.0	54.0	11.8	51.2	29.2	42.9	22.6	22.3
India	0.296	55.4	53.5	16.1	37.5	56.5	58.5	41.6	28.6
Bangladesh	0.291	57.8	50.4	21.2	31.4	53.1	76.3	49.6	40.0
Sri Lanka	0.021	5.3	38.7	14.4	0.5	9.8	26.4	14.0	22.7
Nepal	0.350	64.7	54.1	15.6	38.0	58.3	77.2	55.1	30.9
Indonesia	0.095	20.8	45.9	12.2	12.6	14.4	31.2	29.4	16.7
Philippines	0.067	12.6	53.5	11.1	13.6	14.2	18.2	22.6	-
Viet Nam	0.075	14.3	52.5	12.0	12.3	10.8	30.1	21.5	28.9
China	0.056	12.5	44.9	6.3	10.9	11.3	12.4	15.9	2.8
Thailand	0.006	1.7	38.5	9.9	12.6	5.6	1.5	<2	-
Turkey	0.039	8.5	45.9	19.0	15.4	16.0	7.3	2.6	27.0
Egypt	0.026	6.4	40.4	6.9	18.0	16.9	0.9	<2	16.7

Source: Global Human Development Report 2010, UNDP

Jamal (2012) estimated multidimensional poverty for the years 2005, 2009 and 2011 based on available household data of PSLM. Indicators of human poverty, poor housing and deprivation in household physical assets are included in estimating poverty in a multidimensional context. Table 7.4 presents the indices of multidimensional poverty both at national and provincial levels. It shows that compared to 2005, incidence of poverty in 2009 declined in all provinces; however, the quantum of decline varies across provinces. The biggest decline in incidence of poverty was in Punjab followed by Sindh, Balochistan and Khyber Pakhtunkhwa. In 2011, the trend reverted and multidimensional poverty re-emerged in Sindh and Punjab. It has, however, continued to decline in Khyber Pakhtunkhwa and Balochistan (see Table 7.4). Consequently, at the national level, multidimensional poverty incidence increased from 47.4 in 2009 to 48.2 in 2011.

Table 7.4	Trend in Multidimensional Poverty Incidence *(Percent)*		
	2005	2009	2011
Punjab	45.32	42.67	43.67
Sindh	47.08	44.73	46.79
Khyber Pakhtunkhwa	60.33	59.65	58.32
Balochistan	80.67	78.25	76.76
Pakistan	**49.42**	**47.36**	**48.17**
Relative Change (%)			
Punjab		-5.8	2.3
Sindh		-5.0	4.6
Khyber Pakhtunkhwa		-1.1	-2.2
Balochistan		-3.0	-1.9
Pakistan		**-4.2**	**1.7**

Source: Jamal, H. (2012), An Exploratory Analysis of Inter-Temporal Multi-dimensional Poverty

These findings reveal that about 48 percent of the people of Pakistan were in the state of multiple deprivations in the year 2010-11. Interprovincial comparisons regarding the multidimensional poverty incidence reveals that it is lowest in Punjab (44 percent) and highest in Balochistan (77 percent).

Box 7.1 The Multidimensional Poverty Index Methodology

Each person in a given household is classified as poor or nonpoor depending on the number of deprivations his or her household experiences. These data are then aggregated into the national measure of poverty.

Methodology

Each person is assigned a score according to his or her household's deprivations in each of the 10 component indicators, (d). The maximum score is 10, with each dimension equally weighted (thus the maximum score in each dimension is 3?). The health and education dimensions have two indicators each, so each component is worth 5/3 (or 1.67). The standard of living dimension has six indicators, so each component is worth 5/9 (or 0.56).

The health thresholds are having at least one household member who is malnourished and having had one or more children die. The education thresholds are having no household member who has completed five years of schooling and having at least one school-age child (up to grade 8) who is not attending school. The standard of living thresholds relate to not having electricity, not having access to clean drinking water, not having access to adequate sanitation, using "dirty" cooking fuel (dung, wood or charcoal), having a home with a dirt floor, and owning no car, truck or similar motorized vehicle, and owning at most one of these assets: bicycle, motorcycle, radio, refrigerator, telephone or television.

To identify the multidimensionally poor, the deprivation scores for each household are summed to obtain the household deprivation, c. A cut-off of 3, which is the equivalent of one-third of the indicators, is used to distinguish between the poor and nonpoor. If c is 3 or greater, that household (and everyone in it) is multidimensionally poor. Households with a deprivation count between 2 and 3 are vulnerable to or at risk of becoming multidimensionally poor.

The MPI value is the product of two measures: the multidimensional headcount ratio and the intensity (or breadth) of poverty.

The headcount ratio, H, is the proportion of the population who are multidimensionally poor:

$$H = \frac{q}{n}$$

where q is the number of people who are multidimensionally poor and n is the total population.

The intensity of poverty, A, reflects the proportion of the weighted component indicators, d, in which, on average, poor people are deprived. For poor households only, the deprivation scores are summed and divided by the total number of indicators and by the total number of poor persons:

$$A = \frac{\sum_1^q c}{qd}$$

where c is the total number of weighted deprivations the poor experience and d is the total number of component indicators considered (10 in this case).

Source: Technical Appendix of the Global Human Development Report of 2010, UNDP.

Undernutrition

Reduction in undernutrition is also a MDG. It is one of the greatest, and least recognised, challenges that Pakistan faces today. It is also amongst the primary causes of mortality, especially in children. The prevalence level of different measures of undernutrition in each province, and for the country as a whole, is given by National Nutrition Survey (NNS) of 2011 as presented in Table 7.5. Overall, the prevalence rate of the different measures of undernutrition generally declined during the late 1970s and the late 1990s. A comparison, however, of the findings of NNS 2001 with 2011 shows that stunting and wasting rates have risen significantly during this period while the prevalence rate of underweight children has remained, more or less, unchanged.

Severe and moderate stunting is observed altogether in 43 percent of the children in Pakistan (see Table 7.6). The highest incidence of stunting is in Balochistan (71 percent) followed by Sindh (69 percent).

Table 7.5	Trends in Indicators of Malnutrition -Pakistan *(Percent)*		
	Stunting[a]	Wasting[b]	Underweight[c]
NSWP, 1965	49.0	11.0	n.a.
MNS, 1977	43.3	8.6	53.3
NNS, 1985-7	41.8	10.8	47.9
NHS, 1990-4	36.3	11.8	40.0
NNS, 2001	41.6	14.3	31.5
NNS, 2011	43.0	15.8	31.2

[a]moderate to severe low height for age; [b]moderate to severe low weight for height; [c]moderate to severe low weight for age

Source: National Nutrition Survey (NNS) 2011

Table 7.6	Stunting[a] rates among children below the age of 5 years *(Percent)*			
	Severe	Moderate	Mild	Total
Punjab	17.6	20.8	26.3	64.7
Sindh	26.5	20.8	21.8	69.1
Khyber Pakhtunkhwa	25.1	24.1	17.3	66.5
Balochistan	32.2	20.6	18.4	71.2
FATA	35.5	24.3	19.2	79.0
Pakistan	21.7	21.3	23.5	66.5

[a]Stunting is prevalence of low height for age. It is determined by standardizing height given age and sex against the international standard of well nourished people, and assigning a Z -Score. Individuals with Z score below - 2 are classified as stunted and below - 3 as severely stunted.

Wasting Rates[b] among Children below the age of 5 years

	% of Children
Punjab	15.0
Sindh	19.4
Khyber Pakhtunkhwa	17.9
Balochistan	18.6
Pakistan	16.8

[b]Severe and moderate wasting. Wasting is prevalence of low weight for height. It is calculated by standardizing an individual's weight given - height and sex - against an international standard of well-nourished children. Individuals with Z-scores below - 2 are classified as wasted and Z-scores below - 3 are classified as severely wasted.

Prevalence of Underweight[c] Children below the age of 5 years

	% of Children
Punjab	30.0
Sindh	39.8
Khyber Pakhtunkhwa	25.0
Balochistan	41.8
Pakistan	31.2
Rural	33.1
Urban	26.5

[c]Severely or moderately underweight. Underweight is defined as low weight for age. It is considered as a composite measure of nutritional status, reflecting chronic and transitory nutritional deprivation. It is a MDG indicator. It is expressed as Z score and is calculated by standardizing a child's weight for age and sex against a given set of well-nourished individuals.

Source: National Nutrition Survey (NNS) 2011; IPP (2012)

The overall prevalence of wasting among children below five years is close to 17 percent, with the highest rate in Sindh at over 19 percent. Low weight for age is one of the MDGs target indicators. In Pakistan, 31 percent of children below five years are underweight. Here also, the highest incidence is in Balochistan (42 percent) and Sindh (40 percent).

IPP (2012) has estimated the cost of undernutrition by province in Pakistan as shown in Table 7.7. Using the 'direct cost of income loss' approach, the estimated cost of undernutrition in Pakistan amounts to

Table 7.7 Costs of Undernutrition by Province in Pakistan

(Rs. in Billion)

	Cost of Surviving Children	Cost of Children who die	Total Cost
Punjab	200.8	81.0	281.8
Sindh	111.3	34.8	146.1
Khyber Pakhtunkhwa	22.8	8.5	31.3
Balochistan	26.3	4.5	30.8
Pakistan	361.2	128.8	490.0

As a percentage of GDP/GPP*

	Cost per Capita (Rs)	**Cost as % of GDP**
Punjab	2,914	2.95
Sindh	3,425	2.35
Khyber Pakhtunkhwa	1,268	1.52
Balochistan	3,514	4.59
Pakistan	2,835	2.71

*Based on estimates given in Bengali [2005] updated to 2010-11; GPP = Gross Provincial Product.
Source: Estimated by IPP

Rs490 billion of which Rs282 billion is Punjab's, Rs146 billion in Sindh, Rs31 billion in Khyber Pakhtunkhwa and Balochistan each. The income loss of children who survive has a share of 74 percent and the income loss due to children who die has a share of 26 percent in total cost. Overall, the cost of undernutrition is 2.7 percent of the GDP. This indicates that there are potentially very high returns to investment in reducing undernutrition. This necessitates that investment to reduce undernutrition should be among the top priorities in both the federal and provincial development agenda.

Universal Primary Education

Basic education is considered a critical determinant of economic productivity and contains several positive externalities. Goal 2 of MDGs states that children everywhere, boys and girls alike, will be able to complete a full course of primary schooling by 2015. Table 7.8 presents the trend in primary Net Enrollment Rate (NER), which is simply a ratio of children enrolled in primary classes (I - V), divided by the number of children aged five to nine. The table shows that Pakistan made significant progress during 2001-02 to 2007-08, when the NER increased from a meagre 42 percent to 55 percent, demonstrating an increase of 13 percentage points in just six years. Thereafter this pace in growth moderated substantially. Between 2007-08 and 2010-11, the NER in Punjab stagnated while the progress in other

Table 7.8 Trend in Primary Net Enrollment Rate (Class I-V & age 5-9 years)

(Percent)

	2001-02	2007-08	2010-11
Punjab	45	61	61
Sindh	40	51	53
Khyber Pakhtunkhwa	41	49	51
Balochistan	32	41	47
Pakistan	**42**	**55**	**56**
Change in NER			
Punjab		16	0
Sindh		11	2
Khyber Pakhtunkhwa		8	2
Balochistan		9	6
Pakistan		**13**	**1**

Source: Pakistan Integrated Household Survey (PIHS) 2001-02, and Pakistan Social and Living Standards Measurement Survey (PSLMS) (various issues) provinces ranged from two to six percent. Overall, Pakistan has made only limited progress in education-related MDGs. Given the rate of change in the magnitude of the key indicator, it is unlikely that the targets will be met by 2015.

Promote Gender Equality in Education

MDG 3 (promote gender equality and women's empowerment) relates specifically to gender equality in education. Table 7.9 provides province-wise trends in the Gender Parity Index (GPI) measured as a proportion of girls' enrolment at the primary level of education in comparison with that of boys. For Pakistan as a whole, GPI in primary education improved from 73.5 percent, in 2001-02, to 85.6 percent in 2007-08. However, during 2007-08 to 2010-11 it declined by 2.6 percentage points, largely because of a decline in the provinces of Sindh and Balochistan. Some decline is witnessed in Khyber Pakhtunkhwa while the GPI has remained more or less constant in Punjab. Punjab has the least disparity in primary enrolment followed by Sindh, Khyber Pakhtunkhwa and Balochistan.

Table 7.9 Trend in Gender Parity Index

(Percent)

	2001-02	2007-08	2010-11
Punjab	82.1	90.2	90.3
Sindh	67.1	82.8	76.6
Khyber Pakhtunkhwa	57.7	75.5	75.2
Balochistan	57.1	67.0	56.5
Pakistan	**73.5**	**85.6**	**83.0**
Change in Gender Parity Index			
Punjab		8.1	0.1
Sindh		15.7	-6.2
Khyber Pakhtunkhwa		17.8	-0.3
Balochistan		9.9	-10.5
Pakistan		**12.1**	**-2.6**

Source: SPDC Estimates based on Pakistan Integrated Household Survey (PIHS) 2001-02, and Pakistan Social and Living Standards Measurement Survey (PSLMS) (various issues)

Progress in Child Immunisation

Similar to education, health is considered a critical determinant of economic productivity and also contains several positive externalities. Goal 4 of MDGs states that the under-five mortality rate is to be reduced by two-thirds between 1990 and 2015.Child immunisation is considered an important determinant of reduction in child mortality. Table 7.10 shows the trend in the percentage of fully immunised children (12-23 months). It shows that Pakistan made significant progress, during 2001-02 to 2007-08, increasing the coverage of fully immunised children from 53 to 73 percent. Province-wise trends reveal an improvement in all four provinces, particularly the progress made in Balochistan is commendable. However, beyond 2007-08, while the other three provinces show further progress in child immunisation, the percentage of fully immunised children in Balochistan declined from 57 percent to 53 percent.

Table 7.10 Percentage of Fully Immunized Children 12-23 months

	2001-02	2007-08	2010-11
Punjab	57	76	86
Sindh	45	67	75
Khyber Pakhtunkhwa	57	74	77
Balochistan	24	57	53
Pakistan	**53**	**73**	**81**
Change in Fully Immunized Children			
Punjab		19	10
Sindh		22	8
Khyber Pakhtunkhwa		17	3
Balochistan		33	-4
Pakistan		**20**	**8**

Source: SPDC Estimates based on Pakistan Integrated Household Survey 2001-02, and Pakistan Social and Living Standards Measurement Survey (various issues)

Table 7.11								Progress on Health Related MDGs
	2003	2004	2005	2006	2007	2008	2009	2010
MDG 5: Improving Maternal Health								
Maternal mortality ratio per 100,000 live births	-	-	290	-	-	260	-	260
Births attended by skilled health personnel, (%)	-	-	31	-	38.8	-	-	-
Current contraceptive use among married women 15-49 years old, any method, (%)	32.1	-	-	26	29.6	27	-	-
Adolescent birth rate, per 1,000 women	23.7	-	20.3	18.1	16.1	-	-	-
MDG 6: Combating HIV/AIDS, Malaria and Other Diseases								
People living with HIV, 15-49 years old, (%)	0.1	0.1	0.1	0.1	0.1	0.1	0.1	-
HIV incidence rate, 15-49 years old, (%)	0.01	0.01	0.01	0	0	0	0	-
Condom use to overall contraceptive use among currently married women 15-49 years old, (%)	19.9	-	-	20	23	20	-	-
Women 15-24 years old with comprehensive correct knowledge of HIV/AIDS, percentage	-	-	-	-	3.4	-	-	-
Cases of malaria per 100,000 population	-	-	-	-	-	881	-	-
Tuberculosis prevalence rate per 100,000 population	510	484	455	424	398	379	373	364

Source: MDGs Data Base, UN

Progress on Health Indicators

It appears that Pakistan is unlikely to meet most of the MDGs related to health by 2015 as the rate of improvement is low. While the trend depicts some improvement up to 2007 (see Table 7.11), some indicators have worsened. The use of contraceptives among married women shows a declining trend. The incidence of malaria and TB remain high. It is unfortunate that even during a period of fast growth, from 2003 to 2007, not much progress was made in improving the health indicators.

Access to Drinking Water

Another very important social sector indicator is the availability of clean drinking water. Pakistan Integrated Household Survey (PIHS) 2001-02 and PSLMS 2007-08 and 2010-11 provide information about the sources of drinking water. For this analysis access to tap water connection as a proxy for improved potable water services. Table 7.12 indicates that the share of tap water connections increased from 25 percent in 2001-02 to 36 percent in 2007-08, indicating an increase of 11 percentage points. During 2007-08 to 2010-11, however, it shows a decline of four percentage point.

Table 7.12	Trend in Sources of Drinking Water		*(Percent)*
	2001-02	2007-08	2010-11
Tap Water	25	36	32
Hand Pump	44	30	28
Motor Pump	17	25	27
Other	14	9	13
Total	**100**	**100**	**100**
Increase (+)/ Decrease (-)			
Tap Water		11	-4
Hand Pump		-14	-2
Motor Pump		8	2
Other		-5	4

Source: SPDC Estimates based on Pakistan Integrated Household Survey 2001-02, and Pakistan Social and Living Standards Measurement Survey (various issues)

CONCLUSIONS

The 7th NFC award provided much-needed fiscal space to provincial governments. It was expected that this fiscal space would be used for the betterment of the citizens, particularly of backward provinces, and would lead to an increase in social sector expenditures. However, this analysis observes that in the first two years following the 7th NFC Award, the given fiscal space was primarily used to either generate budget surpluses or increase current expenditures to meet the 50 percent increase in salaries imposed by the federal government. There was in fact a decline in development expenditures at the provincial level. Pro-poor expenditures, as classified in PRSP-II, show a marginal decline as a percentage of GDP, while social sector expenditures demonstrate a recovery to the pre-NFC level. Even though there is an indication of an increase in social sector expenditure as percentage of total provincial expenditure, pointing to an increase in provincial priority, this increase is somewhat lower than what was anticipated immediately after the 7th NFC Award.

Given that most of the indicators of social development show relatively high growth up to 2007-08 and a decline thereafter, it is essential that more of the revenue gains from the NFC Award be channeled to the social sectors. This can lead to an increase in the pace of social development in the country. Clearly, in the absence of such a concerted effort, Pakistan is unlikely to meet most of the targets of the MDGs by 2015.

Photography by Majid Hussain

Emerging Issues from the 18th Amendment

8

Political considerations, legal impediments and the desire of the bureaucracy for centralised control have led to a significant rollback in the process of implementation.

8 Emerging Issues from the 18th Amendment

In the wake of the 18th Amendment, concerns about implementation have threatened to undermine its objectives. Political considerations, legal impediments and the desire of the bureaucracy for centralised control have led to a significant rollback in the process of implementation. As a result, as identified in previous chapters, new stress points and tensions within the federation have been created.

This chapter discusses a number of emerging issues which will eventually need to be resolved through a consensus among the federating units, especially within the Council of Common Interests (CCI). It discusses the issue of the supply of electricity, along with others, which has become contentious in the face of record levels of load-shedding in most parts of the country. There have been wide-ranging protests, especially in Punjab and Khyber Pakhtunkwa, and complaints have been strongly voiced about the inequitable distribution of the burden of load-shedding in the country. The question is also the feasibility of investment in power generation by provincial governments.

The chapter also takes up issues relating to natural resources, especially gas. These relate to ownership of resources, right to grant concessions and the linkage between production and consumption at the provincial level. Furthermore, it highlights the implications of the decentralisation of higher education and, in particular, the future role of the Higher Education Commission (HEC). The issues of drug regulation in the aftermath of the abolition of the federal ministry of health; agricultural policy; and environmental protection are also discussed.

ELECTRICITY

Constitutional Provisions

The major change with regard to electricity in the 18th Amendment is the shifting of this subject from the now defunct Concurrent List to the Federal Legislative List Part II.

Article 157 of the constitution also addresses the subject. It states:

(1) The Federal Government may in any Province construct or cause to be constructed hydro-electric or thermal power installations or grid stations for the generation of electricity and lay or cause to be laid inter-provincial transmission lines:

[Provided that the Federal Government shall, prior to taking a decision to construct or cause to be constructed, hydro-electric power stations in any Province, shall consult the Provincial Government concerned.][1]

(2) The Government of a Province may-
(a) to the extent electricity is supplied to that Province from the national grid; require supply to be made in bulk for transmission and distribution within the Province:

(b) levy tax on consumption of electricity within the Province;

(c) construct power houses and grid stations and lay transmission lines for use within the Province; and

(d) determine the tariff for distribution of electricity within the Province.

[(3) In case of any dispute between the Federal Government and a Provincial Government in respect of any matter under this Article, any of the said Governments may move the Council of Common Interests for resolution of the dispute.][1]*"*

Existing Situation

The country today faces the highest levels of power load-shedding in its history. The major reasons for this crisis include non-utilisation of full capacity due to poor operations and maintenance (O&M), increase in oil prices and circular debt, depletion of gas reserves, accelerating system losses, seasonal variation in the availability of hydroelectricity and growth in demand.

Electricity generation has fallen since 2006-07, from 98,400 Gigawatt Hour (Gwh) to 88,900 Gwh, in 2011-12, while demand has been growing at over six percent per annum. Consequently, in many cities and towns load-shedding takes place for up to 12 hours daily and in rural locations it exceeds 18 hours a day. This has resulted in severe disruptions to economic activity and large losses of income and employment. According to recent estimates by IPP (2012), the total economic cost of load-shedding to industry, commerce, agriculture and domestic consumers combined exceeded Rs1 trillion in 2011-12 – equivalent to more than five percent of the GDP. This has led to large-scale public protests.

A key issue is the distribution of load-shedding in the country. Table 8.1 shows the extent of decline in electricity consumption per consumer in different parts of the country. In the case of industrial consumers, the biggest decline in consumption is observed in distribution companies of Punjab and Balochistan. Whereas, consumption in KESC-supplied areas, mainly Karachi, has increased by nine percent. The same pattern is observed in total consumption – with some increase in consumption in Sindh and a large fall in the other three provinces.

Table 8.1 Cumulative Change in Electricity Consumption per Consumer from 2006-07 to 2010-11 in Different Distribution Companies

(Percent)

	Industrial Consumers	Total Consumers
PESCO	4.5	14.0
IESCO	-15.7	-10.0
GEPCO	-15.7	-10.1
LESCO	-11.2	-10.8
FESCO	-18.2	-18.3
MEPCO	-23.6	-18.3
HESCO	-8.5	9.8
QESCO	-32.3	-10.2
KESC	9.1	0.0

Source: NEPRA, State of Industry Report, 2010-11.

This situation has led the Chief Minister of Punjab to lodge a strong protest, in a recent meeting of the CCI, against the uneven distribution of the burden of load-shedding in the country. He has demanded equal sharing of this burden. The Government of Khyber Pakhtunkhwa has also argued that it should get precedence in electricity supplies because it generates a large surplus in power of over 8000 Gwh.

Clearly, severe load-shedding and its regional distribution are imposing severe stress on the federation. Since issues related to electricity are to be resolved by the CCI following the 18th Amendment, a resolution has been passed in the last meeting of the Council stating that the burden of load-shedding be distributed equally throughout the country.

What are the implications of following this strategy? What impact does this have on total revenues generated through sales by large loss making and cash-strapped power sector? Table 8.2 gives indicators of system efficiency of different companies. There appear to be large differences in the revenue per Kilowatt Hour (Kwh) supplied, which ranges from a high of Rs8 in LESCO, to a low of less than Rs3 in the two smaller provinces. As such, if the objective is to maximise the large power subsidy, then there appears to be a case for redistribution of supplies from the national grid.

Table 8.2 Cumulative Change in electricity consumption per consumer From 2006-07 to 2010-11 in different distribution companies

(Percent)

	Trans-mission Losses (%)	Billing Recovery (%)	Average Tariff (Rs/Kwh)	Revenue per Kwh Supplied (Rs/Kwh)
	T	B	P	R*
PESCO	62.4	78.4	7.93	2.34
IESCO	9.7	93.4	8.73	7.36
GEPCO	12.0	98.8	8.71	7.58
LESCO	13.3	98.1	9.40	8.00
FESCO	11.2	99.8	8.64	7.65
MEPCO	18.3	98.0	8.31	6.65
HESCO	33.8	59.1	9.17	3.59
QESCO	20.4	41.0	7.72	2.52
KESC	34.7	85.6	10.63	5.93

$^{*}R = (1 \frac{T}{100}) = (\frac{B}{100})p$

Source: NEPRA, State of Industry Report, 2010-11.

In particular, the distribution companies in Punjab appear to be more efficient in generating revenues due to substantially lower transmission losses and higher rates of recovery of billing. As such, both equity and efficiency considerations are better met by distributing the burden of load-shedding more uniformly throughout the country.

The other issue relates to the construction of power houses and grid stations by provinces, as per Article 157 Clause (2) in order to overcome the dire electricity crisis in the country. Since the distribution mechanism is connected with the national grid, generation of electricity from any province is likely to be integrated in the national grid. As a result, the province generating that electricity may or may not get any benefit despite accruing the generation costs. There is a likely danger that the federal government might reduce its existing supply from the national grid by the same amount. This greatly reduces the incentive for a province to invest in power generation. Also if a province invites the participation of the private sector, especially in the form of foreign direct investment, then guarantees would have to be forthcoming from the federal government.

To counter this problem a proviso should be added to Clause 2 of Article 157 stating "a province may construct power houses and grid stations and lay transmission lines for use within the province subject to the commitments and obligations as on the commencing day." The commencing day in this case will be the time when province start supplying to the national grid. This will confirm that the existing supplies to the province from the national grid will not be reduced if the province generates additional electricity on its own and supplies to the national grid.

GAS

Constitutional Provisions

The major change in the 18th Amendment with regard to natural resources (specifically gas and oil) is the insertion of a sub-clause (3) in Article 172 as follows:

"Subject to the existing commitments and obligations, mineral oil and natural gas within the Province or the territorial waters adjacent thereto shall vest jointly and equally in that Province and the Federal Government."

In addition Article 158, regarding priority of requirements of natural gas, has been retained, which states:

"The Province in which a well-head of natural gas is situated shall have precedence over other parts of Pakistan in meeting the requirements from the well-head, subject to the commitments and obligations as on the commencing day."

These two articles raise a number of issues.

Issues

There is a growing shortage of gas supplies in Pakistan. Given the priorities of the government, the power and fertiliser sectors have been relatively deprived of gas. On the other hand, the interests of consumers in domestic and transport sectors have largely been preserved.

Table 8.3 Cumulative Growth in Consumption per Consumer of Gas/by Region

	SNGPL	SSPL
Gas Consumption (MCFT)		
2000-01	155.1	148.3
2006-07	195.3	187.4
2010-11	146.8	156.9
Cumulative Growth (%)		
2000-01 to 2006-07	25.9	26.4
2006-07 to 2010-11	-24.9	-16.0
2000-01 to 2010-11	-5.4	-5.8

Source: Annual Reports, SNGPL and SSPL

Also, the Government of Sindh, the province with the largest surplus of gas, has claimed, as per Article 158, that in the presence of a national scarcity, the province has precedence over other parts of Pakistan in meeting the demand. Consequently, as the shortage has worsened, the regional distribution of gas consumption has changed significantly, as shown in Table 8.3.

Over the last decade, the per consumer gas consumption has fallen by five percent in Sui Northern Gas Pipelines Limited (SNGPL) (serving Punjab and Khyber Pakhtunkhwa) while it has increased by six percent in Sui Southern Gas Company Limited (SSGCL) (serving Sindh and Balochistan). In view of the existence of Article 158 of the Constitution, the only option available for ensuring efficiency in the allocation of a scarce and valuable resource like gas is to let market forces act by deregulating the pricing of the gas sector. If gas consumers in the area served by SNGPL have more gains from the input of gas, then they should be willing to pay more for the service.

The second set of issues arises from the inclusion of the term 'jointly and equally' by the 18th Amendment in Article 172 (3). The first issue relates to the granting of concession for gas and oil exploration. Currently, these licences are issued by the DGPC/GHPL in the Federal Ministry of Natural Resources. Given the change in Article 172, the provincial governments may legitimately argue that they should also be involved in the granting of concessions. Also, there may be a case for the establishment of companies at the provincial level like the Oil and Gas Development Company (OGDC).

Further, since oil and gas is now literally a shared subject in terms of ownership, there is a need for recognition of the role of provincial governments in the regulation of the sector, especially in price setting (including the well-head price for new fields). This implies that, following appropriate changes in the Oil and Gas Regulatory Authority (OGRA) Act, representation of each province is ensured in the board of National Electric Power Regulatory Authority (NEPRA).

Down the road, provinces may also raise the issue of the sharing of dividends arising from profits made by entities in the oil and gas sector like OGDC, Pakistan Petroleum Limited (PPL), Pakistan Oilfields Limited (POL), SNGPL, SSGCL, etc. The collective dividend paid by these companies, in 2011-12, was Rs 59 billion. However, in light of the clause "subject to the commitments and obligations as on the commencing day", it may reasonably be argued that provinces be given an equal share only in the profits of new fields which started production after April 19, 2010 when the 18th Amendment became operative.

EMPLOYEES' OLD-AGE BENEFITS INSTITUTION (EOBI) AND WORKERS' WELFARE FUND (WWF)

Constitutional Provisions

The abolition of the Concurrent List in the Constitution following the 18th Amendment has also resulted in the devolution of the following functions of social security of workers:

- No 26: Welfare of labour; condition of labour; provident funds; employers liability and workmen's compensation, health insurance including invalidity pensions, old age pensions.
- No 31: unemployment insurance.

These subjects have not been transferred to the Federal Legislative List, Part II. As such, there is the, more or less, unambiguous conclusion that the above functions stand transferred to the provincial governments.

The existing situation

EOBI: was established under the EOBI Act, 1976, as a federal statute, to achieve the objective of Article 38 (c) of the Constitution that states "the State shall provide for all persons employed in the service of Pakistan or otherwise, social security by compulsory social insurance or other means". The Act applies to every industry or establishment in Pakistan where five or more persons are employed (except persons in the service of armed and police forces, railway, local council, municipal committee, cantonment board or any other local authority, Water & Power Development Authority, statutory bodies and members of the employer's family). As per Clause 2 of EOBI Act, the institution extends old-age benefits to insured persons or their survivors. Under the EOBI scheme, insured persons are entitled to avail benefits like old-age pension (on the event of retirement), invalidity pension (in case of permanent disability), old-age grant (an insured person who has attained superannuation age, but does not possess the minimum threshold for pension) and survivor's pension (in case an insured person has expired).

As per Clauses 4 and 5 of the Act the federal government nominates the administration that exercises and performs all the powers and functions of EOBI and appoints its head as the chairman of the institution. The institution being a government entity (body corporate) has perpetual succession with powers to acquire, hold and dispose of property both movable and immovable. Regarding the management, the general direction and superintendence of the affairs of the institution to be given by the Board of Trustees, which exercises its powers with the assistance of the chairman of the institution.

The board also has powers to approve the budget estimates, the audited accounts and the annual report of the institution for submission to the federal government (Clause 8). However, on all the policy matters the board itself is directed by the federal government (Clause 6). The members of the board, who are appointed by the federal government, include the secretary/additional secretary of the labour division (president of the board), two persons to represent the federal government (each from the ministries of finance and labour), four persons to represent their respective provincial governments (nominated by the respective provincial government), four persons to represent employers, four persons to represent insured persons, and one person to represent the institution.

Clause 9 of the Act describes the rates of contribution to be made by an employer and an employee to the institution. The employers of all the industrial and commercial organisations are expected to make a contribution of five percent of minimum wage with respect to every employed person on whom the EOBI Act is applicable, while employees pay one percent of minimum wages.

The EOBI has sizeable assets today of over Rs 200 billion. The total annual income is estimated at close to Rs 30 billion, with about 30 percent as the employer and employee contributions and the remaining 70 percent consisting of return on investments. The annual benefits paid are about Rs 8 billion. Therefore, the annual accrual to the EOBI Fund is almost Rs22 billion. As such, the EOBI is a strong and financially viable entity today.

WWF: was established under the Workers' Welfare Fund Ordinance, 1971. It extends to the whole of Pakistan, except to industrial establishments owned by the government or corporations established by government or to a corporation in which the majority of the shares are owned by government. Section 3 of the Ordinance, while mentioning the constitution of the fund, indicates that the fund received of an initial contribution of Rs100 million from the federal government. The fund includes voluntary contributions in the shape of money or building, land or other property made to it from time to time by any government (federal or provincial) or person income from the investments made, and properties and assets acquired by of the fund. Therefore, the WWF is an institution set up under a federal statute for the welfare of the workers throughout Pakistan.

Section 4 explains that every industrial establishment having the total income of Rs500,000 per annum or more pays to the fund in respect of that year a sum equal to two percent of its total income to the federal government. The amount is payable to the FBR at the time of filing income tax returns.

The WWF was designed to act as a development fund to make allocations for welfare schemes for the workers. It primarily provides benefits to the industrial workers such as housing, education, recreation and medical facilities, water supply, and transport facilities. To run the management and administration of the fund at the federal level, the federal government by notification in the Official Gazette has constituted a governing body (Section 7). It consists of the secretary of the ministry dealing with matters relating to labour welfare (now the ministry of human resources) who acts as a chairman of the body. This also includes other members, not more than eighteen, appointed by the federal government, of whom at least one is appointed from each province upon the recommendation of the concerned provincial government; at least one is appointed from each province from amongst the workers and at least one from each province from amongst the employers.

The total revenues collected by the FBR as contributions to the WWF were Rs5 billion in 2010-11. 25 percent of the revenues were from Islamabad, 17 percent from Punjab; 54 percent from Sindh (mostly Karachi) and four percent from the two smaller provinces. The regional distribution of revenues clearly reflects the location of head offices of corporate entities in Pakistan.

The demand for provincialisation of the EOBI and WWF has already been voiced in the CCI. However, since the EOBI was set up under the EOBI Act, 1976 and the WWF was established under the WWF Ordinance, 1971, both federal statutes would continue to be effective until these laws are altered, repealed or amended by parliament as per the substituted Article 270AA (6).

Given that the Ministry of Labour has been devolved, and labour welfare, invalidity and old age pensions are now provincial subjects as per the Legislative List; therefore, according to Article 142(c), provincial governments can legislate and set up new institutions for the welfare of workers. This would help all provinces have uniform laws on labour welfare.

In case of devolution of the funds, there will be issues regarding collection and distribution of funds, and allocation of existing financial and physical assets that belong to the WWF and EOBI among the provinces.

Problems could arise in regard to workers with domicile of one province work in another province and after retirement return to their home province. This implies the need for cross-border generation and distribution of pensions.

The potential solutions lie in, firstly, keeping EOBI a federal institution and continuing with the operation of the EOBI Act, 1976. This is justifiable since a large social security scheme enables greater pooling of risks and enhances the financial viability of the scheme. This will also ensure uniformity of benefits across provinces.

Secondly, the WWF can be effectively decentralised because its' nature is more of a development fund for workers. The provincial boards are already active. The formula used for distribution of the Zakat Fund among the provinces, which is based on population shares may be followed.

The Workers' Profits Participation Fund (WPPF) is another such fund. Revenues on this account to the FBR are thrice that of the WWF. There is need to study the present pattern of utilisation of WPPF funds and to explore the possibility of decentralising this fund also like the WWF.

HIGHER EDUCATION COMMISSION

Constitutional Provisions

The abolition of the Concurrent List has implied the transfer of several functions to the provinces, which include curriculum, syllabus, planning, policy, centres of excellence and standards of education. On the other hand, some functions related to higher education have been retained by the federal government, which include federal institutions for the purpose of research, professional or technical training or for the promotion of special studies. Moreover, education of Pakistani students in foreign countries and foreign students in Pakistan also comes under federal jurisdiction. Similarly, the subject of standards in higher education has been retained in FLL Part II (Chart 8.1).

Chart 8.1 Functions Related to Higher Education

Functions transferred to provinces	Function retained by the federal government	
CLL (abolished)	**FLL - Part I**	**FLL - Part II**
No. 38: Curriculum, syllabus, planning, policy, centres of excellence and standards of education.	No 16: Federal institutes for the following purposes, that is to say, for research, for professional or technical training, or for the promotion of special studies. No 17: Education as respects Pakistani students in foreign countries and foreign students in Pakistan.	No 12: Standards in institutions for higher education and research, scientific and technical insituations.

Source: The Constitution of the Islamic Republic of Pakistan 1973, The Ideal Publishers, Karachi, 2011

Existing Situation

The financing, regulation and other matters of higher education were earlier dealt with by the University Grants Commission (UGC) in Pakistan which was a department under the federal Ministry of Education. In 2002, the UGC was converted into the Higher Education Commission (HEC) – an autonomous and self-governing body established by the federal government through an ordinance called the Higher Education Commission Ordinance, 2002 (No. LIII of 2002). It was later given constitutional cover in the 17th Amendment. According to the Ordinance, the Prime Minister of Pakistan is the controlling authority of the HEC and is empowered to supervise the affairs of the commission. The chairman of the HEC was given the status of federal minister.

The Ordinance gives HEC extensive powers in its approved domain (Section 10). These powers and functions essentially fall in three categories namely regulatory function, policy formulation, administrative/managerial functions and finance.

The HEC has an impressive record of performance since its establishment in 2002. The network of universities has expanded rapidly in the country from 59 to 132 in 2011. In particular, private universities have emerged as an important part of the higher education sector, increasing from 22 in 2002 to 59 in 2011. This expansion has led to extraordinary growth in enrolment from 276,000 in 2002 to almost one million in 2011. There has also been a phenomenal increase in the number of locally produced PhDs. The provincial distribution of universities is given in Table 8.4.

Table 8.4 Distribution by Province of Higher Education Institution in Pakistan

	Public Sector	Private Sector	Total
Islamabad	14	3	17
Punjab	21	18	39
Khyber-Pakhtunkhwa	15	9	24
Sindh	14	25	39
Balochistan	6	2	8
AJK	2	2	4
Northern Areas	1	-	1
TOTAL	**73**	**59**	**132**

Source: HEC, Statistics on Higher Education

Today, the HEC provides financing of public universities through recurring and development grants, and regulates all universities. The total recurring budget in 2010-11 was almost Rs 15 million, while the development budget was close to Rs 9 billion.

An attempt was made to devolve HEC functions after the passage of the 18th Amendment. However, following a petition by the HEC, the Supreme Court of Pakistan issued a stay order stating, "The status of Higher Education Commission (HEC) as has been enshrined in the HEC Ordinance, 2002, with its functions covered by the constitutional provisions … shall remain intact unless the same is changed through legislation in this regard." It further states, "The HEC shall continue discharging its functions and duties it had been doing in the past unless fresh legislation is promulgated."

The CCI has allowed an independent working of the HEC till 2014-15. The Cabinet Division issued a notification on November 14, 2011 mentioning that the Commission for Standards for Higher Education has been transferred to a newly created National Regulation and Services Division (NRSD) in the federal government. This notification also mentions that a second department, the External Equivalence of Degrees and Diplomas Department, would also work under the newly created NRSD. This indicates that the government is planning to transfer the powers of the HEC to 'new' departments.

Moreover, the following decisions by the CCI have been announced:

- The financing of universities is the responsibility of the federal government till the finalisation of the 8th NFC Award (2014 - 15).
- All international agreements and donation-related matters to be given to the Economic Affairs Division (EAD).
- The federal and provincial governments will design educational programmes in collaboration with the CCI and the Inter-Provincial Coordination Committee.
- The HEC Ordinance will be thoroughly reviewed. Clauses which do not clash with the 18th Amendment will remain untouched and the new ordinance will be redrafted soon.

Beyond 2014-15, it appears that, following the 8th NFC Award, the financing of universities will be transferred to the provinces. Administrative control and senior appointments in public universities are already the responsibility of provincial governments. The case for the continuation of HEC beyond 2014-15 is essential for the financing of universities in federally administered territories and for performing the functions listed above in FLL Parts I and II. Fragmentation of these functions must be avoided like the creation of separate entities for determining standards of higher education and equivalence of degrees.

The decentralisation of the curriculum development and syllabus at the primary and secondary level has also led to some concerns about the standardisation of quality and creating a national identity among the younger generation from different parts of the country. This is an important issue and may need to be resolved by the CCI.

DRUG REGULATION

Constitutional Provisions

The following subjects stand transferred to the provinces in the aftermath of the abolition of the Concurrent List:

- No 19: opium, so far as regards cultivation and manufacture.
- No 20: drugs and medicines
- No 21: poisons and dangerous drugs.

No corresponding functions have been included in FLL Part II, although there is an umbrella provision as follows:

- No 6: All regulatory authorities established under a Federal Law.

Also, in FLL Part I the federal government has been made responsible for regulating opium export.

Existing Situation

The drug regulatory function prior to the 18^{th} Amendment was being performed by the federal Ministry of Health as per the Drugs Act of 1976. The Supreme Court of Pakistan has since issued a directive for the establishment of a Drug Regulatory Authority (DRA). An ordinance was promulgated by the President of Pakistan in February 2012 for the formation of a centralised regulation body for the pharmaceutical industry with the consent of three provinces - Khyber Pakhtunkhwa, Punjab and Sindh - as per Article 144 of the Constitution. The agency will control the pricing of drugs, quality assurance, import/export and the issuing of licences to drug manufacturers. It will have 13 members including all the provincial health secretaries.

The centralisation of drug regulation is essential because international experiences show a risk of a 'race to the bottom' whereby there is a tendency to slacken regulatory standards due to competition in attracting pharmaceutical companies.

AGRICULTURAL POLICY

The ministries of Food and Agriculture, and Livestock and Dairy Development, at the federal level have been abolished with the intent of transferring functions performed by these ministries. However, a Ministry of National Food Security and Research has been established in Islamabad with diverse functions including the stabilisation of farm income/consumer prices and the provision of regulatory and assessment services.

The issue which arises relates to the fixation of support/ procurement prices for different crops. Decentralisation of this function could have a number of implications. When each province will fix its own support price then the province producing a sizeable crop will have edge in making unreasonable profit (by exporting to other provinces) at the cost of other provinces and people. Also if prices are different in each province then there is the possibility of smuggling across provincial borders. The farmers in a province with the lower price will try and sell their produce in the province with the higher price in order to earn high profit, thereby creating shortage in the former province.

The solution potentially lies in following the practice adopted in India where the Commission for Agricultural Cost and Prices (CACS) recommends the support price for different crops following discussions with state governments and central ministries/departments. This function can be performed in Pakistan by the Agriculture Policy Institute (originally named the Agricultural Prices Commission). The support/procurement price for a particular crop can then be decided by the CCI.

ENVIRONMENTAL PROTECTION

Following the abolition of the Concurrent List, environmental pollution and ecology stand transferred to the provinces. This has major implications for existing environmental laws, rules and regulations. The existing legal framework is provided by the Pakistan Environmental Protection Act (PEPA), 1997, a federal statute. As per Article 270 AA (6) this law will continue to be operative until repealed or amended by appropriate legislation in parliament.

A key issue relates to setting and enforcing the National Environmental Quality Standards (NEQS). These NEQS relate to, amongst other things, air and water quality, and liquid and industrial effluents. Before the 18th Amendment, the NEQS were set by a federally constituted Environment Protection Council (EPC). One of the key questions arising from the devolution after the 18th Amendment is how the provinces, each with its own EPC, will coordinate NEQS amongst themselves.

The devolution of the Ministry of Environment has been opposed by NGOs on the grounds that there is a lack of capacity and readiness in the provinces. It is necessary to maintain national-level institutions for (a) effective policymaking and inter-provincial coordination; (b) negotiation, oversight, monitoring and reporting implementation of international treaties and agreements; and (c) liaison with donors.

The solution appears to lie in retaining the functions of the federal EPC, which already provides for membership of the provincial chief ministers and ministers in charge of the subject of environment in the provinces. PEPA also provides for the establishment of provincial environmental protection agencies and for the delegation of federal functions to provincial governments by notification in the official Gazette. Post-18th Amendment there is need for an explicit statement on the delegation of powers and functions. The newly set-up federal Ministry of Climate Change should have minimum regulatory functions and enforcement of existing environmental laws should be the prime responsibility of the provincial governments. However, the setting and monitoring of NEQS may continue to be performed by the federal EPC. This will require considerable strengthening of the provincial environment departments.

The above mentioned emerging issues have already been debated and discussed by different stakeholders. Undoubtedly, other issues will emerge in the future as the 18th Amendment is interpreted further and implemented. Solutions will need to be found which are consistent with the objective of greater decentralisation but are pragmatic in nature and focus on maximising the public good. The prime forum for discussion and consensus-building will be the CCI, which has already begun to effectively discharge its functions.

Pakistan has, no doubt, embarked on a major effort to empower the federating units. The strength of the federation in years to come will hinge on successfully implementing this initiative and achieving progress in the presence of strong vested interests which are determined to preserve the status quo.

NOTE:

1 Inserted by the Constitution (Eighteenth Amendment) Act 2010.

Photography by Ikram Bukhari

APPENDICES

A.1

LEGISLATIVE LISTS IN PAKISTAN AND INDIA

Pakistan

FDERAL LEGISLATIVE LIST – PART-I

(exclusive domain of federal government)

1. Defence
2. Military, naval and air force works
3. External affairs; the implementing of treaties and agreements; extradition, including the surrender of criminals and accused persons to Governments outside Pakistan.
4. Nationality, citizenship and naturalization
5. Migration from or into, or settlement in, a Province or the Federal Capital
6. Admission into, and emigration and expulsion from, Pakistan including in relation thereto the regulation of the movements in Pakistan of persons not domiciled in Pakistan; pilgrimages to places beyond Pakistan.
7. Posts and telegraphs, including telephones, wireless, broadcasting and other like forms of communications; Post Office Saving Bank.
8. Currency, coinage and legal tender
9. Foreign exchange; cheques, bills of exchange, promissory notes and other like instruments.
10. Public debt of the Federation, including the borrowing of money on the security of the Federal Consolidated Fund; foreign loans and foreign aid.
11. Federal Public Services and Federal Public Service Commission.
12. Federal Pensions, that is to say, pensions payable by the Federation or out of the Federal Consolidated Fund.
13. Federal Ombudsmen.
14. Administrative Courts and Tribunals for Federal subjects.
15. Libraries, museums, and similar institutions controlled or financed by the Federation.
16. Federal agencies and institutes for the following purposes, that is to say, for research, for professional or technical training, or for the promotion of special studies.
17. Education as respects Pakistani students in foreign countries and foreign students in Pakistan.
18. Nuclear energy including
a) Mineral resources necessary for the generation of nuclear energy
b) The production of nuclear fuels and generation and use of nuclear energy
c) Ionizing radiations
d) boilers
19. Port quarantine, seamen's and marine hospitals and hospitals connected with port quarantine.
20. Maritime shipping and navigation, including shipping and navigation on tidal waters; Admiralty jurisdiction.
21. Omitted
22. Aircraft and air navigation; the provision of aerodromes; regulation and organization of air traffic and of aerodromes.
23. Lighthouses, including lightships, beacons and other provisions for the safety and shipping and aircraft.
24. Carriage of passengers and goods by sea or by air.
25. Copyright, inventions, designs, trademarks and merchandise marks.
26. Opium so far as regards sale for export.
27. Import and export across customs frontiers as deemed by the Federal Government, inter-provincial trade and commerce, trade and commerce with foreign countries; standard of quality of goods to be exported out of Pakistan.

India

LIST-I: THE UNION SUBJECT LIST (Federal)

1. Defence of India and every part thereof including preparation for defence and all such acts as may be conducive in times of war to its prosecution and after its termination to effective demobilisation.
2. Naval, military and air forces; any other armed forces of the Union.

2-A. Deployment of any armed force of the Union or any other force subject to the control of the Union or any contingent or unit thereof in any State in aid of the civil power; powers, jurisdiction, privileges and liabilities of the members of such forces while on such deployment.

3. Delimitation of cantonment areas, local self-government in such areas, the constitution and powers within such areas of cantonment authorities and the regulation of house accommodation (including the control of rents) in such areas.
4. Naval, military and air force works.
5. Arms, firearms, ammunition and explosives.
6. Atomic energy and mineral resources necessary for its production.
7. Industries declared by Parliament by law to he necessary for the purpose of defence or for the prosecution of war.
8. Central Bureau of Intelligence and Investigation.
9. Preventive detention for reasons connected with Defence, Foreign Affairs, or the security of India; persons subjected to such detention.
10. Foreign affairs; all matters which bring the Union into relation with any foreign country.
11. Diplomatic, consular and trade representation.
12. United Nations Organisation.
13. Participation in international conferences, associations and other bodies and implementing of decisions made thereat.
14. Entering into treaties and agreements with foreign countries and implementing of treaties, agreements and conventions with foreign Countries.
15. War and peace.
16. Foreign jurisdiction.
17. Citizenship, naturalisation and aliens.
18. Extradition.
19. Admission into, and emigration and expulsion from, India; passports and visas.
20. Pilgrimages to places outside India.
21. Piracies and crimes committed on the high seas or in the air; offences against the law of nations committed on land or the high seas or in the air.
22. Railways.
23. Highways declared by or under law made by Parliament to be national highways.
24. Shipping and navigation on inland waterways, declared by Parliament by law to be national waterways, as regards mechanically propelled vessels; the rule of the road on such waterways.
25. Maritime shipping and navigation, including shipping and navigation on tidal waters; provision of education and training for the mercantile marine and regulation of such education and training provided by States and other agencies.
26. Lighthouses, including lightships, beacons and other provision for the safety of shipping and aircraft.
27. Ports declared by or under law made by Parliament or existing law to be major ports, including their delimitation, and the constitution and powers of port authorities therein.
28. Port quarantine, including hospitals connected therewith; seamen's and marine hospitals.
29. Airways aircraft and air navigation; provision of aerodromes; regulation and organisation of air traffic, and of aerodromes; provision for aeronautical education and training and regulation of such education and training provided by States and other agencies.
30. Carriage of passengers and goods by railway, sea or air, or by national waterways in mechanically propelled vessels.
31. Posts and telegraphs, telephones, wireless, broadcasting and other like forms of communication.
32. Property of the Union and the revenue therefrom, but as regards

28. State Bank of Pakistan; banking, that is to say, the conduct of banking business by corporations other than corporations owned or controlled by a Province and carrying on business only within that Province.
29. The law of insurance, except as respects insurance undertaken by a Province, and the regulation of the conduct of insurance business, except as respects business undertaken by a Province, Government insurance, except so far as undertaken by a Province by virtue of any matter within the legislative competence of the Provincial Assembly.
30. Stock exchanges and future markets with objects and business not confined to one Province.
31. Corporations, that is to say, the incorporation, regulation and winding- up of trading corporations, including banking, insurance and financial corporations, but not including corporations owned or controlled by a Province and carrying on business only within that Province, or cooperative societies, and of corporations, whether trading or not, with objects not confined to a Province, but not including universities.
32. International treaties, conventions and agreements and International arbitration
33. Omitted
34. National highways and strategic roads
35. Federal surveys including geological surveys and Federal meteorological organizations
36. Fishing and fisheries beyond territorial waters
37. Works, lands and buildings vested in, or in the possession of Government for the purposes of the Federation (not being military, naval or air force works), but, as regards property situate in a Province, subject always to Provincial legislation, save in so far as Federal law otherwise provides.
38. Omitted
39. Establishment of standards of weights and measures.
40. Omitted
41. Elections to the office of President, to the National Assembly, the Senate and the Provincial Assemblies; Chief Election Commissioner and Election Commissions.
42. The salaries, allowances and privileges of the President, Speaker and Deputy Speaker of the National Assembly, Chairman and Deputy Chairman of the Senate, Prime Minister, Federal Minister, Ministers of State, the salaries, allowances and privileges of the members of the Senate and the National Assembly, and the punishment of persons who refuse to give evidence or produce documents before committees thereof.
43. Duties of customs, including export duties.
44. Duties of exercise, including duties on salt, but not including duties on alcoholic liquors, opium and other narcotics.
45. Omitted
46. Omitted
47. Taxes on income other than agricultural income.
48. Taxes on corporations.
49. Taxes on the sales and purchases of goods imported, exported, produced, manufactured or consumed, except sales tax on services.
50. Taxes on the capital value of the assets, not including taxes on immovable property.
51. Taxes on mineral oil, natural gas and minerals for use in generation of nuclear energy.
52. Taxes and duties on the production capacity of any plant, machinery, undertaking, establishment or installation in lieu of any one or more of them.
53. Terminal taxes on goods or passengers carried by railway, sea or air; taxes on their fares and freights.

property situated in a State subject to legislation by the State, save in so far as Parliament by law otherwise provides.
33. Omitted
34. Courts of wards for the estates of Rulers of Indian States.
35. Public debt of the Union.
36. Currency, coinage and legal tender; foreign exchange.
37. Foreign loans.
38. Reserve Bank of India.
39. Post Office Savings Bank.
40. Lotteries organised by the Government of India or the Government of a State.
41. Trade and commerce with foreign countries import and export across customs frontiers definition of customs frontiers.
42. Inter-State trade and commerce.
43. Incorporation, regulation and winding up of trading Corporations, including banking, insurance and financial corporations but not including Co-operative Societies.
44. Incorporation, regulation and winding up of corporations, whether trading or not, with objects not confined to one State, but not including universities.
45. Banking.
46. Bills of exchange, cheques, promissory notes and other like instruments.
47. Insurance.
48. Stock exchanges and futures markets.
49. Patents, inventions and designs; copyright; trade-marks and merchandise marks.
50. Establishment of standards of weight and measure.
51. Establishment of standards of quality for goods to he exported out of India or transported from one State to another.
52. Industries, the control of which by the Union is declared by Parliament by law to be expedient in the public interest.
53. Regulation and development of oilfields and mineral oil resources; petroleum and petroleum products; other liquids and substances declared by Parliament by law to be dangerously inflammable.
54. Regulation of mines and mineral development to the extent to which such regulation and development under the control of the Union is declared by Parliament by law to be expedient in the public interest.
55. Regulation of labour and safety in mines and oil-fields.
56. Regulation and development of inter-State rivers and river valleys to the extent to which such regulation and development under the control of the Union is declared by Parliament by law to he expedient in the public interest.
57. Fishing and fisheries beyond territorial waters.
58. Manufacture, supply and distribution of salt by Union agencies; regulations and control of manufacture, supply and distribution of salt by other agencies.
59. Cultivation, manufacture, and sale for export, of opium.
60. Sanctioning of cinematograph films for exhibition.
61. Industrial disputes concerning Union employees.
62. The institutions known at the commencement of this Constitution as the National Library, the Indian Museum, the Imperial War Museum, the Victoria Memorial and the Indian War Memorial, and any other like institution financed by the Government of India wholly or in part and declared by Parliament by law to be an institution of national importance.
63. The institutions known at the commencement of this Constitution as the Benares Hindu University, the Aligarh Muslim University and the Delhi University; the University established in pursuance of Article 371-E; any other institution declared by Parliament by law to be an institution of national importance.
64. Institutions for scientific or technical education financed by the Government of India wholly or in part and declared by Parliament by law to be institutions of national importance.
65. Union agencies and institutions for -
    (a) professional, vocational or technical training, including the training of police officers; or
    (b) the promotion of special studies or research; or
    (c) scientific or technical assistance in the investigation or detection of crime.
66. Co-ordination and determination of standards in institutions for higher education or research and scientific and technical institutions.
67. Ancient and historical monuments and records, and archaeological sites and remains, declared by or under law made by Parliament to be of national importance.
68. The Survey of India, the Geological, Botanical, Zoological and Anthropological Surveys of India; Meteorological organisations.
69. Census.

54. Fees in respect of any of the matters in this Part, but not including fees taken in any court.
55. Jurisdiction and powers of all courts, except the Supreme Court, with respect to any of the matters in this list and, to such extent as is expressly authorized by or under the Constitution, the enlargement of the jurisdiction of the Supreme Court, and the conferring thereon of supplemental powers.
56. Offences against laws with respect to any of the matters in this Part.
57. Inquiries and statistics for the purposes of any of the matters in this Part.
58. Matters which under the Constitution are within the legislative competence of Majlis- e-Shoora (Parliament) or relate to the Federation.
59. Matters incidental or ancillary to any matter enumerated in this Part.

70. Union public services; all-India services; Union Public Service Commission.
71. Union Pensions, that is to say, pensions payable by the Government of India or out of the Consolidated Fund of India.
72. Elections to Parliament, to the Legislatures of States and to the offices of President and Vice-President; the Election Commission.
73. Salaries and allowances of members of Parliament, the Chairman and Deputy chairman of the Council of States and the Sneaker and Deputy Speaker of the House of the People.
74. Powers, privileges and Immunities of each House of Parliament and of the members and the Committees of each House enforcement of attendance of persons for giving evidence or producing documents before committees of Parliament or commissions appointed by Parliament.
75. Emoluments, allowances. privileges, and rights in respect of leave of absence, of the President and Governors salaries and allowances of the Ministers for the Union; the Salaries, allowances, and rights in respect of leave of absence and other conditions of service of the Comptroller and Auditor-General.
76. Audit of the accounts of the Union and of the States.
77. Constitution, organisation, jurisdiction and powers of the Supreme Court (including contempt of such Court). and the fees taken therein persons entitled to practice before the Supreme Court.
78. Constitution and organisation (including vacations) of the High Courts except provisions as to officers and servants of High Courts; persons entitled to practice before the High Courts.
79. Extensions of the jurisdiction of a High Court to, and exclusion of the jurisdiction of a High Court from any Union territory.
80. Extension of the powers and jurisdiction of members of a police force belonging to any State to any area outside that State, but not so as to enable the police of one State to exercise powers and jurisdiction in any area outside that State without the consent of the Government of the State in which such area is situated; extension of the powers and jurisdiction of members of a police force belonging to any State to railway areas outside that State.
81. Inter-state migration; inter-State quarantine.
82. Taxes on income other than agricultural income.
83. Duties of customs including export duties.
84. Duties of excise on tobacco and other goods manufactured or produced in India except -
    (a) alcoholic liquors for human consumption
    (b) opium, Indian hemp and other narcotic drugs and narcotics;
    but including medicinal and toilet preparations containing alcohol or any substance included in sub-paragraph (b) of this entry.
85. Corporation tax.
86. Taxes on the capital value of the assets, exclusive of agricultural land. of individuals and companies; taxes on the capital of companies.
87. Estate duty in respect of property other than agricultural land.
88. Duties in respect of succession to property other than agricultural land.
89. Terminal taxes on goods or passengers, carried by railway, sea or air; taxes on railway fares and freights.
90. Taxes other than stamp duties on transactions in stock exchanges and futures markets.
91. Rates of stamp duty in respect of bills of exchange, cheques, promissory notes, bills of lading, letters of credit, policies of insurance, transfer of shares, debentures, proxies and receipts.
92. Taxes on the sale or purchase of newspapers and on advertisements published therein.

92-A. Taxes on the sale or purchase of goods other than newspapers, where such sale or purchase takes place in the course of inter-State trade or commerce.

93. Offences against laws with respect to any of the matters in this List.
94. Inquiries, surveys and statistics for the purpose of any of the matters in this List.
95. Jurisdiction and powers of all courts, except the Supreme Court, with respect to any of the matters in this List admiralty jurisdiction.
96. Fees in respect of any of the matters in this List, but not including fees taken in any court.
97. Any other matter not enumerated in List II or List III including any tax not mentioned in either of those Lists.

FDERAL LEGISLATIVE LIST --- PART-II

(It is also under the domain of federal government. However, Council of Common Interests, which represents federal and all provincial governments, formulates and regulate policies in relation to matters in Part II and exercises supervision and control over related institutions)

1. Railways.
2. Mineral oil and natural gas; liquids and substances declared by Federal law to be dangerously inflammable.
3. Development of industries, where development under Federal control is declared by Federal law to be expedient in the public interest; institutions, establishments, bodies and corporations administered or managed by the Federal Government immediately before the commencing day, including the Pakistan Water and Power Development Authority and the Pakistan Industrial Development Corporation; all undertakings, projects and schemes of such institutions, establishments, bodies and corporations, industries, projects and undertakings owned wholly or partially by the Federation or by a corporation set up by the Federation.
4. Electricity.
5. Major ports, that is to say, the declaration and delimitation of such ports, and the constitution and powers of port authorities therein.
6. All regulatory authorities established under a Federal law.
7. National planning and national economic coordination including planning and coordination of scientific and technological research.
8. Supervision and management of public debt.
9. Census.
10. Extension of the powers and jurisdiction of members of a police force belonging to any Province to any area in another Province, but not so as to enable the police of one Province to exercise powers and jurisdiction in another Province without the consent of the Government of that Province; extension of the powers and jurisdiction of a police force belonging to any Province to railway areas outside that Province.
11. Legal, medical and other professions.
12. Standards in institutions for higher education and research, scientific and technical institutions.
13. Inter-provincial matters and co-ordination

LIST-III: THE CONCURRENT SUBJECTS LIST (Federal/Provincial)

1. Criminal law, including all matters included in the Indian Penal Code at the com-mencement of this Constitution but excluding offences against laws with respect to any of the matters specified in List I or List II and excluding the use of naval, military or air forces or any other armed forces of the Union in aid of the civil power.
2. Criminal procedure, including all matters included in the Code of Criminal Procedure at the commencement of this Constitution.
3. Preventive detention for reasons connected with the security of a State, the main-tenance of public order, or the maintenance of supplies and services essential to the commu-nity; persons subjected to such detention.
4. Removal from one State to another State of prisoners, accused persons and persons subjected to preventive detention for reasons specified in Entry 3 of this list.
5. Marriage and divorce; infants and minors; adoption; wills, intestacy and succes-sion; joint family and partition; all matters in respect of which parties in judicial proceedings were immediately before the commencement of this Constitution subject to their personal law.
6. Transfer of property other than agricultural land; registration of deeds and docu-ments.
7. Contracts including partnership, agency, contracts of carriage, and other special forms of contracts, but not including contracts relating to agricultural land.
8. Actionable wrongs.
9. Bankruptcy and insolvency.
10. Trust and Trustees.
11. Administrators-general and official trustees.

11-A. Administration of justice; constitution and Organisation of all courts, except the Supreme Court and the High Courts.

12. Evidence and oaths; recognition of laws, public acts and records, and judicial proceedings.
13. Civil procedure, including all matters included in the Code of Civil Procedure at the commencement of this Constitution, limitation and arbitration.
14. Contempt of court, but not including contempt of the Supreme Court.
15. Vagrancy; nomadic and migratory tribes.
16. Lunacy and mental deficiency, including places for the reception or treatment of lunatics and mental deficients.
17. Prevention of cruelty to animals.

17-A. Forests.

17-B. Protection of wild animals and birds.

18. Adulteration of foodstuffs and other goods.
19. Drugs and poisons, subject to the provisions of Entry 59 of List I with respect to opium.
20. Economic and social planning.

20-A. Population control and family planning.

21. Commercial and industrial monopolies, combines and trusts.
22. Trade unions; industrial and labour disputes.
23. Social security and social insurance; employment and unemployment.
24. Welfare of labour including conditions of work, provident funds, employers' lia-bility, workmen's compensation, invalidity and old age pensions and maternity benefits.
25. Education, including technical education, medical education and universities, subject to the provisions of Entries 63, 64, 65 and 66 of List I; vocational and technical training of labour.
26. Legal, medical and other professions.
27. Relief and rehabilitation of persons displaced from their original place of residence by reason of the setting up of the Dominions of India and Pakistan.
28. Charities and charitable institutions, charitable and religious endowments and religious institutions.
29. Prevention of the extension from one State to another of infectious or contagious diseases or pests affecting men, animals or plants.
30. Vital statistics including registration of births and deaths.
31. Ports other than those declared by or under law made by Parliament or existing law to he major ports.
32. Shipping and navigation on inland waterways as regards mechanically propelled vessels, and the rule of the road on such waterways, and the carriage of passengers and goods on inland waterways subject to the provisions of List I with respect to national waterways.
33. Trade and commerce in, and the production, supply and distribution of,- (a) the products of any industry where the control of such industry by the Union is declared by Parliament by law to be expedient in the public interest, and imported goods of the same kind as such products; (b) foodstuffs. including edible oilseeds and oils; (c) cattle fodder, including oilcakes and other concentrates; (d) raw cotton, whether ginned or unginned, and cotton seed; and (e) raw jute.

33-A. Weights and measures except establishment of standards.
34. Price control.
35. Mechanically propelled vehicles including the principles on which taxes on such vehicles are to be levied.
36. Factories.
37. Boilers.
38. Electricity.
39. Newspapers, books and printing presses.
40. Archaeological sites and remains other than those declared by or under law made by Parliament to be of national importance.
41. Custody, management and disposal of property (including agricultural land) declared by law to be evacuee property.
42. Acquisition and requisitioning of property.
43. Recovery in a State of claims in respect of taxes and other public demands, including arrears of land-revenue and sums recoverable as such arrears, arising outside that State.
44. Stamp duties other than duties or fees collected by means of judicial stamps, but not including rates of stamp duty.
45. Inquiries and statistics for the purposes of any of the matters specified in List II or List III.
46. Jurisdiction and powers of all courts, except the Supreme Court, with respect to any of the matters in this List.
47. Fees in respect of any of the matters in this List, but not including fees taken in any court.

There is no Provincial List.

Provincial Assembly has the power to make laws with respect to any matter not enumerated in Federal Legislative List (Part I and II).

LIST-II: THE STATES SUBJECTS LIST (Provincial)

1. Public order (but not including [the use of any naval, military or air force or any other armed force or the Union or of any other force subject to the control of the Union or of any contingent or unit thereof] in aid of the civil power).
2. Police (including railway and village police) subject to the provisions of Entry 2-A of List-I.
3. Officers and servants of the High Court; procedure in rent and revenue courts; fees taken in all courts except the Supreme Court.
4. Prisons, reformatories, Borstal institutions and other institutions of a like nature and persons detained therein; arrangements with other States for the use of prisons and other institutions.
5. Local government, that is to say, the constitution and powers of municipal cor-porations, improvement trusts, district boards, mining settlement authorities and other local authorities for the purpose of local self-government or village administration.
6. Public health and sanitation; hospitals and dispensaries.
7. Pilgrimages, other than pilgrimages to places outside India.
8. Intoxicating liquors, that is to say, the production, manufacture, transport, purchase and sale of intoxicating liquors.
9. Relief for the disabled and unemployable.
10. Burials and burial grounds; cremations and cremation grounds.
11. Omitted.
12. Libraries, museums and other similar institutions controlled or financed by the State ancient and historical monuments and records other than those [declared by or under law made by Parliament] to be of national importance.
13. Communications, that is to say, roads, bridges, ferries, and other means of communication not specified in List I; municipal tramways, ropeways inland waterways and traffic thereon subject to the provisions of List I and List III with regard to such water-ways; vehicles other than mechanically propelled vehicles.
14. Agriculture, including agricultural education and research; protection against pests and prevention of plant diseases.
15. Preservation, protection and improvement of stock and prevention of animal diseases; veterinary training and practice.
16. Ponds and the prevention of cattle trespass.
17. Water, that is to say, water supplies, irrigation and canals, drainage and embank-ments, water storage and water power subject to the provisions of Entry 56 of List I.
18. Land, that is to say, rights in or over land, land tenures including the relation of landlord and tenant, and the collection of rents; transfer and alienation of agricultural land; land improvement and agricultural loans; colonization.
19. Omitted.
20. Omitted.
21. Fisheries.
22. Courts of wards; subject to the provisions of Entry 34 of List I; encumbered and attached estates.
23. Regulation of mines and mineral development subject to the provisions of List I with respect to regulation and development under the control of the Union.

24. Industries subject to the provisions of [Entries 7 and 52] of List 1.
25. Gas and gas-works.
26. Trade and commerce within the State subject to the provisions of Entry 33 of List III.
27. Production, supply and distribution of goods subject to the provisions of Entry 33 of List III.
28. Markets and fairs.
29. Omitted.
30. Money-lending and money-lenders; relief of agricultural indebtedness.
31. Inns and inn-keepers.
32. Incorporation, regulation and winding up of corporations, other than those specified in List I, and universities; unincorporated trading, literary, scientific, religious and other societies and associations; co-operative societies.
33. Theatres and dramatic performances; cinemas subject to the provisions of Entry 60 of List I; sports, entertainments and amusements.
34. Betting and gambling.
35. Works, lands and buildings vested in or in the possession of the State.
36. Omitted.
37. Elections to the Legislature of the State subject to the provisions of any law made by Parliament.
38. Salaries and allowances of members of the Legislature of the State, of the Speaker and Deputy Speaker of the Legislative Assembly and, if there is a Legislative Council, of the Chairman and Deputy Chairman thereof.
39. Powers, privilages and immunities of the Legislative Assembly and of the members and the committees thereof and, if there is a Legislative Council, of that Council and of the members and the committees thereof; enforcement of attendance of persons for giving evi-dence or producing documents before committees of the Legislature of the State.
40. Salaries and allowances of Ministers for the State.
41. State public services; State Public Service Commission.
42. State pensions, that is to say, pensions payable by the State or out of the Con-solidated Fund of the State.
43. Public debt of the State.
44. Treasure trove.
45. Land revenue, including the assessment and collection of revenue, the maintenance of land records, survey for revenue purposes and records of rights, and alienation of revenues.
46. Taxes on agricultural income.
47. Duties in respect of succession to agricultural land.
48. Estate duty in respect of agricultural land.
49. Taxes on lands and buildings.
50. Taxes on mineral rights subject to any limitations imposed by Parliament by law relating to mineral development.
51. Duties of excise on the following goods manufactured or produced in the State and countervailing duties at the same or lower rates on similar goods manufactured or pro-duced elsewhere in India-
    (a) alcoholic liquors for human consumption
    (b) opium, Indian hemp and other narcotic drugs and narcotics but not including medicinal and toilet preparations containing alcohol or any substance in-cluded in sub-paragraph (b) of this entry.
52. Taxes on the entry of goods into a local area for consumption, use or sale therein.
53. Taxes on the consumption or sale of electricity.
54. Taxes on the sale or purchase of goods other than newspapers, subject to the provisions of Entry 92-A of List I.
55. Taxes on advertisements other than advertisements published in the newspapers and advertisements broadcast by radio or television.
56. Taxes on goods and passengers carried by road or on inland waterways.
57. Taxes on vehicles, whether mechanically propelled or not, suitable for use on roads, including tram-cars subject to the provisions of Entry 35 of List III.
58. Taxes on animals and boats.
59. Tolls.
60. Taxes on professions, trades, callings and employments.
61. Capitation taxes.
62. Taxes on luxuries, including taxes on entertainments, amusements, betting and gambling.
63. Rates of stamp duty in respect of documents other than those specified in the provisions of List I with regard to rates of stamp duty.
64. Offences against laws with respect to any of the matters in this list.
65. Jurisdiction and powers of all courts, except the Supreme Court, with respect to any of the matters in this list.
66. Fees in respect of any of the matters in this list, but not including fees taken in any court.

A.2

MAPPING OF DEPARTMENTS/INSTITUTIONS AFTER 18TH AMENDMENT

MINISTRIES, DEPARTMENT/INSTITUTION	STATUS AFTER DEVOLUTION *(federal division/province)*
LOCAL GOVERNMENT AND RURAL DEVELOPMENT	
Akhtar Hameed Khan National Centre for Rural Development	Professional and Technical Training
Peoples' Works Programme (Rural Development Programme)	Cabinet
Municipal Training Research Institute Karachi	Sindh
POPULATION WELFARE	
National Trust for Population Welfare	Planning and Development
National Institute of Population Studies	Planning and Development
Directorate of Central Warehouse and Supplies	Planning and Development
SPECIAL INITIATIVES	
Federal PMU Clean Drinking Water Initiative and Clean Drinking Water for All	Planning and Development
YOUTH AFFAIRS	
Youth Centres / Hostels located in Federal Capital	Professional and Technical Training
National Internship Programme	Professional and Technical Training
National Volunteer Movement	Establishment
CULTURE	
Quaid-e-Azam Papers Wing	National Heritage and Integration
National Monument and Museum	Capital Administration and Development
Pak China Friendship Centre	Capital Administration and Development
Department of Archaeology and Museums	National Heritage and Integration
Central Board of Film Censors	National Regulations and Services
Pakistan National Council of Arts	National Heritage and Integration
National Institute of Folk and Traditional Heritage of Pakistan	National Heritage and Integration
Quaid-e-Azam Academy	National Heritage and Integration
Aiwan-e-Iqbal	National Heritage and Integration
Iqbal Academy Pakistan	National Heritage and Integration
National Fund for Cultural Heritage	Information and Broadcasting
EDUCATION	
Urdu Science Board and Urdu Dictionary Board merged with National Book Foundation	Cabinet
Academy of Educational Planning and Management (AEPAM)	Professional and Technical Training
Federal College of Education Islamabad	Capital Administration and Development
Federal Government Polytechnic Institute for Women (PIW), ISB	Capital Administration and Development
National Institute of Science and Technical Education (NISTE), ISB	Capital Administration and Development
Federal Board of Intermediate and Secondary Education (FBISE), ISB	Professional and Technical Training
National Education Assessment Centre Islamabad	Professional and Technical Training
National Educational Equipment Centre (NEEC) Lahore	Punjab
Pakistan Academy of Letters (PAL) Islamabad	National Heritage and Integration
National Museum of Science and Technology Lahore	Punjab
Inter Board Committee of Chairmen IBCC) Islamabad	Inter-provincial Coordination
Dawood College of Engineering and Technology (DCET) Karachi	Sindh
Pakistan National Commission for UNESCO Islamabad	Economic Affairs
Sindh Madressah Karachi	Sindh
National College of Arts Lahore and Rawalpindi	Cabinet
Pakistan Chairs broad, Centres of Excellence, Area Study Centres, Pakistan Study Centres, Sheikh Zayed Islamic Centres	Provinces
Private Educational Institutions Regulatory Authority	Capital Administration and Development
Directorate of Federal Government Educational Institutions	Capital Administration and Development
Department of Libraries	Capital Administration and Development

MINISTRIES, DEPARTMENT/INSTITUTION	STATUS AFTER DEVOLUTION *(federal division/province)*
LIVESTOCK AND DAIRY DEVELOPMENT	
National Veterinary Laboratory	Capital Administration and Development
Pakistan Veterinary Medical Council Islamabad	Inter-provincial Coordination
Laboratory for Detection of Drug Residues in Animal Products at Karachi	Sindh
Quality Control Laboratory Karachi	Sindh
Marine Fisheries Research Laboratory Karachi	Sindh
Fisheries Training Centre / Deep Sea Fishing Vessel	Sindh
Oceanography and Hydrological Research	Sindh
Central Fisheries Department	Sindh
Korangi Fisheries Authority /Deep Sea Fisheries Resources in EEZZ of Pakistan	Sindh
Animal Quarantine Department	National Food Security and Research
Directorate of Marine Fisheries / Marine Fisheries Department	Ports and Shipping
SOCIAL WELFARE AND SPECIAL EDUCATION	
Offices Centres and Institutes relating to Social Welfare and Special Education	Provinces
National Commission for Social Welfare, National Commission for Child Welfare, National Council for Rehabilitation of Disabled Persons and National Trust for Disabled (merged and moved to CADD)	Capital Administration and Development
Trust for Voluntary Organizations	Economic Affairs
Directorate General of Special Education	Capital Administration and Development
National Council of Social Welfare	–
Pakistan Bait-ul-Mal	Prime Minister's Secretariat
TOURISM	
Jabba Resort Ltd	Inter-provincial Coordination
Institute of Tourism and Hotel Management (PITHM) Karachi	Sindh
Pakistan and Austria Institute of Tourism and Hotel Management (PAITHM) Swat	Khyber Pakhtunkhwa
Department of Tourist Services (to the extent of the Capital area)	Capital Administration and Development
Pakistan Tourism Development Corporation	Inter-provincial Coordination
ENVIRONMENT	
Marine Biological Research Laboratory Karachi	Ports and Shipping
Global Change Impact Study Centre Islamabad	Climate Change
Pakistan Environmental Protection Agency	Climate Change
National Council for Conservation of Wildlife in Pakistan	Devolved (hunting areas for foreign dignitaries assigned to the Ministry of Foreign Affairs through the concerned provinces)
Pakistan Forest Institute	Khyber Pakhtunkhwa
Zoological Survey of Pakistan	Climate Change
National Energy Conservation Centre	Water and Power
Pakistan Environmental Protection Council	Climate Change
Pakistan Environmental Planning and Architectural Consultants Limited	Climate Change
Quai-e-Azam Mazar Management Board, and Quaid-e-Azam Memorial Fund	National Heritage and Integration
FOOD AND AGRICULTURE	
Agricultural Policy Institute Islamabad	National Food Security and Research
Directorate of Food Accounts	Wound up
Pakistan Oil Seed Development Board	Wound up
Agricultural and Livestock Products Marketing and Grading Department	Wound up
Department of Plant Protection	National Food Security and Research
Fertilizer Imports Department	National Food Security and Research
Directorate General of Food Karachi	Wound up
Office of Federal Seed Certification and National Seed Registration	National Food Security and Research
Soil Survey of Pakistan	Punjab
Agriculture Research Council	National Food Security and Research
PASSCO	National Food Security and Research
Federal Agricultural Research Organizations	National Food Security and Research
Pakistan Central Cotton Committee	Textile Industry
Pakistan Dairy Development Company	National Food Security and Research

MINISTRIES, DEPARTMENT/INSTITUTION	STATUS AFTER DEVOLUTION *(federal division/province)*
HEALTH	
Pakistan Medical and Dental Council	National Regulations and Services
Pakistan Nursing Council	National Regulations and Services
College of Physicians and Surgeons	National Regulations and Services
National Council for Tibb	National Regulations and Services
National Council for Homeopathy	National Regulations and Services
Pharmacy Council of Pakistan	National Regulations and Services
National Institute of Health	Cabinet
PIMS	Capital Administration and Development
National Health Information Centre (merged with NIH)	Cabinet
Health Services Academy	Cabinet
Federal Dental and Medical College Islamabad	Cabinet
National Institute of Cardiovascular Diseases Karachi	Sindh
Sheikh Khalifa Bin Zaid Hospital Quetta	Balochistan
Tobacco Control Cell (merged with Health Services Academy)	Cabinet
Directorate of Central Health Establishments Karachi	National Regulations and Services
Directorate of Malaria Control (wound up)	Wound up
Jinnah Post Graduate Medical Centre	Sindh
Federal Government Services Hospital Islamabad	Capital Administration and Development
National Institute of Malaria Research and Training Lahore	Inter-provincial Coordination
National Institute of Child Health Karachi	Sindh
Red Crescent Society	National Regulations and Services
T.B. Association	National Regulations and Services
Pakistan Medical Research Council	Cabenit
National Institute of Handicapped	Capital Administration and Development
Central Drugs Laboratory	Cabinet
National Control Laboratory for Biologicals	Cabinet
Federal Government Tuberculosis Centre Rawalpindi	Cabinet
Women and Chest Diseases Hospital Rawalpindi	Cabinet
LABOUR AND MANPOWER	
National Talent Pool	Professional and Technical Training
Central Inspectorate of Mines	Human Resource Development
Pakistan Manpower Institute Islamabad	Human Resource Development
Directorate of Worker's Education	Human Resource Development
National Institute of Labour Administration Training	Human Resource Development
Worker's Welfare Fund	Human Resource Development
Employees Old Age Benefits Institution	Human Resource Development
National Industrial Relations Commission	Human Resource Development
Implementation Tribunal for Newspaper Employees	Human Resource Development
National Training Bureau	Human Resource Development
Directorate of Dock Workers Safety (HQ), Karachi	Human Resource Development
Federal Labour Conference (devolved)	–
Pakistan Tripartite Labour Conference (devolved)	–
Standing Labour Committee (devolved)	–
Bonus Commission (devolved)	–
Overseas Employment Corporation	Human Resource Development
Bureau of Emigration and Overseas Employment	Overseas Pakistanis
MINORITIES AFFAIRS	
Evacuee Trust Property Board	National Harmony
SPORTS	
Pakistan Sports Board	Inter-provincial Coordination
Pakistan Cricket Board	Inter-provincial Coordination
Islamabad Club, Gun and Country Club	Capital Administration and Development
Board established under Sports (Development and Control) Ordinance, 1962	Inter-provincial Coordination
Pakistan Sports Trust (to Pakistan Sports Board)	Inter-provincial Coordination
Pakistan Olympic Association (to Pakistan Sports Board)	Inter-provincial Coordination
WOMEN DEVELOPMENT	
National Commission for Women	Human Rights
Ombudsperson	Law, Justic and Parliamentary Affairs

A.3

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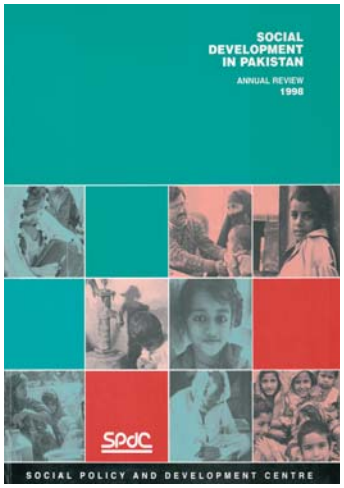
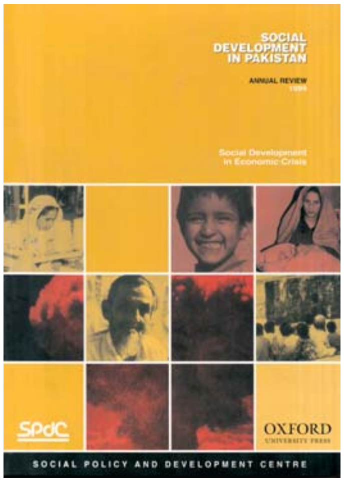
ANNUAL REVIEWS OF SOCIAL DEVELOPMENT IN PAKISTAN

Annual Review of Social Development in Pakistan
1998



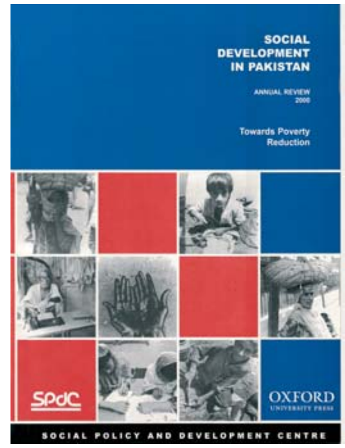
First of the annual series, the Review of Social Development in Pakistan was launched in the wake of a growing realization that the country was lagging behind in social development. It was felt that access to basic social services such as primary education, health care, and drinking water was limited, and that social underdevelopment had, perhaps, begun to slow down the pace of economic development as well. As such, the Review addressed the relationship between economic and social development, and the central role of human development in the growth process. It then traced in detail the evolution of the social sectors in Pakistan over the 50 years since independence, and compared Pakistan's social development between the provinces and with other countries in the region. Based on the custom-developed 242-equation Integrated Macroeconomic & Social Policy Model, a detailed quantitative analysis and assessment was made of the government's programmes and policies in the social sectors, including the Social Action Programme - the largest single social development programme in Pakistan's history - focusing on issues such as sources of financing, user-charges, and issues relating to cost-effectiveness of social service provision.

Social Development in Economic Crisis
Annual Review of Social Development in Pakistan
1999



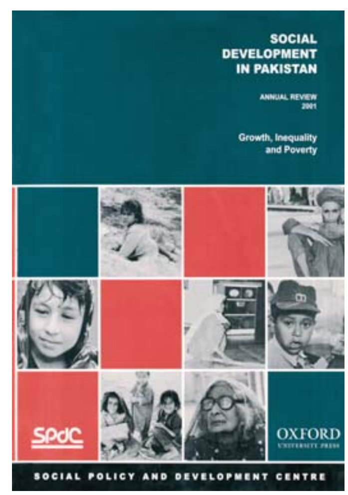
The second Review dealt with social development in an environment of severe economic crisis caused by international sanctions imposed on Pakistan following the country's decision to conduct the nuclear tests. The Review began by tracing the short and long term causes of the crisis, leading to Pakistan's return to the IMF/World Bank program. Further, based on SPDC's 246-equation Integrated Macroeconomic & Social Policy Model, it quantified the cost of the economic sanctions following the adoption of the nuclear path. It delineated the various options available to deal with the crisis, including the path of self-reliance, to achieve sustained development. It then explored the impact of each option on some of the key social dimensions: poverty, unemployment and the status of women and children. It also appraised the Social Action Programme, and forewarned that it was in jeopardy due to growing fiscal and institutional constraints. Given the prospect of rising poverty, it examined the types, nature and adequacy of different social safety nets - governmental as well as non-governmental - and highlighted the underlying problems of coverage and targeting.

Towards Poverty Reduction
Annual Review of Social Development in Pakistan 2000



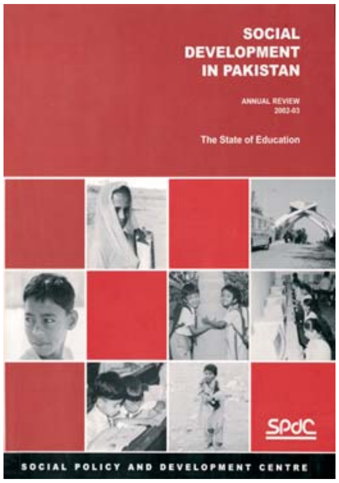
The Review focuses on the subject of poverty, identifying its nature, extent and profile, and highlighting the structural dimensions of poverty. Based on the conclusions that a poverty reduction strategy will have to be comprehensive and multidimensional in character, it covers a wide agenda. It comprises an appraisal of the role of the informal economy, not only as a residual employer but also as a household or community based welfare and support system, in mitigating poverty. Based on the results of SPDC's 250-equation Integrated Macroeconomic & Social Policy Model, it underlines the need for appropriate macroeconomic and fiscal policies to achieve faster growth in income and employment. In this respect, macro and micro aspects of a revival strategy, including options such as reducing the tax burden on the poor and orienting public expenditure towards the poor have been outlined. It also covers structural issues such as land reforms and development of human resources through access to social services, particularly pro-poor services. It discusses different elements of a strategy consisting of increased economic opportunities for the poor, their empowerment, and access to welfare and support through appropriate social safety nets, namely, public works, microfinance, food support and zakat. It also deals with issues of governance and poverty, devolution, economic governance, institutional capacity, and corruption.

Growth, Inequality and Poverty
Annual Review of Social Development in Pakistan 2001



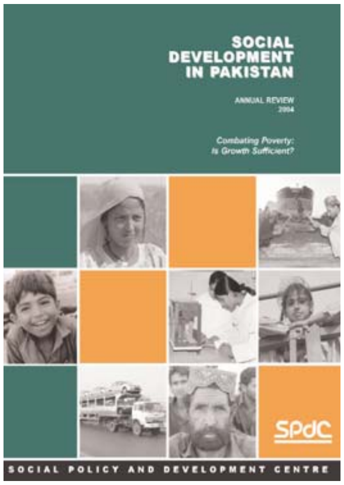
The Review is a detailed analysis and documents the pervasive inequalities across class and regional lines and in access of social services. Spread over six chapters, it begins with the profile of achievements in the realm of economic and social development since 1947; acknowledging as well that the gains have not been equitably distributed. Based on SPDC's 255-equation Integrated Macroeconomic & Social Policy Model, it presents the macroeconomic analysis of the state of the economy, along with the factors behind the aggregates with respect to unemployment, inequality and poverty. It questions the balance between stabilization and growth objectives and discusses policy options that can help or hurt the poor. There follows a comprehensive analysis of inequality from different perspectives: income inequality, consumption inequality, inequality between income groups - nationally and province-wise - inequality in public services and land inequality. The next chapter is devoted to inequality between and within provinces, including a district analysis and ranking of deprivation levels. Social policy finds specific attention, with a review of housing and evaluation of the ambitious Five Point Programme and the Social Action Programme. The last chapter attempts to provide an overview of the factors that determine inequality and poverty, and more generally, social development.

The State of Education
Annual Review of Social Development in Pakistan 2002-03



The Review is an in-depth analysis of the state of education in Pakistan. It breaks new ground, given that the traditional discussion relating to education has generally been limited to the issue of enrolment, particularly primary and girls' enrolment, and resource allocation. The Review is spread over seven chapters and begins with a broad profile of education in the country: Pakistan's standing regionally; literacy, enrolment and dropout trends; and availability of schools and teachers. It then documents the regional and class inequalities in education indicators, issues relating to the role of education in development - particularly in the context of the emergence of the knowledge based economy - and fiscal and sociopolitical factors that have inhibited the growth of education. The discussion ranges from the federal-level macroeconomic policy imperatives that have constrained provincial-level resource allocation to social sectors to the role of land inequality on education. There follows specific chapters devoted to critical issues in primary education and science education - matters relating to curriculum, textbooks and examinations- and a final chapter that discusses the sociopolitical impact of the creation of multiple and mutually exclusive streams of education in the country.

Combating Poverty: Is Growth Sufficient?
Annual Review of Social Development in Pakistan 2004



SPDC has over the years consistently highlighted the problems of social underdevelopment and inequality and poverty. It has advocated a macroeconomic policy framework that is pro-poor and leads to equitable growth; with equity defined in terms of class, region and gender. The Annual Review 2004 attempts to further advance this agenda. While earlier Reviews have largely been diagnostic, this issue is more prescriptive in nature. It suggests a policy framework whereby accelerated growth and rapid poverty reduction can be rendered complementary and feasible in the medium term. The Review presents a vision of poverty reduction at the outset and subsequent chapters provide empirical support for the suggested strategy. Spread over five chapters, it begins with the analysis of the development experience during the different political eras over the past three decades. It appraises the officially adopted national and provincial Poverty Reduction Strategy Papers (PRSPs). The Review presents the hard empirical analysis of the relationship between growth, inequality and poverty reduction and establishes the imperative of engaging with the issue of inequality to achieve poverty reduction. It also analyses the distribution of the burden of taxes and the benefits of public expenditure, with the objective of rendering the fiscal regime pro-poor. Further, it discusses issues relating to land reform - considered an essential factor in rural poverty reduction. In addition, the Review also includes a Sector Study, which focuses on the demand and supply aspects of export growth as a means to manage the current account balance.

Trade Liberalization, Growth and Poverty
Annual Review of Social Development in Pakistan 2005-06

Since the late 1980s, there has been a clear effort to reduce trade barriers and to liberalize the economy in Pakistan, and this effort has been accelerating over time. The events of September 11, 2001 - and the GoP's response to them - have also led to a substantial change in the external environment facing Pakistan.

The above changes raise a host of questions: What has been the pace and sequencing of trade liberalization in Pakistan? How do Pakistan's trade restrictiveness measures compare to those of other developing countries in Asia? How has Pakistan's trade evolved over time in response to liberalization and how does this compare to the evolution of trade in other developing countries of Asia? What are the most important channels through which the process of trade liberalization affected Pakistan's economy? If trade had not been liberalized in Pakistan, would the economic growth, inflation and poverty situation be better or worse? How can policy makers guard against the adjustment costs of trade liberalization and reap maximum gains from any further increases in trade openness? How have the changes in the external environment and the policy responses resulting from the tragic events of September 11, 2001 shaped Pakistan's economy? How are the effects of the textile quota removal likely to play out on Pakistan's exports going forward? What policies would work best for the GoP's avowed objective in the MTDF of enhancing exports to achieve sustainable high growth?

Trade Liberalization, Growth and Poverty, SPDC's seventh annual review of social development in Pakistan, attempts to answer these questions. It places the on-going worldwide debate on the interactions between trade liberalization, growth and poverty in the context of Pakistan. The authors isolate the effects of trade liberalization on Pakistan's economy using econometric techniques and evaluate the empirical evidence in light of the predictions of economic theory. Policy implications concerning the GoP's goal of poverty alleviation are drawn from the results.

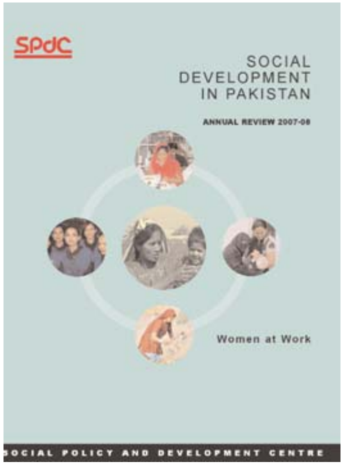
Devolution and Human Development in Pakistan
Annual Review of Social Development in Pakistan 2006-07

Implementation of the Devolution Plan in 2001 represents a significant move towards the decentralization of basic services in Pakistan. Six years ago a new legislative framework was introduced to bring a noticeable change in society. With the promulgation and implementation of the Local Government Ordinance, the responsibility of the provision of a large number of basic social services such as education, health and water supply and sanitation was devolved to the local level.

The critical appreciation of the efforts has raised questions such as: To what extent devolution has improved efficiency in public services? Has devolution empowered the people? Has it improved efficiency and equity in terms of fiscal decentralization? What has been the effect of devolution on human development, regional disparities, gender equality and poverty in Pakistan?

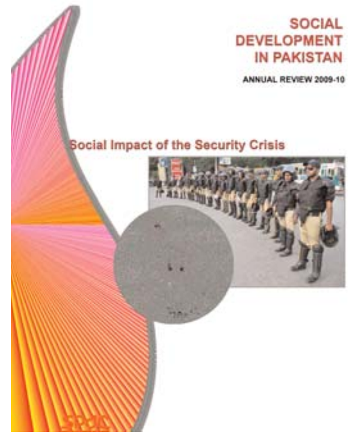
Devolution and Human Development in Pakistan being eighth in the series of Annual Review looks into various dimensions of the process of devolution and decentralization i.e. efficiency, equity, people's participation and empowerment. The report deals with the saliences of the problem and has proposed second generation reforms.social underdevelopment and inequality and poverty. It has advocated a macroeconomic policy framework that is pro-poor and leads to equitable growth; with equity defined in terms of class, region and gender. The Annual Review 2004 attempts to further advance this agenda. While earlier Reviews have largely been diagnostic, this issue is more prescriptive in nature. It suggests a policy framework whereby accelerated growth and rapid poverty reduction can be rendered complementary and feasible in the medium term. The Review presents a vision of poverty reduction at the outset and subsequent chapters provide empirical support for the suggested strategy. Spread over five chapters, it begins with the analysis of the development experience during the different political eras over the past three decades. It appraises the officially adopted national and provincial Poverty Reduction Strategy Papers (PRSPs). The Review presents the hard empirical analysis of the relationship between growth, inequality and poverty reduction and establishes the imperative of engaging with the issue of inequality to achieve poverty reduction. It also analyses the distribution of the burden of taxes and the benefits of public expenditure, with the objective of rendering the fiscal regime pro-poor. Further, it discusses issues relating to land reform - considered an essential factor in rural poverty reduction. In addition, the Review also includes a Sector Study, which focuses on the demand and supply aspects of export growth as a means to manage the current account balance.

Women at Work
Annual Review of Social Development in Pakistan 2007-08



In Pakistan, although women's labour force participation rate has increased from a very low level to almost 22 percent, it is still disappointing as out of the total female population, 78 percent of women of productive age are out of the labour force. A large part of employed women are working as unpaid family helpers or engaged in residual jobs. These alarming statistics guided SDPC to investigate questions such as: Is there any dynamism in the structure of female employment in Pakistan? Has improvement in women's education translated into their greater integration in the economy? Can women labour force participation be increased by encouraging women entrepreneurship? Will development of the microcredit sector help in generating employment opportunities for women? Does gender differential exist in access to paid jobs, especially at higher levels of education? Does vertical gender segmentation prevail in the labour market of Pakistan? What explains the gender wage gap? Is there any evidence of sexual harassment and violence against women in the workplace in Pakistan? Does domestic legislation provide an enabling environment for working women? How have the recent adverse economic developments affected the working woman? Women at Work, SPDC's ninth Annual Review of Social Development in Pakistan attempts to answer these questions. It also sets out a multi-pronged strategy for promoting women's employment in Pakistan by addressing gaps in various socioeconomic policies.

Social Impact of the Security Crisis
Annual Review of Social Development in Pakistan 2009-10



The South Asia region in general and Pakistan in particular are confronted with the daunting task of addressing the issues of terrorism, extremism and violence. Pakistan, undoubtedly, has been most adversely affected by the response of the United States following attacks on the twin towers of the World Trade Centre. The international political climate has not only created an urgency to redefine the security framework amid fears of transnational threats, but has affected global economic development. Today, international relations and domestic policy have become increasingly similar and intermingled.

Social Impact of the Security Crisis, SPDC's tenth Annual Review of Social Development probes the following aspects of the security related developments. What is the nature of the problem? What are the economic costs of the war on Pakistan's economy? How have the priorities of the federal and provincial budgets been affected as a result of the security crisis? What has been the affect of higher public spending on security on social development? How have local populations been affected by the security threat? What socio-economic impact has the conflict had on the household? How has the civil society responded to the changed security environment?

SELECTED
SOCIAL DEVELOPMENT
INDICATORS

EDUCATION

Year	LITERACY RATE Male	LITERACY RATE Female	LITERACY RATE Total	MEAN YEARS OF SCHOOLING Male	MEAN YEARS OF SCHOOLING Female	MEAN YEARS OF SCHOOLING Total	COMBINED ENROLMENT RATE Male	COMBINED ENROLMENT RATE Female	COMBINED ENROLMENT RATE Total
PUNJAB									
1990	45.5	24.2	35.4	3.3	1.0	2.2	36.4	23.6	30.3
1995	52.9	30.3	42.1	3.9	1.4	2.7	36.0	27.0	31.6
2002	63.5	41.7	52.8	9.0	4.7	3.5	38.2	30.7	34.5
2004	63.6	42.9	53.3	9.4	8.7	3.7	39.3	32.3	35.9
2006	66.0	47.0	56.0	4.6	2.3	3.5	52.5	45.3	49.0
2007	67.0	48.0	58.0	4.6	2.4	3.5	54.7	47.3	51.1
2008	70.0	48.0	59.0	4.9	2.6	3.7	55.8	48.0	52.0
2009	69.0	50.0	59.0	5.0	2.7	3.8	56.9	48.6	52.8
2011	70.0	51.0	60.0	5.3	3.9	4.6	59.6	51.1	55.4
SINDH									
1990	45.6	26.9	36.9	4.4	1.5	3.0	32.5	13.1	23.3
1995	51.7	31.5	42.3	4.7	2.0	3.4	31.6	17.3	24.8
2002	58.7	38.9	49.3	4.8	2.1	3.5	34.5	24.0	29.4
2004	66.9	42.2	55.3	5.0	2.5	3.8	36.9	26.6	31.9
2006	67.0	42.0	55.0	5.5	2.7	4.2	47.7	37.6	43.0
2007	67.0	42.0	55.0	5.9	2.7	4.4	51.7	41.1	46.8
2008	69.0	42.0	56.0	6.0	2.7	4.4	52.8	41.7	47.9
2009	71.0	45.0	59.0	6.1	2.7	4.5	54.0	42.4	48.9
2011	71.0	46.0	59.0	6.0	3.7	4.9	56.2	45.1	51.2
KHYBER PAKHTUNKHWA									
1990	36.1	12.0	24.5	2.6	0.3	1.5	43.5	12.1	28.5
1995	45.3	17.0	31.5	3.1	0.4	1.7	46.3	17.7	32.5
2002	60.4	24.1	42.2	8.0	1.7	2.5	41.1	32.9	37.2
2004	61.8	25.2	43.0	8.5	2.2	2.7	52.2	28.1	40.5
2006	64.0	30.0	46.0	4.1	1.0	2.5	59.1	33.9	46.6
2007	67.0	28.0	47.0	4.8	1.1	2.9	63.1	38.3	51.2
2008	68.0	33.0	49.0	4.7	1.2	2.9	65.4	40.4	53.3
2009	69.0	31.0	50.0	5.0	1.3	3.0	67.7	42.5	55.5
2011	68.0	33.0	50.0	5.7	2.5	4.0	70.8	44.5	57.9
BALOCHISTAN									
1990	23.1	8.2	16.3	1.9	0.3	1.1	26.0	9.1	18.4
1995	30.4	11.9	21.9	1.8	0.2	1.1	30.1	13.1	22.4
2002	41.1	18.6	30.5	5.3	1.0	1.7	31.0	19.7	25.8
2004	52.1	17.6	36.0	6.3	1.4	2.1	30.1	21.3	26.0
2006	54.0	20.0	38.0	3.2	0.6	1.9	47.6	26.3	38.3
2007	58.0	22.0	42.0	3.6	0.7	2.2	59.8	37.9	50.0
2008	66.0	23.0	46.0	4.4	0.8	2.7	58.7	42.4	51.4
2009	62.0	23.0	45.0	5.1	0.9	3.1	58.5	46.8	52.8
2011	60.0	19.0	41.0	4.8	1.3	3.2	66.2	44.1	56.6
PAKISTAN									
1990	43.2	22.4	33.3	3.4	1.0	2.3	35.9	18.8	27.7
1995	50.5	27.9	39.7	3.9	1.4	2.7	36.1	22.7	29.6
2002	60.9	37.7	49.6	8.2	3.4	3.0	37.3	28.9	33.2
2004	63.7	39.2	51.6	8.8	4.8	3.3	40.1	29.8	35.1
2006	65.0	42.0	54.0	4.7	2.1	3.5	52.0	40.8	46.6
2007	67.0	42.0	55.0	4.9	2.2	3.6	55.4	44.0	50.0
2008	69.0	44.0	56.0	5.1	2.3	3.7	56.6	45.1	51.1
2009	69.1	45.0	57.0	5.3	2.4	3.8	57.8	46.2	52.3
2011	69.0	46.0	58.0	5.5	3.5	4.6	63.2	46.2	55.3

Definitions:

Literacy rate: The number of literate persons as a percentage of population aged 10 and above.

Mean year of schooling: Average number of years of schooling received per person aged 25 and above.

Combined enrolment rate: The number of students enroled in all levels as a percentage of the population aged 5 to 24.

Notes:

1. Figures for Pakistan represent the four provinces combined
2. Prior 2002, primary and secondary school enrolment represent only the enrllment in government sector.

Sources:

1. Development Statistics of Provincial Governments (various issues)
2. Education Statistics of Provincial Governments (various issues)
3. GOP, Pakistan School Statistics, Central Bureau of Education (various issues)
4. GOP, Pakistan Education Statistics, Central Bureau of Education (various issues)
5. National and Provincial Education Management Information Systems (various issues)
6. GOP, Labour Force Survey, Federal Bureau of Statistics (various issues)
7. GOP, Census Report of Pakistan, Population Census Organization (various issues)
8. Facts &Figures Pakistan 2002, Ministry of Education, EFAWing
9. PSLM (various issues), Federal Bureaue of Statistics
10. National Education Census (various isssues) FBS, GOP
11. Pakistan Labour Force Surves (various Issues)

EDUCATION

Gross Primary Enrolment Rate

Year	URBAN Male	URBAN Female	URBAN Total	RURAL Male	RURAL Female	RURAL Total	TOTAL Male	TOTAL Female	TOTAL Total
PUNJAB									
1996	95	92	93	82	62	72	85	70	78
1999	91	97	94	79	58	69	82	68	75
2002	95	93	94	80	61	70	84	69	76
2005	111	108	110	96	82	89	100	89	95
2006	112	107	110	93	83	88	98	89	94
2007	113	111	112	103	88	96	106	95	100
2008	113	110	111	97	86	92	102	92	97
2009	110	110	110	99	86	93	102	92	97
2011	111	108	109	100	88	94	103	93	98
SINDH									
1996	95	90	93	78	39	59	86	62	74
1999	100	88	94	59	33	47	75	54	64
2002	91	78	84	69	37	53	76	51	63
2005	103	94	99	70	44	58	84	65	75
2006	103	96	100	79	51	66	88	71	80
2007	105	101	103	77	45	63	88	68	79
2008	102	100	101	77	53	66	87	72	80
2009	107	99	103	83	57	72	93	75	84
2011	107	99	103	87	55	72	94	72	84
KHYBER PAKHTUNKHWA									
1996	88	82	85	79	42	61	85	70	78
1999	97	83	90	82	49	66	84	54	70
2002	100	86	93	96	52	74	97	56	77
2005	100	84	92	92	62	78	93	65	80
2006	98	84	91	93	67	81	93	70	83
2007	98	89	94	96	63	80	96	67	82
2008	97	91	94	94	67	81	94	71	83
2009	101	92	97	102	67	85	102	70	87
2011	105	96	100	100	73	87	101	76	89
BALOCHISTAN									
1996	97	72	96	84	61	73	86	63	75
1999	99	77	88	77	42	61	79	46	64
2002	98	75	88	73	38	57	77	44	62
2005	101	86	94	79	41	61	83	49	67
2006	100	83	92	72	41	57	79	50	65
2007	104	78	92	85	45	67	89	52	72
2008	106	87	97	83	50	68	88	59	75
2009	109	91	100	89	45	68	93	54	75
2011	117	84	102	85	43	66	92	52	74
PAKISTAN									
1996	95	90	92	81	54	68	85	64	75
1999	95	92	94	75	50	63	80	61	71
2002	80	52	66	80	52	66	83	61	72
2005	107	100	104	89	68	79	94	77	86
2006	107	100	104	89	71	80	94	80	87
2007	108	104	106	95	72	84	99	81	91
2008	108	104	106	92	74	83	97	83	91
2009	108	104	106	95	74	85	99	83	91
2011	109	103	106	96	75	86	100	83	92

Definition:

GrossPrimary Enrolment Rate: The number of students aged 5-9 enrolled in primary level classes (I toV) as a percenatge of the population aged 5 to 9.

Sources:

1. Pakistan Integrated Household Survey (various issues), Federal Bureau of Statistics, Government of Pakistan.
2. Pakistan Social and Living Standars Measurement Survey (various issues), Federal Bureau of Statistics, Government of Pakistan.

EDUCATION

Net Primary Enrolment Rate

Year	URBAN Male	URBAN Female	URBAN Total	RURAL Male	RURAL Female	RURAL Total	TOTAL Male	TOTAL Female	TOTAL Total
PUNJAB									
1996	55	55	55	49	34	42	50	39	45
1999	54	57	56	44	35	40	47	40	44
2002	57	58	57	44	38	41	47	43	45
2005	69	68	68	57	50	54	60	55	58
2006	72	68	70	56	47	52	60	53	57
2007	69	70	70	62	55	59	64	59	62
2008	71	72	71	59	54	56	62	59	61
2009	72	72	72	61	55	58	64	60	62
2011	69	69	69	60	55	58	62	59	61
SINDH									
1996	58	57	57	45	24	35	50	39	45
1999	63	57	60	37	21	29	47	35	41
2002	56	50	53	41	25	33	46	34	40
2005	64	59	61	45	29	38	53	42	48
2006	62	63	62	48	34	42	54	47	50
2007	67	61	64	49	31	41	56	43	50
2008	61	62	62	51	35	44	55	46	51
2009	64	62	63	53	40	47	57	49	54
2011	63	62	63	54	39	47	57	48	53
KHYBER PAKHTUNKHWA									
1996	52	50	51	40	24	32	42	28	35
1999	59	49	54	45	27	37	47	30	39
2002	59	51	55	47	31	39	48	33	41
2005	58	52	56	52	37	45	53	40	47
2006	59	52	55	54	40	47	54	42	49
2007	59	53	56	56	39	48	56	41	49
2008	59	55	57	55	39	47	55	41	49
2009	65	56	61	57	43	50	58	45	52
2011	63	58	61	56	43	50	57	45	51
BALOCHISTAN									
1996	57	41	49	49	39	44	51	39	45
1999	58	51	54	42	25	34	44	28	36
2002	55	41	49	36	21	29	39	24	32
2005	59	53	56	41	24	33	44	29	37
2006	51	42	47	36	23	30	39	27	34
2007	58	49	54	46	28	38	49	32	41
2008	61	53	57	42	29	36	47	35	41
2009	61	56	59	49	31	40	51	36	44
2011	69	58	64	53	29	42	56	35	47
PAKISTAN									
1996	56	55	55	47	31	39	49	38	44
1999	58	56	57	43	30	37	47	37	42
2002	57	54	56	43	33	38	46	38	42
2005	53	42	48	53	42	48	56	48	52
2006	66	64	65	53	42	47	56	48	53
2007	67	65	66	57	46	52	60	51	56
2008	66	67	66	56	46	51	59	52	55
2009	68	67	68	58	48	53	61	54	57
2011	67	65	66	57	48	53	60	53	56

Definition:

GrossPrimary Enrolment Rate: The number of students aged 5-9 enrolled in primary level classes (I toV) as a percenatge of the population aged 5 to 9.

Sources:

1. Pakistan Integrated Household Survey (various issues), Federal Bureau of Statistics, Government of Pakistan.
2. Pakistan Social and Living Standards Measurement Survey (various issues), Federal Bureau of Statistics, Government of Pakistan.

EDUCATION

Net Middle Enrolment Rate

Year	URBAN Male	URBAN Female	URBAN Total	RURAL Male	RURAL Female	RURAL Total	TOTAL Male	TOTAL Female	TOTAL Total
PUNJAB									
1999	27	26	26	18	12	16	21	16	19
2002	24	32	28	16	12	14	18	18	18
2005	28	30	29	18	14	16	21	19	20
2006	31	31	31	17	14	16	21	19	20
2007	27	29	28	19	14	17	21	19	20
2008	23	32	27	16	15	16	18	20	19
2009	29	33	31	20	17	18	23	21	22
2011	29	34	31	21	17	19	23	22	23
SINDH									
1999	29	27	28	14	3	9	20	13	17
2002	22	27	24	12	4	8	15	12	14
2005	28	25	26	14	5	10	20	15	18
2006	25	28	26	12	3	8	18	16	17
2007	27	25	26	13	5	9	19	14	17
2008	23	28	25	19	6	13	21	16	18
2009	24	24	24	19	8	14	21	15	18
2011	26	30	28	18	8	13	21	17	19
KHYBER PAKHTUNKHWA									
1999	24	17	21	15	5	10	16	7	11
2002	25	21	23	15	6	11	16	8	12
2005	24	22	23	19	9	14	20	11	16
2006	23	19	21	14	12	13	15	12	14
2007	25	19	23	19	9	15	20	11	16
2008	22	20	21	17	9	13	18	11	14
2009	27	24	25	19	11	16	20	13	17
2011	27	21	24	19	12	16	20	13	17
BALOCHISTAN									
1999	23	13	18	9	5	7	11	6	9
2002	19	13	16	10	2	6	11	4	8
2005	18	17	17	8	4	6	10	7	8
2006	13	15	14	6	2	4	8	6	7
2007	19	22	20	9	3	6	11	7	9
2008	26	23	24	10	5	8	14	10	12
2009	22	18	20	12	4	9	14	8	11
2011	21	19	21	16	3	11	17	7	13
PAKISTAN									
1999	27	25	26	16	9	13	19	13	16
2002	15	8	12	15	8	12	17	14	16
2005	27	27	27	17	11	14	20	16	18
2006	27	28	28	15	11	13	19	16	18
2007	27	27	27	17	11	14	20	16	18
2008	23	29	26	17	12	14	18	17	18
2009	27	28	27	19	13	16	21	18	20
2011	27	31	29	19	14	17	22	19	20

Definition:

GrossPrimary Enrolment Rate: The number of students aged 5-9 enrolled in primary level classes (I toV) as a percenatge of the population aged 5 to 9.

Sources:

1. Pakistan Integrated Household Survey (various issues), Federal Bureau of Statistics, Government of Pakistan.
2. Pakistan Social and Living Standars Measurement Survey (various issues), Federal Bureau of Statistics, Government of Pakistan.

EDUCATION

Net Matric Enrolment Rate

Year	URBAN Male	URBAN Female	URBAN Total	RURAL Male	RURAL Female	RURAL Total	TOTAL Male	TOTAL Female	TOTAL Total
PUNJAB									
1999	14	18	16	9	4	6	10	8	9
2002	15	18	17	10	6	8	12	10	11
2005	17	20	18	9	7	8	12	11	11
2006	14	17	16	7	7	7	9	11	10
2007	16	20	18	9	6	8	11	11	11
2008	15	19	17	12	9	10	13	12	13
2009	18	22	20	12	9	10	14	13	13
2011	17	25	21	11	11	11	13	16	14
SINDH									
1999	16	16	16	12	3	7	14	9	12
2002	17	12	14	5	3	4	10	7	9
2005	17	19	18	9	3	6	13	11	12
2006	16	17	16	6	2	4	11	10	11
2007	15	15	15	7	2	5	11	9	10
2008	13	17	15	9	3	6	11	10	11
2009	17	14	16	9	4	7	13	10	11
2011	17	16	16	8	3	6	12	10	11
KHYBER PAKHTUNKHWA									
1999	8	12	10	5	1	3	6	3	4
2002	10	12	11	5	3	4	6	5	5
2005	12	13	13	9	4	6	10	5	7
2006	16	8	12	10	4	7	10	4	7
2007	13	9	11	7	3	5	8	4	6
2008	14	7	10	5	5	5	6	6	6
2009	13	11	12	9	4	7	9	5	8
2011	9	12	10	7	5	6	8	6	7
BALOCHISTAN									
1999	12	9	11	10	0	6	10	2	6
2002	6	5	6	2	1	2	3	2	3
2005	11	10	10	5	1	3	6	3	5
2006	11	13	12	3	2	3	5	5	5
2007	8	13	10	3	1	3	4	5	5
2008	12	10	11	4	1	3	6	4	5
2009	10	9	9	4	2	3	5	3	5
2011	13	8	11	7	1	4	8	3	6
PAKISTAN									
1999	14	16	15	9	3	6	10	7	9
2002	8	5	6	8	5	6	10	8	9
2005	16	19	17	9	6	7	11	10	11
2006	15	16	16	7	6	6	10	9	10
2007	15	17	16	8	5	6	10	9	10
2008	14	17	16	10	7	8	11	10	11
2009	17	18	18	10	7	9	12	11	12
2011	16	20	18	10	8	9	12	12	12

Definition:

GrossPrimary Enrolment Rate: The number of students aged 5-9 enrolled in primary level classes (I toV) as a percenatge of the population aged 5 to 9.

Sources:

1. Pakistan Integrated Household Survey (various issues), Federal Bureau of Statistics, Government of Pakistan.
2. Pakistan Social and Living Standars Measurement Survey (various issues), Federal Bureau of Statistics, Government of Pakistan.

EDUCATION

	Percentage of Cohort Reaching Class V			Pupil-Teacher ratio		Ratio of Boys to Girls		Percentage of Female Teachers	
	Male	Female	Total	Primary	Secondary	Primary	Secondary	Primary	Secondary
PUNJAB									
1990	46.2	26.9	37.0	41.5	15.0	1.5	2.2	35.7	33.3
1995	50.0	32.8	41.3	40.9	15.3	1.3	1.8	35.9	33.2
2002	60.0	54.9	57.8	48.8	10.7	1.3	1.3	53.2	58.8
2005	51.1	63.3	55.4	45.7	11.0	1.3	1.3	54.7	59.4
2008	61.3	58.5	60.0	50.9	10.8	1.1	1.2	59.2	65.6
2011	61.6	58.7	60.2	49.9	10.4	1.1	1.2	59.7	66.1
SINDH									
1990	40.6	51.6	42.9	32.6	23.1	3.3	2.0	38.1	42.8
1995	38.5	35.4	37.5	23.4	22.6	2.0	1.9	28.5	40.4
2002	43.8	47.6	45.1	28.2	14.8	1.6	1.4	37.1	58.1
2005	44.7	48.7	46.1	31.3	12.4	1.5	1.4	37.4	63.5
2008	42.9	41.9	42.5	33.0	11.8	1.4	1.4	37.8	66.5
2011	43.0	42.0	42.5	30.0	12.7	1.4	1.3	37.9	67.2
KHYBER PAKHTUNKHWA									
1990	22.0	17.5	21.0	42.6	15.4	3.6	5.9	25.3	16.8
1995	21.2	20.9	21.1	38.1	18.6	2.5	4.1	26.0	20.7
2002	61.9	55.0	58.5	35.6	14.9	1.8	2.7	33.9	34.1
2005	71.9	60.0	67.4	31.9	15.5	1.9	2.5	35.7	34.2
2008	68.6	51.9	61.9	33.8	15.2	1.6	2.2	39.8	38.4
2011	78.0	65.0	71.5	32.9	15.5	1.5	2.0	38.9	39.8
BALOCHISTAN									
1990	14.2	26.8	16.5	26.1	5.9	3.4	3.9	14.4	17.8
1995	17.5	11.3	15.6	23.8	8.6	2.5	4.3	17.8	16.4
2002	39.7	40.8	40.1	62.0	4.8	1.7	2.2	41.5	25.8
2005	38.3	41.4	39.5	28.1	6.8	1.6	2.0	32.3	32.7
2008	45.4	43.2	44.6	31.3	6.9	1.6	2.0	34.2	35.9
2011	43.9	41.0	42.5	39.4	7.3	1.5	1.9	32.3	38.1
PAKISTAN									
1990	36.5	27.9	33.4	38.8	15.8	2.0	2.4	33.4	31.9
1995	37.3	30.4	34.5	34.4	16.3	1.6	2.0	31.1	31.6
2002	56.4	53.4	55.2	40.7	11.3	1.5	1.5	44.6	53.4
2005	56.7	63.1	59.0	38.1	11.8	1.4	1.5	45.1	55.9
2008	57.1	53.4	55.5	40.9	11.2	1.3	1.4	47.9	59.8
2011	57.8	53.6	55.7	39.4	11.4	1.2	1.3	47.4	60.6

Definition:

Pupil-teacher ratio: The ratio of pupils enrolled in respective level to the number of teachers in the similar level
Percentage of cohort reaching Class V: The percentage of children starting primary school who reach Class V
Ratio of boys to girls: The ratio of male students to female students enrolled
Percentage of female teachers: The number of female teachers as a percentage of total teachers

Note:
Prior 2002, primary and secondary school enrolment represent only the enrllment in government sector

Sources:

1. Development Statistics of Provincial Governments (various issues)
2. Education Statistics of Provincial Governments (various issues)
3. GOP, Pakistan School Statistics, Central Bureau of Education (various issues)
4. GOP, Pakistan Education Statistics, Central Bureau of Education (various issues)
5. National and Provincial Education Management Information Systems (various issues)
6. National Education Census (various issues), FBS, GOP
7. Pakistan Education Statistics 2010-11

HEALTH

Percentage of fully immunized children

Year	URBAN Male	URBAN Female	URBAN Both	RURAL Male	RURAL Female	RURAL Both	TOTAL Male	TOTAL Female	TOTAL Both
PUNJAB									
1996	57	58	57	46	43	45	48	47	47
1999	62	68	64	56	37	52	57	52	55
2002	72	80	76	52	50	51	57	58	57
2005	89	89	89	82	80	81	85	84	84
2006	84	91	87	71	71	71	75	76	76
2007	87	86	87	82	81	82	84	83	83
2008	83	84	83	78	68	73	79	73	76
2009	90	87	88	84	83	84	86	84	85
2011	89	83	86	87	85	86	87	84	86
SINDH									
1996	38	45	41	45	48	46	42	46	44
1999	66	54	60	31	24	27	42	35	38
2002	66	63	64	39	26	33	49	40	45
2005	86	87	87	64	60	62	74	72	73
2006	82	81	82	64	63	63	70	71	71
2007	84	84	84	52	53	53	65	65	65
2008	83	76	80	64	55	59	71	62	67
2009	85	84	85	57	58	57	69	68	69
2011	83	87	85	70	64	67	75	74	75
KHYBER PAKHTUNKHWA									
1996	46	50	47	38	37	37	39	38	39
1999	82	74	77	49	54	51	52	56	54
2002	81	57	70	52	57	55	56	57	57
2005	84	86	85	74	72	73	77	76	76
2006	77	79	78	63	59	61	65	62	64
2007	88	86	87	77	71	74	79	73	76
2008	87	88	88	65	78	72	69	80	74
2009	84	88	86	71	72	71	73	74	73
2011	83	79	81	77	77	77	78	77	77
BALOCHISTAN									
1996	67	56	61	60	48	54	61	50	56
1999	51	52	51	35	29	32	36	32	34
2002	34	37	36	22	21	22	24	24	24
2005	80	77	79	57	54	55	64	60	62
2006	69	70	69	50	37	41	56	43	48
2007	68	72	70	53	46	49	56	52	54
2008	75	74	74	47	52	50	55	58	57
2009	73	74	73	37	35	36	43	42	43
2011	81	86	84	45	45	45	55	56	56
PAKISTAN									
1996	48	52	50	45	42	44	46	45	45
1999	64	63	64	47	42	55	52	47	49
2002	48	45	46	48	45	46	53	52	53
2005	86	87	87	73	71	72	78	77	77
2006	83	86	84	67	65	66	72	71	71
2007	86	85	85	74	72	73	77	75	76
2008	83	81	82	71	67	69	75	71	73
2009	87	86	87	75	74	74	78	77	78
2011	87	84	86	80	77	79	82	79	81

Definition:

Percentage of children aged 12-23 months that have been immunized (based on recall or record).

Note:

For being classified as fully immunized, a child must have received the following vaccination: BCG, DPT1, DPT2, DPT3, Polio1, Polio2, Polio3 and Measles.

Sources:

1. Pakistan Integrated Household Survey (various issues), Federal Bureau of Statistics, Government of Pakistan.
2. Pakistan Social and Living Standards Measurement Survey (various issues), Federal Bureau of Statistics, Government of Pakistan.

HEALTH — WATER SUPPLY

Year	Proportion of pregnant women with pre-natal care			Contraceptive prevalance rate			Access to Drinking Water		
	Urban	Rural	Total	Urban	Rural	Total	Urban	Rural	Total
PUNJAB									
1996	-	-	-	21	9	12	47	9	19
1997	43	22	27	26	11	16	48	7	19
1999	58	25	33	28	16	19	49	8	20
2002	64	31	40	33	17	22	54	6	20
2006	73	45	53	41	27	31	50	16	27
2008	73	54	59	52	40	44	51	18	28
2009	75	55	61	53	41	44	52	16	28
2011	77	60	65	54	42	45	46	14	24
SINDH									
1996	-	-	-	26	5	15	77	10	43
1997	76	23	44	29	5	16	78	10	44
1999	70	19	37	32	7	17	64	7	32
2002	68	22	38	27	8	15	67	4	30
2006	82	38	56	32	11	21	71	11	43
2008	82	46	59	40	13	25	73	17	45
2009	84	43	60	43	15	27	74	11	43
2011	85	48	64	44	15	28	72	13	43
KHYBER PAKHTUNKHWA									
1996	-	-	-	25	11	13	60	46	40
1997	44	26	28	20	11	13	64	28	34
1999	36	20	22	21	9	10	62	34	38
2002	45	19	22	29	12	14	57	35	39
2006	53	42	43	31	22	23	56	45	47
2008	61	46	48	37	33	34	70	47	51
2009	67	46	49	39	36	37	66	47	50
2011	69	49	52	40	37	38	63	41	45
BALOCHISTAN									
1996	-	-	-	8	4	5	79	19	30
1997	25	5	8	14	4	5	76	16	25
1999	43	15	18	22	5	7	77	18	25
2002	45	16	21	20	10	12	80	14	25
2006	60	30	36	19	7	10	77	25	36
2008	53	33	39	14	7	9	82	24	40
2009	57	30	36	13	6	9	85	25	38
2011	54	39	43	13	6	9	87	21	35
PAKISTAN									
1996	-	-	-	23	8	13	60	13	28
1997	54	22	30	27	10	15	60	11	27
1999	60	22	31	29	12	17	55	12	26
2002	63	26	35	31	14	19	58	10	25
2006	74	42	52	36	21	26	59	21	34
2008	74	50	56	45	32	36	61	22	36
2009	77	50	58	49	35	39	62	21	35
2011	78	55	62	50	36	40	58	19	32

Note:

1. Ever married women aged 15 – 49 years who had given birth in the last three years and who had attended at least one pre-natal consultation during the last pregnancy, expressed as a percentage of all currently married women aged 15 – 49 years who had given birth in the last three years.
2. Currently married women aged 15-49 years who ever used contraceptives expressed as percentage of all currently married women aged 15-49 years.
3. Households obtaining Tap water expressed as a percentage of the total number of households. ‘Tap water” includes both tap water inside and out side house.

Sources:

1. Pakistan Integrated Household Survey (various issues), Federal Bureau of Statistics, Government of Pakistan.
2. Pakistan Social and Living Standards Measurement Survey (various issues), Federal Bureau of Statistics, Government of Pakistan.
3. Conraceptive Performance Report, 2010-11, Federal Bureau of Statistics, Government of Pakistan

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Year	Crude death rate			Crude birth rate			Infant mortality rate			Natural growth rate			Life expectancy (years)
	Urban	Rural	Total	Urban	Rural	Total	Urban	Rural	Total	Urban	Rural	Total	
PUNJAB													
1979	9.5	11.7	11.1	41.4	42.5	42.2	80.0	107.0	100.0	3.2	3.1	3.1	n.a
1986	8.6	12.5	11.0	39.8	44.6	42.7	88.0	131.0	120.0	3.1	3.2	3.2	57.6
1989	8.3	11.5	10.6	37.6	43.0	41.4	93.0	119.0	105.0	2.9	3.2	3.1	57.8
1992	7.9	11.2	10.2	33.5	41.2	38.9	83.0	129.0	110.0	2.6	3.0	2.9	58.0
1997	7.6	10.3	9.5	31.7	38.3	36.3	71.0	110.0	99.0	2.5	2.8	2.7	60.5
2001	7.0	8.6	7.9	26.1	31.7	29.2	71.0	86.0	80.0	1.9	2.3	2.1	62.3
2005	6.6	7.5	7.2	23.7	27.3	26.0	-	-	-	1.7	2.0	1.9	-
2007	5.6	7.5	6.8	23.4	26.8	25.6	-	-	81.0	1.8	1.9	1.9	-
SINDH													
1979	6.1	11.5	9.2	33.7	43.9	39.5	57.0	83.0	74.0	2.8	3.2	3.0	n.a
1986	8.5	13.0	10.6	40.2	45.3	42.5	86.0	138.0	114.0	3.2	3.2	3.2	55.1
1989	7.8	13.7	10.8	35.4	43.3	39.4	76.0	145.0	113.0	2.8	3.0	2.9	54.4
1992	7.1	13.2	10.1	34.7	44.0	39.3	68.0	138.0	98.0	2.8	3.1	2.9	55.4
1997	7.5	12.3	9.9	31.9	41.3	36.6	65.0	140.0	105.0	2.5	2.9	2.7	57.3
2001	5.9	9.0	7.4	27.0	33.7	30.2	61.0	82.0	73.0	2.1	2.5	2.3	62.5
2005	5.5	7.0	6.3	23.4	27.6	25.6	-	-	-	1.8	2.1	1.9	-
2007	4.7	7.3	6.1	22.9	26.4	24.7	-	-	81.0	1.8	1.9	1.9	-
NWFP													
1979	9.0	11.1	10.7	41.0	43.6	43.2	100.0	111.0	109.0	3.2	3.3	3.2	n.a
1986	10.1	9.8	9.7	38.8	46.3	44.2	146.0	83.0	93.0	2.9	3.7	3.4	58.7
1989	7.3	9.7	9.3	38.1	46.9	45.5	67.0	80.0	76.0	3.1	3.7	3.6	59.3
1992	7.5	10.1	9.7	34.0	44.7	43.1	74.0	94.0	90.0	2.6	3.5	3.3	59.6
1997	6.6	9.1	8.7	31.3	38.3	37.1	53.0	75.0	72.0	2.5	2.9	2.8	57.1
2001	6.8	8.4	7.8	28.8	29.9	29.5	70.0	82.0	78.0	2.2	2.1	2.1	56.6
2005	6.9	8.2	8.0	26.6	27.8	27.6	-	-	-	2.0	2.0	2.0	-
2007	6.3	7.9	7.6	25.6	26.6	26.5	-	-	63.0	1.9	1.9	1.9	-
BALOCHISTAN													
1979	6.4	7.2	7.1	33.1	36.9	36.3	44.0	69.0	66.0	2.7	3.0	2.9	n.a
1986	8.4	13.8	12.1	45.4	45.6	45.9	101.0	166.0	155.0	3.7	3.2	3.4	50.4
1989	8.7	11.4	11.0	44.4	44.3	44.4	104.0	117.0	114.0	3.6	3.3	3.3	51.0
1992	7.9	12.0	11.5	35.5	45.6	44.1	88.0	128.0	117.0	2.8	3.4	3.3	51.5
1997	5.9	9.2	8.6	29.5	37.1	35.7	79.0	119.0	114.0	2.4	2.8	2.7	60.3
2001	7.3	8.4	8.0	28.4	28.8	28.6	85.0	91.0	88.0	2.1	2.0	2.1	57.3
2005	6.5	7.4	7.2	26.0	26.4	26.3	-	-	-	1.9	1.9	1.9	-
2007	6.9	7.5	7.4	24.3	27.3	26.6	-	-	49.0	1.7	2.0	1.9	-
PAKISTAN													
1979	8.2	11.4	10.5	38.4	42.7	41.5	74.0	101.0	94.0	3.0	3.1	3.1	n.a
1986	8.7	12.2	10.8	40.1	45.1	43.0	92.0	126.0	116.0	3.1	3.3	3.2	56.9
1989	8.1	11.6	10.5	37.0	43.7	41.6	85.0	117.0	106.0	2.9	3.2	3.1	57.1
1992	7.6	11.4	10.2	34.0	42.5	39.8	77.0	125.0	105.0	2.6	3.1	3.0	57.3
1997	7.4	10.4	9.4	31.7	38.6	36.4	67.0	103.0	93.0	2.5	2.8	2.7	61.8
2001	6.7	7.1	7.0	26.0	26.7	26.5	67.0	81.0	76.0	1.9	2.0	1.9	64.0
2005	6.3	7.5	7.1	23.9	27.4	26.1	67.1	81.2	76.7	1.8	2.0	1.9	65.0
2007	5.4	7.5	6.8	23.4	26.7	25.6	66.5	80.7	75.2	1.8	1.9	1.9	68.0

Definition:

Crude birth rate: The number of live births per thousand population in a year

Crude death rate: The number of deaths per thousand population in a year

Infant mortality rate: The number of deaths of children under1 year per thousand live births in a year

Natural growth rate: ([Crude birth rate]-[Crude death rate])/10

Life expectancy: The number of years a newborn would live if prevailling patterns of mortality at the time of birth were to stay the same

Sources:

1. GOP, Pakistan Demographic Survey, Federal Bureau of Statistics (various issues)
2. Unpubilshed data, Federal Bureau of Statistics
3. Economic Survey, GOP
4. Pakistan Demographic Survey, (vaious issues), FBS.

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Year	Percentage of live births[a] in medical institutions			Fertility rate (per woman)			Sex ratio (%)			Dependency ratio (%)		
	Urban	Rural	Total	Urban	Rural	Total	Urban	Rural	Total	Urban	Rural	Total
PUNJAB												
1976	4.9	0.7	1.8	7.3	7.1	7.1	111	107	108	96	98	98
1979	4.6	0.6	1.6	7.4	7.3	7.3	110	107	108	96	100	99
1985	0.0	0.0	8.2	6.3	8.0	7.2	107	104	105	94	101	98
1990	18.2	4.7	8.2	5.2	6.6	6.1	106	103	104	89	98	95
1996	28.9	9.4	14.3	4.6	5.9	5.4	106	105	105	91	97	95
2001	38.8	13.1	19.7	-	-	4.0	106	104	105	72	88	82
2005	46.5	21.3	30.9	-	-	4.1	105	104	104	67	78	77
2007	52.7	20.8	29.7	-	-	3.9	105	103	104	68	79	76
SINDH												
1976	33.6	0.6	12.4	5.4	7.3	6.4	112	116	114	87	97	93
1979	32.4	0.2	11.2	5.1	7.3	6.3	112	117	115	84	98	92
1985	0.0	0.0	19.1	5.9	7.5	6.6	107	114	110	91	103	96
1990	41.4	4.1	20.7	5.2	6.9	6.0	109	109	109	87	103	95
1996	48.0	8.8	26.7	4.9	6.2	5.5	108	113	111	87	99	93
2001	55.2	14.8	28.7	-	-	4.3	109	112	110	77	98	88
2005	59.2	20.1	37.4	-	-	4.2	110	112	111	71	98	84
2006	69.3	25.0	45.1	-	-	4.3	107	111	112	71	98	84
NWFP												
1976	4.6	0.2	0.9	6.6	6.9	6.8	108	101	102	94	108	106
1979	4.5	0.6	1.3	7.3	6.7	6.7	109	100	101	100	115	112
1985	0.0	0.0	3.8	7.0	8.4	7.8	107	102	104	99	110	105
1990	19.5	3.7	5.6	5.0	6.9	6.6	107	102	103	90	113	109
1996	25.1	12.3	13.6	4.4	5.8	5.5	107	102	103	91	114	110
2001	30.1	14.1	16.2	-	-	4.3	106	100	101	79	96	93
2005	32.5	23.5	26.6	-	-	4.3	105	100	101	78	95	92
2007	45.1	24.5	28.0	-	-	4.3	108	101	101	79	95	93
BALOCHISTAN												
1976	19.8	0.8	2.9	5.9	7.3	7.1	106	108	108	86	91	90
1979	17.9	0.6	4.1	7.6	4.9	5.2	101	115	113	92	95	94
1985	0.0	0.0	2.6	6.6	6.5	6.6	114	109	111	105	109	107
1990	26.2	6.7	9.0	5.2	7.6	7.3	110	105	106	103	115	113
1996	17.6	6.4	7.7	4.0	6.1	5.6	109	115	113	109	108	108
2001	22.4	2.8	6.1	-	-	4.2	112	112	112	92	100	98
2005	26.8	11.0	17.6	-	-	4.2	116	116	116	83	95	92
2007	40.5	8.9	14.8	-	-	4.1	109	110	114	84	97	94
PAKISTAN												
1976	13.7	0.6	4.1	6.6	7.1	6.9	111	108	109	93	99	97
1979	13.0	0.5	3.8	6.6	7.1	6.9	110	108	109	92	101	98
1985	19.8	2.5	10.1	6.2	7.8	7.1	108	106	107	94	103	100
1990	26.8	4.6	10.6	5.2	6.7	6.2	107	104	105	89	102	98
1996	35.1	9.7	16.4	4.7	5.9	5.5	107	106	106	90	101	97
2001	43.5	13.2	21.0	-	-	4.1	107	105	106	75	92	86
2005	45.2	20.5	30.2	3.3	4.1	3.8	107	105	106	69	89	81
2007	57.1	21.3	31.9	3.3	4.5	4.1	106	104	105	70	88	81

Definition:

Percentage of births in medical institutions: The number of births in medical institutions as a percentage of total births

Fertility rate: The average number of children that would be born to a women if she were to live to the end of her childbearing age and bear children

Sex ratio: The number of males per hundred females

Dependency ratio: Dependent population (those under 15 and over 64) as percent of the working-age population (aged 15 to 64)

Sources:

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2. Pakistan Contraceptive Pervalence Surveys, Population Welfare Division, Ministry of Planning and Devlopment, Islamabad
3. Pakistan Integrated Household Survey (various issues)
4. Unpubilshed data Federal Bureau of Statistics
5. Pakistan Demographic Survey, (vaious issues), FBS.

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The 18th Amendment is a major charter of political rights as far as decentralisation and devolution of power to the provinces in Pakistan is concerned. It contains far-reaching stipulations for empowering Pakistan's four federating units – intended to give them unprecedented autonomy. *Devolution and Social Development in Pakistan*, being eleventh in the series of Annual Reviews of SPDC, examines the design and implementation issues of the decentralisation provisions of the 18th constitutional amendment and the 7th NFC Award. The two being major landmarks have the potential of having significant implications for the inter-governmental relations in Pakistan. However, much would depend on the consequential measures taken by the federal and the provincial governments in line with the constitutional provisions.

The report starts with looking into the underpinnings of the new devolution system and draws lessons from the other countries. It then discusses major changes related to legislative and fiscal autonomy and reviews the nature and status of the implementation of the transfer of functions to the provinces and lays out the financial and development implications of the Amendment. Implications of the 7th NFC Award and its impact on the finances of sub-national governments are also analysed along with the issues of sales taxation of services and borrowing powers of the provinces. Moreover, the report provides the current status and key features of the proposed laws related to the local government system. Finally, a number of emerging have been discussed which eventually have to be resolved through a consensus among the federating units, especially within the Council of Common Interests.

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