Making Economic Hubs Thrive: A Case for Fiscal and Administrative Devolution in Sindh

A Joint Report of the Federation of Pakistan Chambers of Commerce & Industry – Policy Advisory Board
and
Social Policy and Development Centre

Acknowledgement & Disclaimer

This report titled *'Making Economic Hubs Thrive: A Case for Fiscal and Administrative Devolution in Sindh'* is a joint report of the Policy Advisory Board – Federation of Pakistan Chambers of Commerce and Industry (FPCCI) and Social Policy and Development Centre (SPDC).

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All data and statistics used are correct as of 27th December 2021 and may be subject to change.

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Acronyms

ADP	Annual Development Program
BLGA	Baluchistan Local Government Act
BRT	Bus Rapid Transit
BTS	Bus Transceiver Station
CDGK	City District Government Karachi
DC	District Council
DFID	Department for International Development
DMC	District Municipal Corporation
DRGO	Distribution of Revenues & Grants-in-Aid Order
EIU	Economist Intelligence Unit
FBR	Federal Board of Revenue
GDP	Gross Domestic Product
GoS	Government of Sindh
GRR	General Revenue Receipt
GST	General Sales Tax
ICG	International Crisis Group
IPD	Inverse Population Density
KBCA	Karachi Building Control Authority
KCR	Karachi Circular Railway
KDA	Karachi Development Authority
KLGA	KPK Local Government Act
KMC	Karachi Metropolitan Corporation
KMDC	Karachi Medical and Dental College
KPK	Khyber Pakhtunkhwa
KPT	Karachi Port Trust
KWSB	Karachi Water and Sewerage Board
LDA	Lyari Development Authority
LG	Local Government
LGA	Local Government Act
LGO	Local Government Ordinance
MDA	Malir Development Authority
MG	Metropolitan Government
MICS	Multiple Indicator Cluster Surveys
MPI	Multi-dimensional Poverty Index
NFC	National Finance Commission
OZT	Octroi and Zila Tax
OGRA	Oil and Gas Regulatory Authority
OGDCL	Oil and Gas Development Company Limited
PAF	Pakistan Air Force
PBS	Pakistan Bureau of Statistics
PCF	Provincial Consolidated Fund
PFC	Provincial Finance Commission
PG	Provincial Government
PIA	Pakistan International Airlines
PLGA	Punjab Local Government Act
PSDP	Public Sector Development Program
PSLM	Pakistan Social and Living Standards Measurement
SBCA	Sindh Building Control Authority
SBCO	Sindh Building Control Ordinance
SDG	Sustainable Development Goal
SLGA	Sindh Local Government Act
SLGB	Sindh Local Government Board
SLGO	Sindh Local Government Ordinance
SPDC	Social Policy and Development Centre
SPLGA	Sindh Peoples Local Government Act
SRB	Sindh Revenue Board
SSWMB	Sindh Solid Waste Management Board
STEVTA	Sindh Technical Education & Vocational Training Authority
TMA	Tehsil Municipal Administration
TMC	Town Municipal Corporation
UA	Union Administration
UIPT	Urban Immovable Property Tax
UNDP	United Nations Development Programme
UNICEF	United Nations Children's Fund

Executive Summary

Industrial and commercial clusters in and around cities provide for the environment, necessary for rapid economic growth and high generation of revenues for running the business of the State. The density of the population, the knowledge spillover, the competitive environment and the economies of scale induce innovation, specialization and enhance productivity in the urban population.

Pakistan's economy needs to grow at 7-9 percent for the next thirty years to create two million jobs every year and reduce public debt[1]. Such a high level of growth will mainly come from the industrial and services sectors which are highly clustered in the urban areas. Urbanization poses its own challenges which need to be addressed to harness its full potential. With the rising population in cities, there is increased pressure on the basic infrastructure and services like water, sanitation, waste management, housing and transportation. Sindh has witnessed a dramatic shift from a rural majority province to an urban majority province with an urban population that has grown to 51.8 percent, according to Census 2017. Through effective local governance, problems in the delivery and maintenance of municipal services can be minimized. Administrative and fiscal devolution to sub-national governments ensure efficiency, accountability, and manageability of resources and service delivery at the grassroots level.

Although the Constitution of Pakistan recognizes Local Governments as an essential third tier of the State, it does not provide for its structure as elaborately as it does for the Federal and Provincial tiers. The local government system in Pakistan was created and disbanded several times since its first creation in 1959. The Devolution Plan of 2001 had been a significant milestone that introduced three tiers of local governments. The plan also introduced Provincial Finance Commission (PFC) Awards in Pakistan for the first time. Article 140 (A) under the 18th Amendment of the Constitution requires each province to hold local government elections, establish local government setup and devolve political, administrative and financial responsibility and authority to the elected representatives of the local governments. In Sindh, the last two legislative instruments that provide the basis for local government structure were Sindh Local Government Ordinance, 2001 and Sindh Local Government Act (SLGA), 2013. The SLGA-2013 and subsequent amendments are in sharp contrast with SLGO-2001 based on structures, revenue, and expenditure assignments of the local governments. Primary functionary bodies that were part of the local government previously were subsequently controlled by provincial governments including the Solid Waste Management Board (SWMB), Karachi Building Control Authority (KBCA), and Karachi Water and Sewerage Board (KWSB). This study also identifies various anomalies in the revenue and expenditure assignments between provincial and local governments.

[1]The PIDE Reform Agenda for Accelerated and Sustained Growth, PIDE (2021)

The historical overview of PFCs in Sindh as well as in other provinces reflects that only Khyber Pakhtunkhwa province has been regularly announcing the PFC Awards. In Sindh, only four PFC awards were announced with the 4th PFC Award remained effective for the period over 2007-09. The provincial divisible pool for the 4th PFC includes federal transfers and provincial tax revenues only. Provincial transfers to the local governments as a percentage of provincial receipt have been declining and reached 7.9 percent in 2020-21 which was around 45.5 percent in 2006-07.

This study proposes the policy framework for the 5th PFC Award-Sindh. The proposed net divisible pool is the gross revenue receipt after the deduction of necessary expenditures and OZT grants. The proposed horizontal distribution criteria categorize indicators among basic, urban, and rural indicators. The study has estimated division-wise and district-wise shares using the variants of the proposed model as well as using Sindh's PFC Model 2007, KPK's PFC Model 2020-21 and the 7th NFC Award based on the latest available data.

Karachi, the largest engine of economic growth, fell into infrastructural gaps estimated by the World Bank to be around US$ 10 bn. The estimated development financing shortfalls since 2007-08 worked out in present value in this report have been Rs. 719 bn in low PSDP allocations by the Federal Government and Rs. 291 bn in low ADP allocations by the Provincial Government. In addition, a deficit in transfers to local governments in Karachi has been accumulated to Rs. 876 billion. Altogether, the amount reached around Rs. 1,886 billion or US$ 12 billion[2].

Pakistan has adopted United Nations' Sustainable Development Goals (SDGs) as the National Development Agenda. Local governments are directly or indirectly related to each of the 17 SDGs. Without effective devolution, the achievement of any of these goals will remain a pipe dream.

[2]Using exchange rate of 30th June 2021

Chapter 1 : Introduction

Cities have been described as the engines of economic growth. Industries in urban areas, regardless of their size, are able to experience economies of scale and scope[3]. The presence of a common pool of labor, material and service in urban proximities allows firms to compete and earn profit from scale economies. The Sustainable Development Goals (SDGs) including SDG-9, that is, 'Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation' and SDG-11 'Sustainable cities and communities' also emphasize the importance of sustainable industrialization and cities in achieving sustainable development targets. Pakistan was the first country to adopt SDGs as the National Development Agenda through unanimous parliament resolution in 2016.

Local government is an essential component of the modern democratic system in both developed and developing countries. It is widely acknowledged that vibrant local governments foster economic growth in both urban and rural areas. They promote focused and long-term development solutions by promoting better understanding and management of local issues through consistent engagement with communities. The presence of local government ensures equitable resource distribution, more efficient revenue mobilization, and a sense of ownership among the people. Furthermore, in the presence of a strong local government structure, greater accountability and transparency can be achieved. According to the Sustainable Development Goals, United Nations, local and regional governments are directly or indirectly related to SDG targets. Local government representatives in Pakistan also endorsed that most of the SDGs are related to the regular functions of local governments[4].

Oates' widely cited decentralization theorem (1972) advocates for strong local government based on the four arguments listed below.

i. Local governments are aware of and better understand the concerns of their constituents.
ii. Local decision-making is responsive to the people who will use the services, encouraging fiscal responsibility and efficiency, especially if service financing is also decentralized.
iii. Local governments eliminate unnecessary jurisdictional and decision-making layers.
iv. Finally, local governments facilitate inter-jurisdictional competition and innovation.

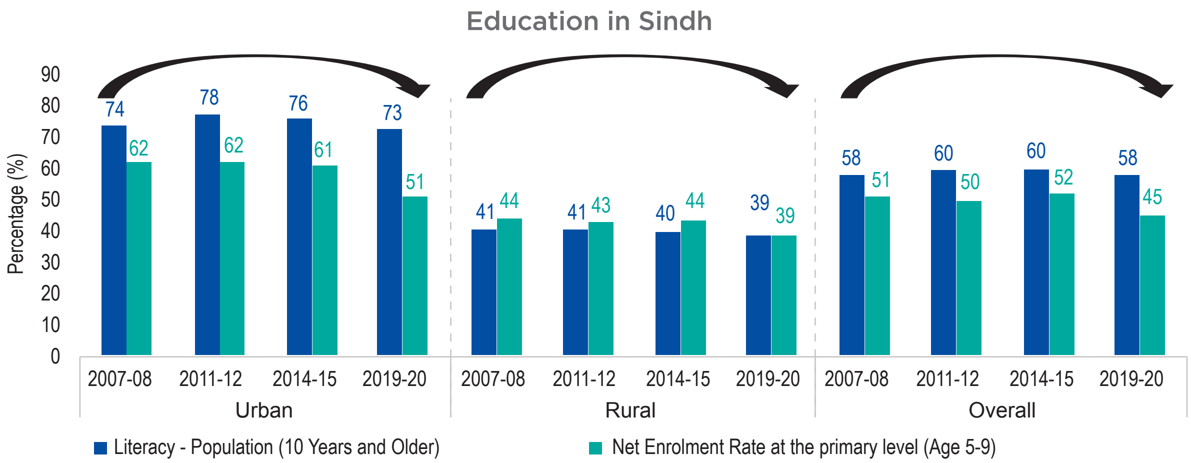
The local government system in Pakistan was introduced in 1959, however, local representative governments have been created and disbanded several times, repealed first in 1971. It was then reintroduced in 1977 and again repealed in 1988. Local governments were reinstated in 2001 with the passage of provincial Local Government Ordinances (LGOs). Local governments were expected to be strengthened further following the passage of the 18th Constitutional Amendment, which mandated provincial governments to devolve political, administrative, and financial responsibility and authority to elected representatives to local governments. Instead, all the provinces went for recentralization whenever they got the chance.

[3]Economies of scope emerge when the presence of one activity makes carrying out a complementary activity cheaper by fostering diversity in supply and specialization among firms (World Bank).
[4]Local Government Summit on SDGs, 2017

In Sindh, local governments are struggling to cobble up a viable democratic system with financial and authoritative autonomy in the spirit of Article 140-A of the Constitution. In particular, the passage of the Sindh Local Government Act, 2013; the Sindh Local Government (Amendment) Act, 2013 and the Sindh Local Government (Amendment) Act, 2021 have weakened the local governments. The consequences of less empowered local governments are heavily pronounced in both rural and urban areas. For instance, the literacy rate in rural areas has declined from 41 percent to 39 percent whereas the net enrollment ratio has declined from 44 percent to 39 percent in 2020-21 as compared to 2007-08[5]. Similarly, a concrete example of a colossal failure in urban management can be found in Karachi, the business and economic hub of both Sindh and Pakistan. For the past many years, the Economist Intelligence Unit's Global Livability Index of 140 cities has consistently ranked Karachi among the world's ten least livable cities.

The figure below presents trends in literacy and net enrollment rate over the period FY 2008 and 2020. It is apparent that both literacy and net enrolment rates have been decreasing since 2011-12 for both urban and rural populations as well as for the overall population in Sindh. It is pertinent to note here that the local governments were terminated in 2009 and the new local government act was enacted in 2013 which took over planning, development, and operation & maintenance of education from local government. Only regulatory and monitoring responsibilities are under the ambit of local government since then which have also been taken over with the passage of the Sindh Local Government (Amendment) Act, 2021.

Figure 1: Education in Sindh



Source: *Pakistan Social and Living Standards Measurement (PSLM) of various years*

Local governance includes the diverse objective of vibrant, living, working, and environmentally preserved governing local communities. The strengthened federalism and integration also assist in achieving national goals and agendas, specifically the Sustainable Development Goals (SDGs) (UNDP, 2020). The figure below depicts Pakistan's poor progress on almost all of the 17 SDGs and conditions are sometimes worse for Sindh on indicators such as poverty, health, and others.

[5]Pakistan Social and Living Standards Measurement (PSLM), Pakistan Bureau of Statistics

Figure 2: Pakistan's Progress on SDGs

Dashboards: SDG achieved Challenges remain Significant challenges remain Major challenges remain Information unavailable

Trends: On track or maintaining SDG achievement Moderately improving Stagnating Decreasing Trend information unavailable

Source: *Sustainable Development Report, 2021*

Though the 18th Constitutional Amendment devolved many administrative powers and followed by the Seventh National Finance Commission 2009, shifted sizeable financial resources from the federal to provincial governments. Such an initiative to devolve power and resources to the local governments was lacking. In fact, the devolved subjects were recentralized and PFCs were abandoned.

Given the significance of fiscal federalism and local government structures, this report is intended to review local government structures, provincial finance commission awards, devise a framework for the 5th Provincial Finance Commission (PFC) Award for Sindh and propose local government reforms. The report is structured as follows: Chapter 2 provides the local government structure in Pakistan as well as local government regimes in Sindh. Chapter 3 explains the historical PFC Awards in Pakistan and explains all PFCs in Sindh. Chapter 4 includes the proposed framework for the 5th PFC Award-Sindh. Chapter 5 provides the simulations of shares for divisions in Sindh based on criteria proposed for provincial divisible pool, vertical and horizontal formula. Chapter 6 discusses the unique structure of Karachi separately being the only metropolitan city in Sindh. Chapter 7 comprises concluding remarks and policy recommendations.

Chapter 2:
Local Government Structure

Local government is the third tier in Pakistan after federal and provincial governments in the executive branch of government. Since the introduction of the first local government system in 1959, local governments have been created and disbanded several times in Pakistan. After the passage of the 18th Amendment (2010) in the Constitution, Article 140 A requires that each province must establish a local government system and transfer political, administrative, and financial powers to the elected members of the local government (Shah, 2019). The Constitution of 1973 urged the provincial governments to form local governments under the Principle of Policy (Article 32) stated:

> ***'The State shall encourage Local Government institutions composed of elected representatives of the areas concerned and in such institutions special representation will be given to peasants, workers and women.'***

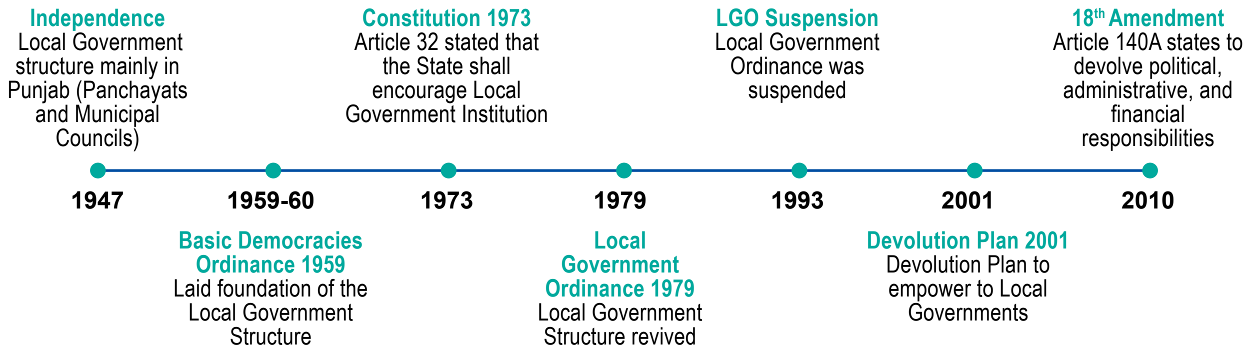
No effective implementation of the local government however was witnessed until 1979. Local government Ordinance (1979) revived the local government structure and the local bodies were elected in all four provinces. This system abolished the bureaucratic representation and all the members and chairman of the local bodies had to be elected. However, the main authority yet resided with the provincial government but the direct power was loosened. LGO 1979 also divided the district councils into urban and rural councils. The LGO 1979 was suspended in 1993.

In 2001, the Devolution Plan was adopted which has been considered as a significant milestone for Pakistan's local governance. The plan devolved the functions to local governments based on 'subsidiarity'. The principle of subsidiarity states that "a central authority should recognize subsidiary functions and perform only those tasks which cannot be delivered effectively at a more immediate or local level". This implies that functions or responsibilities must be devolved to decentralized entities if they can perform those functions. This will improve the efficiency of service delivery. The responsibilities devolved must be accompanied by the increased capacity to perform those functions. Devolution Plan presented a three-tier local government structure: districts, tehsils, and unions. Devolution Plan also constituted Provincial Finance Commission (PFC) for the first time. PFC Awards aimed to determine vertical criteria (share of local governments from provincial resources) and horizontal distribution formula (share of districts in local governments' share). PFCs implementation from 2001 to 2007 has been considered as a golden age (Pasha, 2018). The 18th Constitutional Amendment also provided support to the local government structure. It recognized the local government as a legitimate tier by inserting Article 140A which states:

> ***"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"***

The figure below presents the timeline of local government structures in Pakistan since their inception.

Figure 3: Timeline of LG System in Pakistan



2.1. Local Government Laws - Sindh

Under different eras and regimes, local governments have been governed in Sindh by the passage of the following acts/ordinances. Following legislation has been enacted by the Sindh government:

- Basic Democracies Ordinance, 1959
- The Sind People's Local Government Ordinance, 1972
- Sindh Local Government Ordinance, 1979
- Sindh Local Government Ordinance, 2001
- Sindh Local Government Act, 2013

There is a major shift in local government structure governed under Sindh Local Government Ordinance, 2001 and Sindh Local Government Act, 2013.

2.1.1. Sindh Local Government Ordinance (SLGO), 2001

In the essence of the Devolution Plan of 2001, the Sindh government introduced Sindh Local Government Ordinance 2001 (SLGO). This ordinance outlined the new district-level local government which devolved powers to the grass-root level. District Secretariat was established and all the authority with respect to every department was devolved to the same in order to implement the enacted administrative decentralization in letter and spirit. The district bureaucrats were made accountable to the elected representatives which aided in the development process. Several municipal services including water supply, sanitation, infrastructure, garbage disposal, housing, master planning, health, education and others were assigned to the district Nazims and town Nazims. According to the World Bank (2004), around 40 percent of the local government budget was allocated to the health and education sector. The ordinance also outlines the unique structure of metropolitan in Sindh. The Karachi Metropolitan Corporation (KMC) was given the status of the City District Government Karachi (CDGK). All the civic bodies were given under the authority of local governments including Karachi Water & Sewerage Board (KWSB), Karachi Building Control Authority (KBCA), Karachi Development Authority (KDA), and Master Plan department. Local government elections were held twice during 2001 and 2005 during this era.

2.1.2. Sindh Local Government Act (SLGA), 2013

The provincial government in Sindh promulgated a new law in 2013 known as Sindh Local Government Act, 2013 which is currently in effect. The tehsils or taluka councils have been abolished under this act. A notable feature of SLGA 2013 is that the Provincial government has the authority to suspend, overrule and abolish any act of the local governments. KMC has lost rights to collect taxes on vehicles, education tax, health tax, fees of educational and health facilities, and collection charges for recovery of taxes. Now, it only retained 13 taxes including license fees, tolls on roads, entertainment taxes, and taxes on immovable property and others. Some of the taxes lost by the local governments may be levied "with the approval of the provincial government". The civic bodies like Water and Sewerage Board, Solid Waste Management, Building Control Authority, Master Plan, Karachi Development Authority (KDA), town planning, and urban transport and mass transit have been taken over by the Sindh government.

Several amendments have been made since the passage of the Sindh Local Government Act (SLGA), 2013. The amendment in 2013 took away the buildings' planning and control authority from local governments. The inclusion of two private members nominated by the Sindh Government has increased the representation of the provincial government in the Provincial Finance Commission. Through the latest amendment act in 2021, the provincial government has taken over education and health completely from the local governments. Before the amendment, SLGA 2013 had left some residual functions under Education and Health to local government such as management of a handful of hospitals, control of infectious diseases, medical education, and monitoring of education in a few schools, which were developed by the local governments on their properties. Moreover, taxes on immovable property has been excluded from the tax revenues of the Metropolitan Corporation. The District Municipal Corporations have been replaced by Town Municipal Corporations (TMCs). Given the revised Population Criteria, there would be 20-25 towns in Karachi in place of the current seven districts. The table below presents the amendments in SLGA-2013 since its enaction.

Table 1: Amendments in SLGA 2013

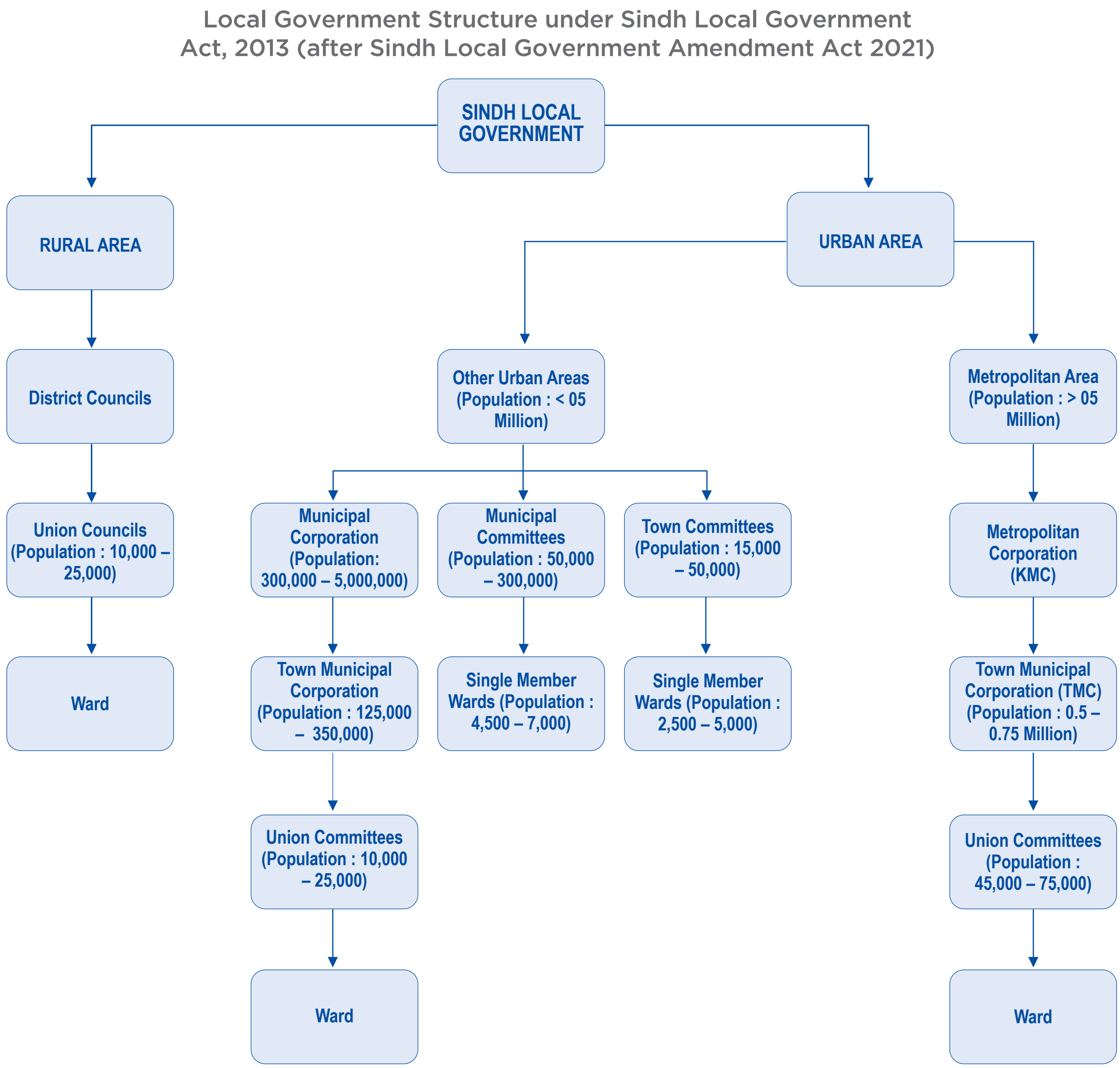
Amendment Acts	Changes
Sindh Local Government (Amendment) Act, 2013	▪ Omission of Town Planning and Building Control from Schedule II Part II ▪ Inclusion of Two Technical Members nominated by the Sindh Government in PFC
Sindh Local Government (Amendment) Act, 2016	▪ Supervision of Councils through Regional Directorates
Sindh Local Government (Amendment) Act, 2019	▪ Removal of Council Heads through Vote of Confidence ▪ Decision in case of Equality of Votes*
Sindh Local Government (Amendment) Act, 2021	▪ Establishment of Town Municipal Corporation (TMC) in each Municipal Corporation and replacement of DMCs with TMCs ▪ Revised Population Criteria for each Local Body ▪ Omission of Education, Health Sections** and Milk Supply Schemes from Schedule II Part I ▪ Infectious diseases; Adult & Primary Education; Primary health have been removed from the domain of local government in urban areas. ▪ All optional functions related to health and education and bye-laws for articles of food & drink have been omitted from the local governments in urban areas. ▪ KMC Mayor will be the Chairman of the Solid Waste Management Board. ▪ Medical colleges and Teaching/Specialized Hospitals under KMC have been omitted. ▪ Advertisements on bridges, roads, and underpasses maintained by KMC can be collected by KMC after amendment. Fire and building safety fees, marriage halls fees are also given to the local government. ▪ Taxes on the transfer of immovable property have been taken over from KMC.

Source: *Sindh Local Government Amendment Acts, Provincial Assembly of Sindh*
** In case of equal votes, the Election Tribunal will draw a lot to determine the person to serve as Member of Council for the first half term of the office.*
***Public hospitals and infectious diseases that fall under primary health have been taken away from the local government.*

2.2. Comparison of Local Government Structures

The current local government structure is governed by the Sindh Local Government Act (SLGA), 2013 which is in sharp contrast to that of local government structure given by the Sindh Local Government Ordinance, 2001. The structure of the local governments in SLGA-2013 and SLGO-2001 are presented in the figures below:

Figure 4: LG Structure under SLGA, 2013 (After 2021 Amendment)

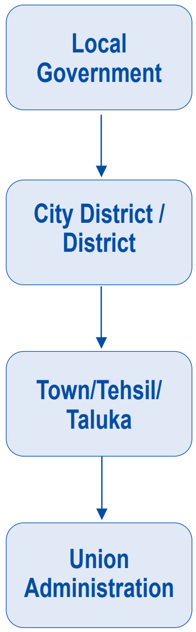


Source: *Sindh Local Government Amendment Act 2021, Provincial Assembly of Sindh*

The Sindh Local Government Ordinance (SLGO) 2001 divides the local government into three tiers; City District or District Government; Town Committee, Tehsils or Taluka; and Union Administration. The criteria for the City District comprised of the population (exceeding one million); urban characteristics such as commercial and industrial activities; more than sixty percent labor force was employed in non-agricultural sectors; and infrastructure needs (the existing infrastructure is inefficient for better delivery service). The Taluka Municipal Administration is comprised of offices of Union Councils. The population of the size of each Union within a district was in uniform.

Figure 5: LG Structure under SLGO, 2001

Local Government Structure under Sindh Local Government Ordinance, 2001



Source: *Sindh Local Government Ordinance, 2001, Provincial Assembly of Sindh*

2.3. Comparison of Revenue Assignments

A meaningful decentralization of powers would only be possible if the responsibilities handed over to the local governments are accompanied by sufficient budgetary autonomy to carry out the given responsibilities efficiently. Revenue assignments include the incomes or local taxes which are received by the local government from all the departments or services under the jurisdiction of local governments. It typically includes tolls on roads and bridges, fees from water, sanitation, property taxes, charges for maintaining public places, and others. In comparison to local government revenue sources in KPK; local governments in Sindh lack education tax/fees, property tax, tax on the installation of base transceiver station/tower, and some other local taxes as well as determination of certain rates. The following table shows the different revenues assigned to the local governments in Sindh as well as in other provinces since 2001.

Table 2: Revenue Assignment since 2001

Tax to be levied	Local Government in all provinces 2001	KPK (KLGA-2013 & Amendments)	Punjab (PLGA-2021)		Sindh (SLGA-2013 & Amendments)		Baluchistan (BLGA-2010 & Amendments)	
			U	R	U	R	U	R
Education and Health tax/fees	LG	LG	PG	PG	PG	PG	PG	PG
Local rate on lands assessable to land revenue	LG	LG	PG	LG	PG	PG	PG	PG
Fees for specific services rendered by the LG	LG	LG	LG	LG	LG	LG	LG	LG
Toll on roads, bridges, ferries maintained by the LG	LG	LG	LG	LG	LG	LG	LG	LG
Fee for approval, erection and re-erection of buildings	LG	LG	LG	LG	PG	LG	LG	LG
Water, sanitation, drainage, lighting and conservancy rates, etc.	LG	LG	LG	LG	LG	LG	LG	LG
Fee on advertisement including hoarding and billboard	LG	LG	LG	LG	LG	LG	LG	LG
Local tax on services as prescribed	LG	LG	PG	PG	PG	PG	PG	PG
Fee on sale of animals in cattle markets	LG	LG	LG	LG	LG	LG	LG	LG
Market fees	LG	LG	LG	LG	LG	LG	LG	LG
Tax on the transfer of immovable property	LG	LG	LG	LG	LG	LG	LG	LG
Property Tax*	LG	LG	LG	LG	PG	PG	PG	PG
Charges for maintenance of public places	LG	LG	LG	LG	LG	LG	LG	LG
Tax on entertainments	LG	LG	LG	LG	LG	LG	LG	LG
Tax on vehicles other than motor vehicles and boards	LG	LG	PG	PG	LG	PG	LG	PG
Fees for registration and certification of birth, marriages and deaths	LG	LG	LG	LG	LG	LG	LG	LG
Rate for remuneration of Village and Neighborhood guards	LG	LG	PG	PG	PG	PG	PG	LG
Collection charges for recovery of any tax on behalf of the Government	LG	LG	PG	PG	PG	PG	PG	PG
Tax on the installation of Base Transceiver station/Tower	PG	PG	LG	LG	PG	PG	PG	PG
Tax on the annual rental value of building and land	PG	PG	PG	PG	LG	LG	LG	LG
Fee on the slaughter of animals	PG	PG	LG	LG	LG	LG	LG	LG
Tax on profession, trade calling and employment	PG	PG	LG	LG	LG	LG	LG	PG
School Fees in respect of schools established or maintained by the Council	PG	LG	PG	PG	LG	LG	PG	PG
Surface minerals, Fisheries, Marriage Tax	PG	PG	PG	PG	LG	LG	LG	PG

LG= Local Government, PG= Provincial Government

Source: *Local Government Acts and Amendments of each Province, Pasha (2021)*

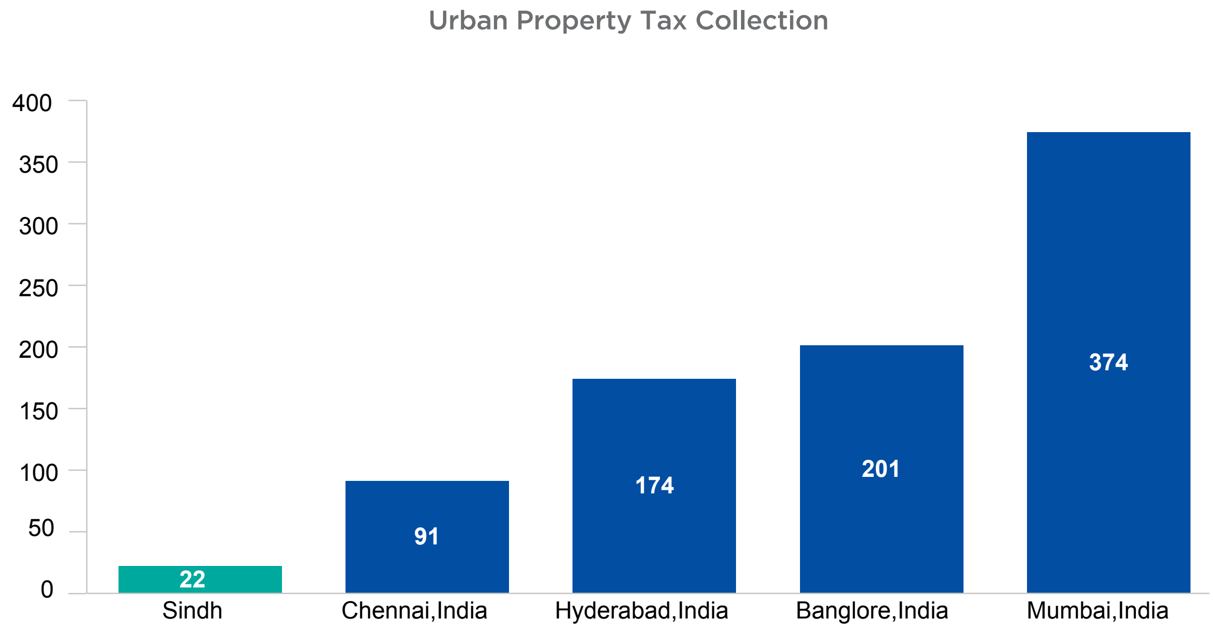
KLGA= KPK Local Government Act, SLGA= Sindh Local Government Act, PLGA= Punjab Local Government Act, BLGA= Baluchistan Local Government Act

** Property tax is under the optional functions of KMC for which prior approval from the provincial government is required.*

A Case for Devolution of Property Taxes

The fact that the land and property have unchangeable geographic locations favors devolution of such taxes to the local government. It has long been argued that the property tax is a good tax for local governments because it is fair, difficult to evade, and promotes local autonomy and accountability. Pasha and Pasha (2000), and SPDC (2018) also argue that handing over urban immovable property taxes is inevitable as the tax is levied to finance the provision of local services. The major share of Urban Immovable Property Tax (UIPT) of Sindh comes from Karachi. However, the collection is low compared to its potential. Individual Metropolitan cities in India collect more than the province of Sindh. The devolution of UIPT to local governments in Sindh not only reduce financial dependency but also help mobilize revenues better.

Figure 6: Urban Property Tax Collection



Source: *World Bank (2018)*

2.4. Comparison of Expenditure Assignments

Fiscal decentralization implies transferring authorities to the grass-root level of government. Expenditure assignments include the formal assignment of functional responsibilities to the lower levels of government such as municipal functions, maintenance of public places, social security, and others. After the passage of SLGA 2013, the local bodies especially in urban areas had certain optional functions related to health and education, and the Karachi Metropolitan Corporation was allowed to run its own hospitals including Karachi Medical and Dental College (KMDC) and Abbasi Shaheed Hospital, to take measures for infectious diseases, to promote primary and adult education. The latest act, that is, Sindh Local Government (Amendment) Act, 2021, has taken away key assignments completely such as Education and Health related functions from the Urban Areas. Similarly, municipal functions such as water supply and solid waste management were completely under the local government under LGO, 2001 but now regulatory bodies of both functions are directly controlled by the Sindh Government.

The table below compares expenditure (or functional) assignments for local governments among all four provinces since 2001. Sindh and KPK's local governments are at two extremes with Sindh having the weakest local government whereas KPK with the strongest local governments among all four provinces. Notably, health, education, master plan, building control, water supply & drainage and solid waste disposal are under the ambit of local governments in KPK however provincial government has taken over these functions from local governments in Sindh. Although inter-district roads, street lights, bridges, & stormwater drains; and development programs were designated to Karachi Metropolitan Corporation (KMC) as per SLGA-2013, however, provincial government departments have been managing these functions on their own.

Table 3: Expenditure Assignments since 2001

Expenditure Assignments	Local Government in all provinces 2001	KPK (KLGA-2013 & Amend-ments)	Sindh (SLGA-2013 & Amendments)		Baluchistan (BLGA-2010 & Amendments)		Punjab (PLGA-2021)	
			Urban	Rural	Urban	Rural	Urban	Rural
Roads, street lights, bridges, & stormwater drains	LG	LG	LG	LG	LG	LG	LG	LG
Development Programme	LG	LG	LG	LG	LG	LG	LG	LG
Art Gallery, Museum and Library	LG	LG	LG	LG	LG	LG	LG	LG
Civil defense	LG	PG	LG	LG	LG	LG	LG	LG
Removal of encroachment	LG	LG	LG	LG	LG	LG	LG	LG
Sanitations	LG	LG	LG	LG	LG	LG	LG	LG
Registration of Birth, Deaths and Marriages	LG	LG	LG	LG	LG	LG	LG	LG
Water supply and drainage*	LG	LG	PG	LG	LG	LG	LG	LG
Slaughterhouse	LG	LG	LG	LG	LG	LG	LG	LG
Public Streets	LG	LG	LG	LG	LG	LG	LG	LG
Primary Health	LG	LG	PG	LG	LG	LG	PG	PG
Hospitals**	LG	PG	PG	LG	LG	LG	PG	PG
Public Health	LG	LG	LG	LG	LG	LG	PG	PG
Primary Education**	LG	LG	PG	LG	LG	LG	LG	LG
Secondary Education	LG	LG	PG	LG	PG	PG	LG	LG
Master Plan	LG	LG	PG	PG	LG	PG	LG	LG
Building Control	LG	LG	PG	PG	LG	LG	LG	LG
Social welfare	LG	LG	LG	LG	LG	LG	LG	LG
Prevention of nuisances in public places	LG	LG	LG	LG	LG	LG	LG	LG
Removal and disposal of refuse***	LG	LG	PG	PG	LG	LG	LG	LG
Relief measure in any natural disaster	LG	LG	LG	LG	LG	LG	LG	LG

LG= Local Government, PG= Provincial Government

Source: *Local Government Acts and Amendments of each Province*

KLGA= KPK Local Government Act, SLGA= Sindh Local Government Act, PLGA= Punjab Local Government Act, BLGA= Baluchistan Local Government Act

**Water Supply and drainage was completely the subject of the local body under SLGO 2001. However, after SLGA 2013, KWSB was taken over from the local government.*

***After the SLGA Amendment Act 2021 Education assignment has been omitted from the Urban Local Government Structure. In addition, hospitals/dispensaries which were exclusively maintained by KMC have also been omitted.*

**** Local bodies handovered the removal and disposal of refuse to the Sindh Solid Waste Management.*

The table below further elaborates the functional assignments for each tier of local government in terms of planning, development, operation & maintenance, and regulatory & monitoring under the Sindh Local Government Act, 2013 after incorporating amendments till the Sindh Local Government Act (Amendment), 2021.

Table 4: Council-wise Distribution of Functional Assignments under SLGA 2013 (after 2021 amendment)

	Metropolitan Corporation	Municipal Corporations, Municipal Committees, and Town Committees		District Councils		Union Council and Union Committees
		Compulsory Functions	Optional Functions	Compulsory Functions	Optional Functions	
Road, Bridges and Streets*	P, D, O&M, R&M	P, D, O&M, R&M	P, D, O&M, R&M	P, D, O&M	–	D, O&M, R&M
Basic Health, Hospitals and Dispensaries	–	–	–	P, D, O&M	D, O&M, R&M	O&M, R&M
Solid Waste**	–	O&M	O&M, R&M	–	–	R&M
Public Health	–	P, D, O&M, R&M	O&M, R&M	D, O&M, R&M	D, O&M, R&M	O&M, R&M
Education	R&M	–	–	P, D, O&M, R&M	–	O&M, R&M
Rural Development, Development Plan / Projects	P, D, O&M, R&M	–	P, D, R&M	P, D, O&M, R&M	P, D	R&M
Water Supply and Drainage	–	P, D, O&M, R&M	P, D, O&M, R&M	P, D, O&M	D, O&M	O&M, R&M
Parks, Gardens, and Plants	P, D, O&M, R&M	–	O&M, R&M	D, O&M	–	O&M, R&M
Agriculture	–	–	–	D, R&M	D, O&M, R&M	D, R&M
Livestock	O&M, R&M	–	O&M, R&M	O&M, R&M	D, O&M, R&M	R&M
Fisheries (Co-operatives)	–	–	R&M	–	–	R&M
Sports and Culture	–	–	D, O&M, R&M	R&M	O&M, R&M	R&M
Civil Defense and Natural Calamities	P, D, O&M, R&M	–	D, O&M, R&M	D, R&M	–	D
Development of Cottages, Crafts etc.	–	–	–	D, O&M, R&M	O&M, R&M	D, R&M
Miscellaneous	–	O&M, R&M	D, O&M, R&M	D, O&M, R&M	D, O&M, R&M	O&M, R&M

Planning | Development | Operation and Maintenance | Regulatory and Monitoring

Source: Sindh Local Government Act,2013 and Sindh Local Government (Amendment) Act, 2021
** For the metropolitan corporation, responsibilities are subjected to its respective jurisdiction.*
***There are overlapping between Local and Provincial governments in terms of the Water Supply and Drainage assignment in Karachi.*

The following table below shows the functions under each tier of governments on SLGO, 2001. All the financial and administrative activities of the following department were part of district governments except development plans and projects which were devolved to Taluka Municipal Administrations. Unions mostly had maintenance and regulatory responsibilities except in sports and culture as well as solid waste management. However, the district governments had regulatory and monitory functions to keep a check on the lower tiers.

Table 5: Council-wise Distribution of Functional Assignments under SLGO 2001

	District	Taluka	Union
Road, Bridges and Streets	P, D, O&M, R&M	P, D, O&M, R&M	O&M, R&M
Basic Health, Hospitals and Dispensaries	P, D, O&M, R&M	–	R&M
Solid Waste	P, D, O&M, R&M	P, D, O&M, R&M	P, D, O&M, R&M
Public Health	P, D, O&M, R&M	P, D, O&M, R&M	R&M
Education	P, D, O&M, R&M	–	R&M
Rural Development, Development Plan / Projects	R&M	P, D, O&M, R&M	O&M, R&M
Water Supply and Drainage	P, D, O&M, R&M	P, D, O&M, R&M	O&M, R&M
Parks, Gardens, and Plants	P, D, O&M, R&M	P, D, O&M, R&M	–
Agriculture	P, D, O&M, R&M	R&M	–
Livestock	P, D, O&M, R&M	–	O&M
Fisheries (Co-operatives)	P, D, O&M, R&M	–	–
Sports and Culture	P, D, O&M, R&M	O&M, R&M	D, O&M, R&M
Civil Defense and Natural Calamities	P, D, O&M, R&M	–	O&M
Development of Cottages, Crafts etc.	P, D, O&M, R&M	–	–

Planning | Development | Operation and Maintenance | Regulatory and Monitoring

Source: Sindh Local Government Ordinance 2001

The autonomy of local government under SLGA-2013 is in sharp contrast with that of SLGO-2001. Section 74 of the SLGA-2013 authorizes the provincial government to take over any functions assigned to LGs and vice versa. Similarly, Section 75 of the SLGA-2013 requires the local council to seek prior permission to promote, administer, execute or implement schemes for undertaking any commercial, business enterprises, or enter into a public-private partnership. To further limit the powers of LGs and keep them under check, Section 91 allows the Sindh government to start an inquiry into the affairs of any LG council on its own or on the application of any individual and appoint an inquiry officer who will have the powers of a civil court under the Code of Civil Procedure, 1908. Under Section 92 of SLGA-2013, based on an inquiry conducted, the Sindh government can suspend the authority of the council over such a department or institution and can take over the management of such department in its own hands. In the same vein, Section 93 of SLGA-2013 also allows the government to suspend local council for a maximum of six months period if the local council is persistently failing to discharge its duties or abuses its power. The SLGA 2013 designates bureaucrats as the Chief Executives of their respective councils.

This report proposes to devolve expenditure assignments to local governments similar to that in SLGO 2001 on the ground that socio-economic indicators such as water availability, education and others have deteriorated significantly before and after the termination of local governments in 2009 (SPDC, 2018). Therefore, subsequent chapters work out using the same vertical distribution as was in the 4th PFC and argue the devolution of revenue assignments in the same spirit.

Chapter 3:
Provincial Finance Commission Awards: A Historical Overview

The Provincial Finance Commission (PFC) outlines the formula for the distribution of resources among the districts in their respective province. The Devolution Plan, 2001, envisages the setting of a Provincial Finance Commission (PFC) in each province to decide on the nature of fiscal relations between provincial and local governments similar to that of federal and provincial relations. PFCs implementation from 2001 to 2007 has been considered as a golden age (Pasha, 2018). Education and health sectors showed extraordinary improvement which stalled after 2007-08. PFC is formed to formulate a formula for vertical and horizontal allocation of transfers and the mechanism under which the transfers were made.

None of the provinces announced PFC Awards on regular basis other than KPK which has been announcing PFC Awards on annual basis since 2004-05 with exception of the period between 2011-12 and 2015-16. Sindh has so far announced four PFC Awards, Baluchistan – five, whereas Punjab has only announced three PFC awards. The table below provides the timeline for PFC Awards across each province.

Table 6: Timeline for Provincial Finance Commission (PFC) Awards

Fiscal Year	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
SINDH	01st		02nd	03rd	-	04th		-	-	-	-	-	-	-	-	-	-	-	-
PUNJAB	01st			02nd	-	-	-	-	-	-	-	-	-	-	03rd	-	-	-	-
BALOCHISTAN	01st	02nd	03rd	04th	05th			-	-	-	-	-	-	-	-	-	-	-	-
KPK	01st	02nd	03rd	04th			05th			-	-	-	-	-	06th	07th	08th	09th	10th

3.1. Historical Overview of PFC Awards – Sindh

To date, Sindh has designed four PFC Awards for the years 2002, 2004, 2006, and 2007. Unlike other provinces, the Provincial Divisible pool consisted of federal transfers and provincial tax revenues only. The last PFC Award was introduced for the subsequent three fiscal years, however, it remained intact till the termination of local governments in 2009. The following sections below discuss Sindh's PFC Awards in detail.

Provincial Divisible Pool

The provincial divisible pool for Sindh consists of federal transfers and provincial tax receipts only across all four PFC Awards. Obligatory expenditures were deducted to get the net divisible pool.

Horizontal and Vertical Distribution

Funds from the divisible pool were transferred from the province to local governments after facing vertical and horizontal criteria of distribution. Vertical criteria for distributions divide the net divisible pool into allocable and retained funds. The provincial allocable amount is then distributed among district governments based on multiple criteria which are referred to as horizontal criteria of distribution.

Table 7: Distribution Criteria of Sindh PFC Awards

	1st PFC 2002-03 to 2003-04	2nd PFC 2004-05	3rd PFC 2005-06	4th PFC 2007-08 to 2008-09
VERTICAL DISTRIBUTION				
Retainable Share	60.0%	45.0%	52.0%	45.0%
Allocable Share	40.0%	55.0%	48.0%	55.0%
HORIZONTAL DISTRIBUTION				
Population	50.0%	50.0%	40.0%	40.0%
Backwardness (Development Index prepared by SPDC)	17.5%	17.5%	-	-
Tax Collection	7.5%	7.5%	-	-
Transitional Transfer Grants (Equalization)	25.0%	20.0%	-	-
Service Infrastructure*	-	-	35.0%	35.0%
Development Needs	-	-	15.0%	10.0%
Performance-based Benchmark	-	5.0%	-	-
Equal Share	-	-	10.0%	-
Area	-	-	-	5.0%
Performance:	-	-	-	10.0%
i. Revenue Collection (RC)				*5.0%*
ii. Primary School Enrollment				*5.0%*
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Source: *: DFID 2004, Provincial Assembly of Sindh and Sindh Finance Department*
**Service Infrastructure includes inverse per capita hospital beds, inverse length of roads per km area, and inverse per capita distance from primary school*

Other Allocations

The provincial government announced the development grants for districts in the 1st PFC Award announced in 2002 (as shown in the table below). The 2nd and 4th PFC Awards also define the criteria of OZT grants[6]. The criteria for districts and UAs are discussed in the notes whereas the criteria for TMAs are mentioned in the Residual to TMAs.

Table 8: Other Allocations

	1st PFC 2002-03 to 2003-04	2nd PFC 2004-05	3rd PFC 2005-06	4th PFC 2007-08 to 2008-09
DIVISIBLE POOL FOR DEVELOPMENT PROGRAM				
VERTICAL DISTRIBUTION				
Retainable Share	30.0%	-	-	-
Allocable Share	70.0%	-	-	-
HORIZONTAL DISTRIBUTION				
Population	50.0%	-	-	-
Backwardness	30.0%	-	-	-
Equal Sharing between districts	10.0%	-	-	-
Financing the Backlog of ongoing schemes	10.0%	-	-	-
Total	**100%**	-	-	-

[6]For 3rd PFC, the criteria for OZT grants are not publicly available.

	1st PFC 2002-03 to 2003-04	2nd PFC 2004-05	3rd PFC 2005-06	4th PFC 2007-08 to 2008-09
RESIDUAL AMOUNT ALLOCATION TO TMAs*				
Population	-	50%	-	50%
Human Development Index	-	40%	-	40%
Area	-	-	-	5%
Performance (Fiscal Effort) (Evaluated by PFC Committee)	-	-	-	5%
Collection	-	10%	-	-
Total	**100%**	**100%**	**-**	**100%**

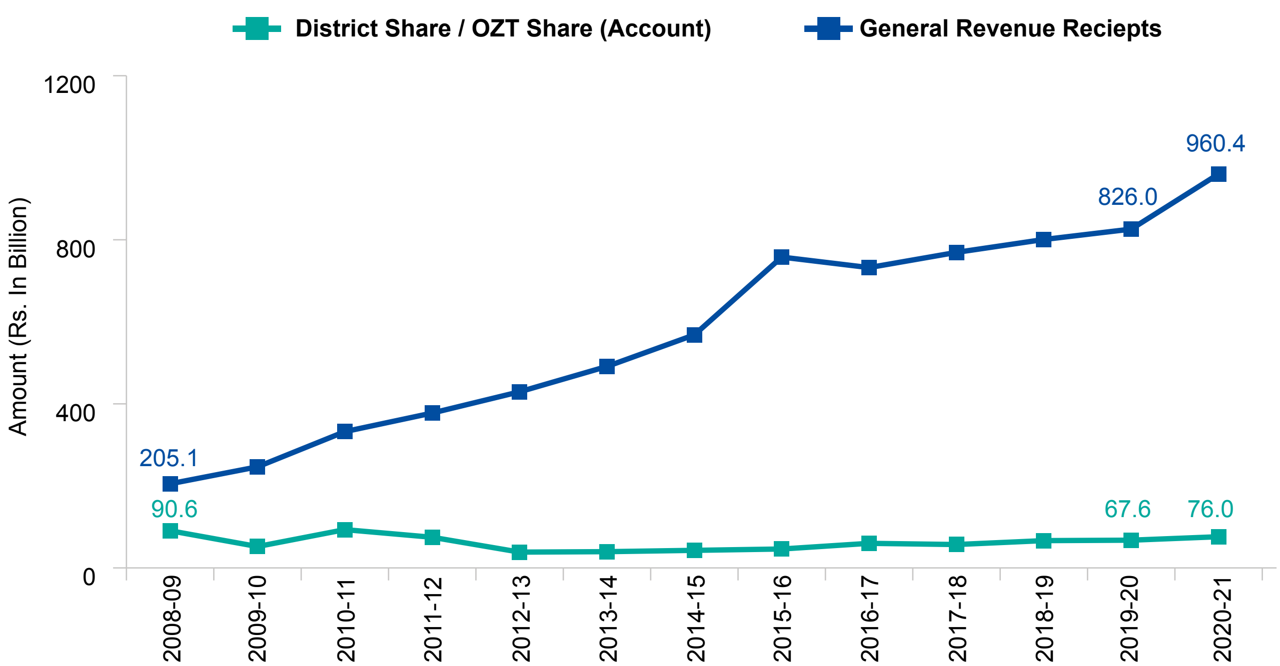
Source: *DFID 2004, Provincial Assembly of Sindh and Finance Department, Government of Sindh*
Note: *In the 2nd PFC, the proceeds from 2.5% GST were given to districts, TMAs, and UCs based on historical shares. The additional amount of 2.5% GST was divided as grants to UCs, to new TMAs and the remaining share was distributed to TMAs based on a formula (mentioned above)*
In the 4th PFC Award, the OZT funds shares of districts and TMAs were increased by 20%. UAs were entitled to a monthly grant which was increased from 0.1 million to 0.2 million per UA, funds for Sindh Local Government Board (SLGB) was Rs. 140 million, and the residual amount was divided among TMAs by the formula (mentioned in the above table)

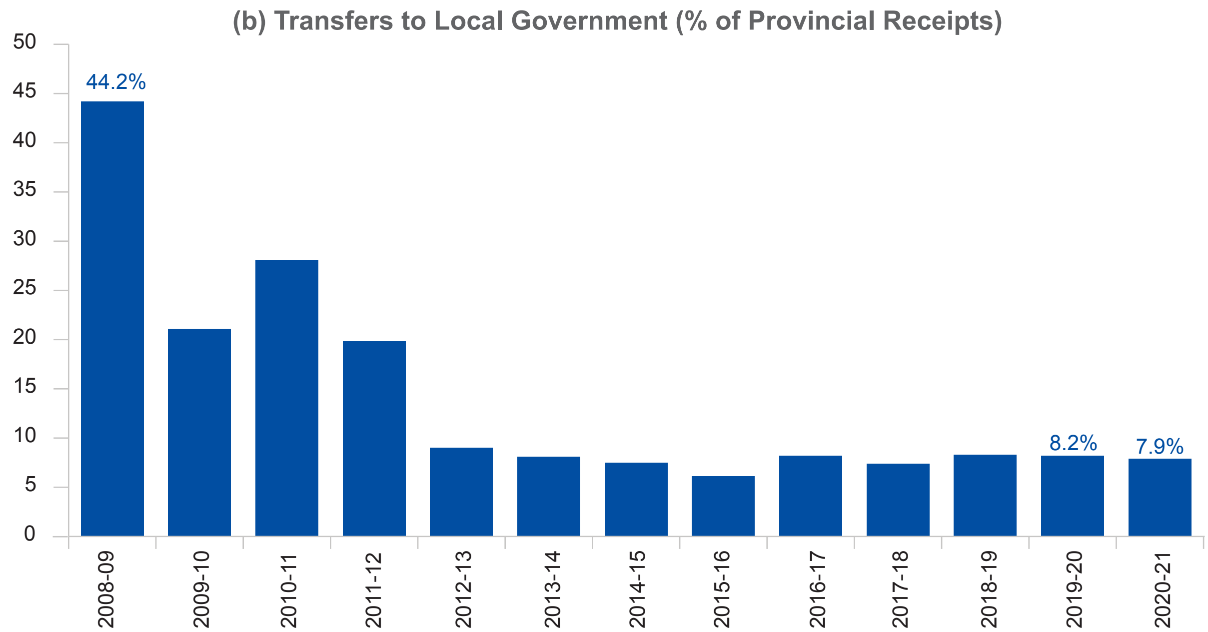
3.2. Trends in Sindh's Public Finances

The figure below presents the trends in provincial revenues and transfers to the local governments. It is observed that the gross revenue receipts of Sindh have been increasing exponentially since 2008-09, however, provincial government transfers to local government exhibit decreasing trend as presented in panel (a) of the figure below. Consequently, the share of local government in provincial revenue receipts has also declined from 44.2 percent in 2008-09 (last year of 4th PFC) to 7.9 percent in 2020-21 as shown in panel (b) of the figure below.

Figure 7: General Revenue Receipts and LG Transfers, Sindh

(a) General Revenue Receipts and Intergovernmental Transfers

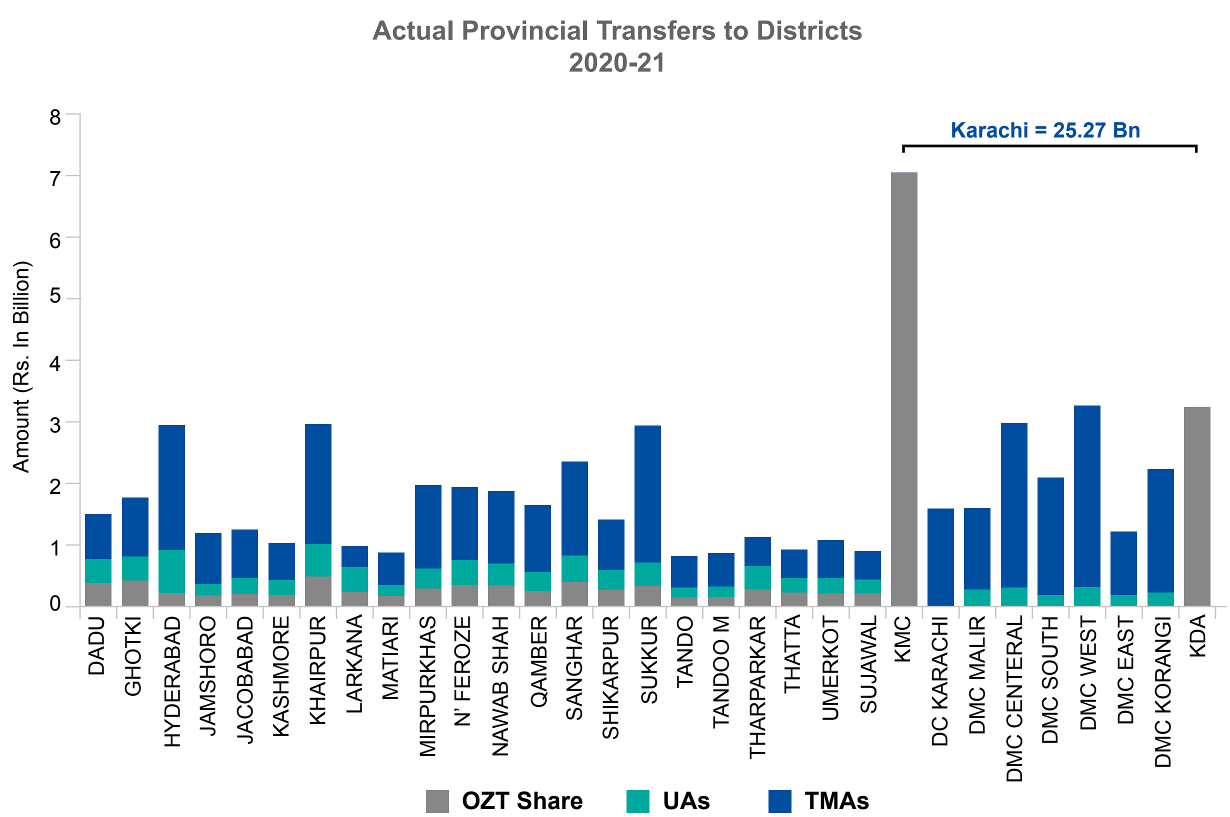




Source: *Various Issues of Budget Analysis, Government of Sindh*

The district-wise breakup of releases to local governments for 2020-21 is provided in the figure below. The Sindh government released a total of Rs. 67.22 billion to the local governments. It is noteworthy that there were Single Line Transfers as well till the fiscal year 2011-12 which was not continued further. The figure below presents provincial government transfers to districts, Tehsil/Taluka Municipal Administrations (TMAs), and Union Administrations (UAs) during 2020-21.

Figure 8: Actual Transfers to Districts, 2020-21



Source: *Release Positions, Finance Department, Government of Sindh*
DC Karachi: *District Councils for rural areas of Karachi,* ***DMC:*** *District Municipal Corporation*

Chapter 4:
Proposed Framework for the 5th Provincial Finance Commission (PFC) Award

The Provincial Finance Commission (PFC) structure takes its genesis from SLGA-2013 which includes 13 members and is headed by Sindh's Minister of Finance. The commission is responsible for devising formulas for the vertical and horizontal distribution of allocable funds as well as revising these criteria.

Table 9: Provincial Finance Commission, Sindh

Minister of Finance, Sindh Government	Chairperson
Minister of Local Government	Co-Chairperson
Secretary of Finance Department, Sindh Government	Member
Secretary of Planning and Development Department	Member
Secretary of the Local Government	Member
Two Members of the Sindh Provincial Assembly*	Members
Mayor of a Metropolitan Corporation	Member
Mayor of a Corporation**	Member
Chairman of a District Council**	Member
Chairman of a Municipal Committee**	Member
Two Professionals from Private Sector**	Members

Source: *Sindh Local Government Act, 2013*
** Each nominated by Leader of the House and the Leader of the Opposition*
*** To be nominated by Provincial Government*

It is proposed that among two members (including Chairman of a District Council, and Chairman of a Municipal Committee); one member must be nominated by the leader of the provincial assembly and one from the leader of the opposition. Similarly, among two professionals from the private sector, one member must be nominated by the leader of the provincial assembly and one from the leader of the opposition.

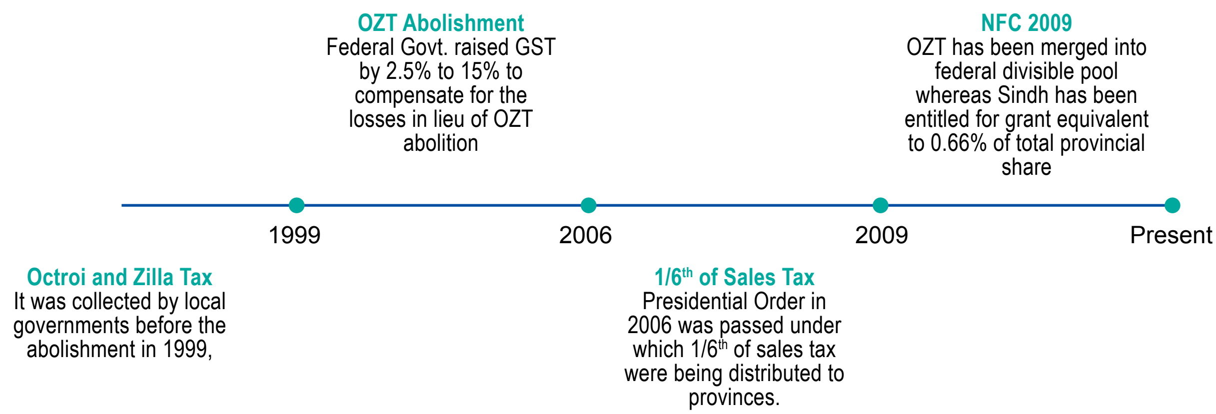
4.1. Proposed Mechanism for Octroi Zila Tax (OZT) Transfers

The Octroi/Zila Tax (OZT) accounted for roughly 60-70 percent of total revenues raised by the local government (UNDP, 2021). With the abolition of the Octroi/Zila tax in 1998, the revenue mobilization capacity that existed at the local level was largely eroded, and local governments are heavily reliant on grants and transfers from upper tiers of government. From 1999 to 2006, the federal government provided OZT grants to local governments through provincial governments.

The OZT grants were transferred separately to provincial governments based on their base year amount, which was much lower than the actual collection under one-sixth of GST goods. On the demand of the provinces, these grants were increased to one-sixth of the sales tax and included in the divisible pool of transfers under the Distribution of Revenues and Grants-in-Aid Order (DRGO) 2006. From 2006-07 to 2009-10, the NFC transfers to provinces clearly stated the OZT grants in the divisible pool as one-sixth of the GST. However, instead of federal grants, the equivalent amount was deducted from the provincial share of the divisible pool and transferred directly to local governments.

During the 7th NFC Award deliberations, it was decided that there was no need to create two divisible pools, one for OZT grants and the other for horizontal revenue distribution. As a result, OZT grants were merged into the provincial divisible pool, with their share appropriately adjusted. In the 7th NFC award, the federal government provided an OZT grant of 0.66 percent of the provincial divisible pool to compensate for Sindh's shortfall in adjusted share. However, the provinces have since stopped allocating one-sixth of the GST to local governments as OZT grants, which is in violation of the spirit of the 7th NFC Award.

Figure 9: Timeline of OZT



This study proposes the restoration and earmarking of one-sixth of the sales tax on goods, excluding collection charges. Local governments in Sindh would receive 34.85 percent to one-sixth of the sales tax on goods. It is recommended that OZT be allocated to district governments in the same proportions as in 2007-08. Chapter 5 contains OZT shares for each division, while the appendix contains district-specific shares.

4.2. The Divisible Pool and Vertical Distribution

This study proposes General Revenue Receipt excluding OZT grants and obligatory expenditures be the net provincial divisible pool for the 5th PFC Award. General Revenue Receipts include (i) Federal Transfers & Straight Transfers (except 0.66% of OZT grants) (ii) Provincial Tax Receipts (iii) Provincial Non-Tax Receipts, and (iv)Other Grants from the Federal Government . The obligatory expenditures as well as OZT shares are deducted from the Divisible Pool to get the Net Divisible Pool. Obligatory expenditures include pensions and charged expenditures.

Non-tax revenues are the user charges/fees against the provision of services, therefore, they should be transferred directly to (or collected by) the local governments which are closer to the delivery of services and are expected to mobilize non-revenues better. Currently, the provincial government is collecting most of the revenues on account of non-tax receipts on the pretext of limited revenue mobilization capacities of the local government. However, the gap between budgeted and actual non-tax revenues has been broadening. In 2020-21, the gap as a percentage of budget estimates has reached around 74.9 percent. For the proposed 5th PFC Award, non-tax revenues are also included in the provincial divisible pool though it is recommended that the collection of these revenues should also be devolved later to the local government. The vertical criteria divide the net divisible pool into allocable as well as funds retained by the provincial government. The proposed criteria for vertical distribution is as follows, as was the case in the 4th PFC:

- Allocable Funds: 55 percent,
- Funds Retained by Provincial Government: 45 percent.

The table below presents the calculations for the net divisible pool and the provincial retainable and allocable shares based on criteria for vertical distribution.

Table 10: Calculations for Divisible Pool and Vertical Distribution

Calculations for Divisible Pool and Vertical Distribution	Rs. in Billion
General Revenue Receipt (GRR)	**1,199.00**
Federal Transfers & Straight Transfers (Excl. 0.66% Grant)	848.21
Provincial Tax Receipts	304.94
Provincial Non-Tax Receipts	24.38
Other Grants from the Federal Government	21.47
Less: Charged Expenditures	**140.09**
Provincial Assembly (Charged)	1.97
Governor Secretariat / House (Charged)	0.47
Finance - Debt Servicing Interest Payment	25.24
Law & Parliamentary Affairs (Charged)	4.07
Provincial Ombudsman (Charged)	0.46
Protection Against Harassment (Charged)	0.12
Works & Services (Charged)	0.42
Finance Department (Repayment of Foreign)	31.05
Food Department (Repayment of Floating Debt)	76.29
Less: Pension-Civil	**159.60**
Less: OZT Grant (34.85% of the one-sixth of sales tax excluding GST on services)	**145.02**
Net Divisible Pool	**754.30**
Retainable Share (45%)	**339.4**
Allocable Share (55%)	**414.9**

Note: Figures are based on Budget 2021-22

The division-wise break-up of the OZT share is provided in the table below whereas district-wise OZT shares are provided in the appendix.

Table 11: Division-wise Shares

Division-Wise Shares	OZT Share (Billion Rupees)	OZT Share (%)
Banbhore	4.12	2.84%
Larkana	3.25	2.24%
Karachi	114.95	79.27%
Hyderabad	8.73	6.02%
Mirpur Khas	2.45	1.69%
Sukkur	6.15	4.24%
Shaheed Benazirabad	5.37	3.70%
Total	**145.02**	**100%**

Note: *OZT Shares are based on district-wise OZT transfers in 2007-08*

4.3. Horizontal Criteria for Distribution

The allocable funds are to be further distributed among the recipient districts according to the horizontal distribution criteria. The subsequent sub-sections discuss indicators used in the proposed model only.

Basic Indicators

Population. The population has always been used as a criterion for determining horizontal devolution for both Provincial Finance Commission (PFC) Awards and National Finance Commission (NFC) Awards which is well-aligned with regional as well as global practices. The criterion proxies the needs of the region by dedicating resources commensurate to the population size.

Area. The criterion of the geographical area allows allocating higher resources for districts with larger areas to meet their greater infrastructure and connectivity needs. This indicator was included for the first time in the 4th PFC of Sindh and was allocated the weightage of 5 percent. It is also one of the only two indicators included by PFC - Baluchistan. The area always remained as the key criterion for the horizontal distribution of fiscal transfers in India. The rationale of using the area is that the cost of providing basic services in the district with larger areas is expected to be more than the otherwise more compact districts.

Basic Drinking Water, Sanitation, and Hygiene Services. Lack of basic services leads to health issues, the spread of water-borne diseases such as Diarrhea which also keeps children out of school and discourages women's participation in the labor force. It is estimated by UNDP that nearly 300,000 global deaths were due to inadequate hand hygiene with the majority of them being children below the age of five years[8].

Pakistan is also committed to providing water, sanitation, and hygiene services under Sustainable Development Goal, SDG-06. In Sindh, only 7 percent of households have water pipes with water available for more than 6 hours a day compared with 58 percent in Punjab (World Bank, 2019). The condition is more acute in villages of Sindh which lack the facility of piped water supplies. Although, the Public Health Engineering Department is assigned with the task of providing water to rural settlements its coverage remains limited only to 25% of the rural population. The rest of the population relies on hand pumps, tube wells, and ponds. The quality of these sources is poor (Government of Sindh, 2020). This study uses an indicator titled 'Inverse Per Capita Basic Drinking Water, Sanitation and Hygiene Services' as a sub-indicator under basic indicators.

Urban Indicators

Sindh has long been bifurcated into urban and rural geographies based on various characteristics. The Sindh Local Government Act 2013 also recognizes the urban and rural classification of the province based on the population. Moreover, the needs for the urban and rural areas are quite different. For instance, most of the industry clusters are located in urban centers which require relatively more frequent maintenance of infrastructure. In Sindh, the proportion of the urban population has grown to 51.8 percent in Census 2017 as compared to

[7]https://www.undp.org/blog/lack-soap-and-clean-water-disease-flourishes

48.5 percent in Census 1998. According to the World Bank, the urban population is expected to be more than double by 2050. Urban areas are attractive to businesses hence the employability in the urban area is greater with much better lifestyle and facilities. The concentration of industries and services and relatively abundant supply of skilled labor (as there is a higher population density in the area) consequently improves productivity which results in achieving better economic growth and efficiency. With more than 80 percent of global GDP generated in cities, urbanization can contribute to sustainable growth if managed well by increasing productivity and urban facilities which promote an environment conducive to learning and innovation. However, the high pace of urbanization without any planned development and resources for its maintenance is creating infrastructural gaps in affordable housing, transport systems, and other infrastructure, basic services such as water, sanitation, air quality, etc. as well as jobs.

This study categorizes those indicators among urban indicators which favors Metropolitan, Municipal and Town areas. To cater to the needs of the urban centers, the study proposes indicators including (i) Revenue Collection, and (ii) Industries. It is apparent that the revenue collection and number of industries may be correlated, however, the alternative is to drop one of the two and assign the weight (combined of two indicators) to the remaining indicator. This study, however, prefers to divide the weight of urban indicators between revenue collection and the number of industries as the distribution of district-wise shares is significantly different and due to the fact that correlation reflects the pattern, not the actual distribution.

Revenue Collection. Revenue collection reflects both the level of economic activity as well as revenue mobilization efforts by the local government. Many states in the world incorporate fiscal effort in the horizontal distribution of inter-governmental transfers which is mostly assessed by tax effort. Revenue collection has been included in Sindh's last three PFCs, however, the weightage has been declined from 7.5 percent to 5.0 percent.

Appropriate revenue collection weightage will likely to encourage local governments to focus on revenue mobilization regions, facilitating economic activity and future tax collection. Sindh does not have comprehensive district-level tax collection data available in the public domain. As a result, the Federal Board of Revenue's (FBR) district-wise collection of income tax has been used as a proxy for Revenue Collection. It reflects a direct relationship between economic activity and the need for better municipal services.

Industry. The industry is the backbone of the urban economy which plays a significant role in the urbanization process. The poor infrastructure in industrial areas has made many investors shift their industries to other provinces. With the increasing cluster of the industrial plants, there are financial needs that have also been expanded which needs to be met such as mass transit system, water supply & sanitation, infrastructural needs as well as combatting the climate and health risks attached to industrialization. This study introduces 'industries' for the first time as a horizontal criterion under urban indicators with a district-wise number of industries as a proxy of industries.

Rural Indicators

Rural needs generally revolve around poverty eradication and improving quality of life. Rural development is also crucial for food security, improving farmers' knowledge, and attaining sustainability. Sustainable Development Goals to be achieved by 2030 also emphasize most of the parameters that are more related to rural needs.

Except for Karachi and Hyderabad, all the other districts in Sindh are overwhelmingly rural. The literacy rates in rural areas are half of what it is in urban areas of Sindh i.e. 39 percent and 74 percent respectively (PSLM, 2019-20).

This study classifies the following factors among rural indicators which favor rural areas by allocating higher shares to these areas.

Multidimensional Poverty Index (MPI). Eradicating poverty is undoubtedly the greatest challenge for humanity. Poverty reduction is also the first Sustainable Development Goal i.e. SDG-01 to be achieved by 2030. Rural poverty is much more complex, deep, and severe in comparison with urban poverty. With the growing population in the world and non-inclusive growth patterns, rural poverty is expected to increase further.

Multidimensional Poverty Index (MPI), used as an indicator for poverty in the study, is calculated by Oxford Poverty and Human Development Initiative and UNDP. The MPI is comprehensive in the sense that it provides households deprivations by including three different dimensions: (1) Education, (2) Health, and (3) Standard of Living. The index consists of 10 sub-indicators of which two are of education and health each and six for living standards. This way poverty can be assessed deeply rather than the uni-dimensional and income-based index (MICS, 2021).

Inverse Road Density. Roads are the predominant mode of transport in Sindh as well as in Pakistan, carrying 91 percent of passenger traffic in passenger-kilometers and 96pc of freight traffic in tonne-kilometres . Road density is the ratio of roads (in km) and area (in squared km), higher road density reflects better road infrastructure and vice versa. The 4th PFC of Sindh also took the inverse of roads (in km) as a sub-indicator under the service infrastructure indicator. This study uses inverse road density which allocates a higher share to the district having lower roads (in km) relative to the area.

Inverse Per Capita Hospital Beds. The unavailability of hospital beds is one of the most important factors among health challenges unraveled while combating Covid-19. Many hospitals in Sindh had to set up special bed isolation facilities during Covid-19 such as the one in Expo Centre, Karachi. The condition is acute in rural areas. Hospital beds per capita appear to be an appropriate indicator that reflects the capacity of patients to be accommodated, the 4th PFC of Sindh also used the same indicator as a sub-indicator for service infrastructure. The indicator is taken as the inverse per capita hospital beds so that districts in Sindh having less no. of hospital beds will get a high share.

Revenues from Minerals, Oil, and Gas. The federal government transfers royalties by means of straight transfers to provinces. Most of the coal reserves of Pakistan are located in the Tharparker district of Sindh. In addition, a significant amount of oil and gas reserves along with other minerals are found in Sindh. Drilling and mining activities are major economic activities in rural areas of Sindh.

Based on the availability of district-wise data; revenue from minerals, oil and gas are taken to proxy revenues from non-tax sources. The indicator is composed of average district-wise shares from three sub-indicators based on mineral, oil, and gas. For minerals, coal reserves in tonne; for gas, the volume of gas (in million cubic feet); and for oil, area leased (in squared km) are used for calculating district-wise shares.

Using the data on the indicators discussed above, division-wise as well as district-wise shares across each indicator (discussed) above are provided in the table below.

Table 12: Division-wise shares based on indicators

Division -Wise Shares Based on Indicators	Population	Area	Inverse per caprita Basic Drinking Water, Sanitation & Hygiene Services	Revenue Collection	Industries	Multidimensional Poverty Index	Inverse per capita hospital beds	Inverse Road Density	Revenue from Gas, Oil and Coal
Banbhore	7.45%	17.18%	16.70%	1.07%	0.48%	16.33%	9.60%	11.72%	4.84%
Larkana	12.94%	10.80%	19.27%	7.01%	0.42%	21.37%	34.70%	15.38%	4.22%
Karachi	33.49%	2.50%	12.88%	81.68%	95.13%	0.24%	1.81%	7.39%	0.00%
Hyderabad	14.69%	17.36%	11.63%	4.66%	1.94%	22.55%	22.56%	26.22%	12.75%
Mirpur Khas	8.83%	19.99%	21.42%	0.49%	0.14%	17.19%	12.69%	17.03%	36.42%
Sukkur	11.58%	19.27%	9.37%	3.02%	1.50%	10.10%	6.31%	12.20%	37.48%
Shaheed Benazirabad	11.02%	12.90%	8.72%	2.07%	0.39%	12.23%	12.32%	10.05%	4.29%

Most of the data for creating indicators has been taken from Development Statistics of Sindh for the year 2016-17. Other sources include Census, 2017, Multiple Indicator Cluster Surveys (MICS, 2018-19), and Industries & Sindh Technical Education & Vocational Training Authority (STEVTA) Department. The table below summarizes the data sources and proxies used in proposed as well as in KPK's PFC, Sindh's 4th PFC, and NFC Awards.

Table 13: Proxies and Data Sources for Horizontal Distribution

Indicators	Sub-Indicators/Proxies	Data Sources	Used in Models
Population	Population	Census, 2017	All models
Area	Area in squared km	Pakistan Bureau of Statistics	Proposed Model, Sindh's 4th PFC
Development Need	Annual Development Programme	Finance Departments, GoS	Sindh's 4th PFC
Service Infrastructure (Equal Weightage of Sub Indicators)	i. Inverse per capita Hospital Beds	Development Statistics 2016-17, Sindh	Proposed Model, Sindh's 4th PFC
	ii. Inverse Road Density	Development Statistics 2016-17, Sindh	Sindh's 4th PFC, Proposed Model
	iii. Inverse per capita Schools	MICS, 2018-19	Sindh's 4th PFC
Performance (Equal Weightage of Sub Indicators)	i. Revenue Collection: Income Taxes	Tax Directory Analysis, 2018, FBR	Sindh's 4th PFC, Proposed Model, 7th NFC
	ii. Primary School Enrollment	Development Statistics 2016-17, Sindh	Sindh's 4th PFC
Poverty/ Backwardness	Multidimensional Poverty Index	UNDP	Sindh's 4th PFC, KPK Model, 7th NFC
Inverse Population Density (IPD)	Inverse Population Density (ratio of area and population)	Pakistan Bureau of Statistics	7th NFC Model
Lag Infrastructure (Equal Weightage of Sub Indicators)	i. Urban Development: Share in Urban Population	Census, 2017	KPK Model
	ii. Rural Sanitation: Bathroom & Latrine	Census, 2017	KPK Model
	iii. Transportation & Communication: Vehicles on road, household with any source of information	Development Statistics 2016-17, Sindh	KPK Model
Industries	Number of industries	Industries & Sindh Technical Education & Vocational Training Authority (STEVTA) Department[10]	Proposed Model
Basic drinking water, sanitation and hygiene services	Inverse per capita basic drinking water, sanitation and hygiene services index	MICS, 2018-19	Proposed Model
Revenues from minerals, oil, and gas	Coal reserves in tonnes	Energy Department, GoS	Proposed Model
	The volume of gas (in MMCF)	OGRA, 2019-20	Proposed Model
	The area leased for oil extraction	OGDCL, 2021*	Proposed Model

** District-wise area for oil extraction data is only available for OGDCL*

[10] Summary of Proceedings (17th June 2014), Provincial Assembly of Sindh

Chapter 5:
Simulation for Local Government Shares

This study has developed a framework for the 5th PFC Award-Sindh by incorporating the indicators and vertical shares discussed in the preceding chapters. This chapter simulates horizontal shares of each district of Sindh from the net divisible pool and aggregate district shares to the division level[11]. For our proposed model, different sets of weightages are used based on the equal share (benchmark), pro-basic need, and pro-industrialization approaches. Weights are skewed towards basic indicators in the pro-basic need approach whereas towards urban indicators in the pro-industrialization approach. Shares are also calculated by replicating Sindh's 4th PFC, KPK's PFC 2021, and 7th NFC models using the latest available data. The net divisible pool, that is, general revenue receipt minus obligatory expenditures and OZT share for 2021-22, is used for each of the stated approaches. Actual transfers are based on the latest district-wise release position for 2020-21 from the Finance Department, Government of Sindh. This chapter aims to compare regular transfers from provincial to local governments and exclude ad-hoc grants as well as development expenditures.

Horizontal distribution for each district has been calculated using four different models. These four models are as follows:

- The Proposed Model
- Sindh's PFC 2007
- Khyber Pakhtunkhwa's PFC Model 2020-21
- National Finance Commission (7th NFC) Model

The following table summarizes weightages and indicators for each of the four models:

Table 14: Distribution Criteria under All Models

Indicator	Sindh's PFC 2007	07th NFC Model	KPK's PFC 2021	The Proposed Model		
				Equal Share Approach	Pro-Basic Need Approach	Pro-Industrialization Approach
	VERTICAL DISTRIBUTION					
Retainable Share	45%	42.5%	40%	45%	45%	45%
Allocable Share	55%	57.5%	60%	55%	55%	55%
	HORIZONTAL DISTRIBUTION					
Development Need	10%	-	-	-	-	-
Service Infrastructure	35%	-	-	-	-	-
Primary Enrollment	5%	-	-	-	-	-
Poverty	-	10.30%	20%	-	-	-
Inverse Population Density	-	2.70%	-	-	-	-
Lag Infrastructure	-	-	20%	-	-	-

[11]District wise shares in rupees are provided in the Appendix

Indicator	Sindh's PFC 2007	07th NFC Model	KPK's PFC 2021	The Proposed Model		
				Equal Share Approach	Pro-Basic Need Approach	Pro-Industrialization Approach
Basic Indicators*				33.33%	50%	40%
i. Population	40%	82%	60%	11.11%	40%	30%
ii. Area	5%	-	-	11.11%	5%	5%
iii. Inverse per capita basic drinking water, sanitation & hygiene services	-	-	-	11.11%	5%	5%
Urban Indicators*				33.33%	25%	35%
i. Revenue Collection**	5%	5%	-	16.67%	5%	10%
ii. Industries	-	-	-	16.67%	20%	25%
Rural Indicators*				33.33%	25%	25%
i. Multidimensional Poverty	-	-	-	8.33%	6.67%	6.67%
ii. Inverse per capita hospital beds	-	-	-	8.33%	6.67%	6.67%
iii. Inverse road density	-	-	-	8.33%	6.67%	6.67%
iv. Revenue from Gas, Oil and Coal				8.33%	5%	5%

Note: ** Categorization of indicators into basic, urban and rural indicators*
*** Revenue Collection & Primary Enrollment were under 'Performance Indicator' for PFC 2007 with equal weightage i.e. 5% each.*

5.1. Sensitivity Analysis for The Proposed Model

This section compares the distribution under pro-basic need and pro-industrialization approaches against actual transfers and equal share approach model. The pro-basic need approach assigns 50 percent weightage to basic indicators whereas urban and rural indicators are assigned with 25 percent each. The weighing scheme is skewed towards urban indicators (i.e. 35 percent) in the pro-industrialization approach whereas basic and rural indicators are given 40 percent and 25 percent respectively.

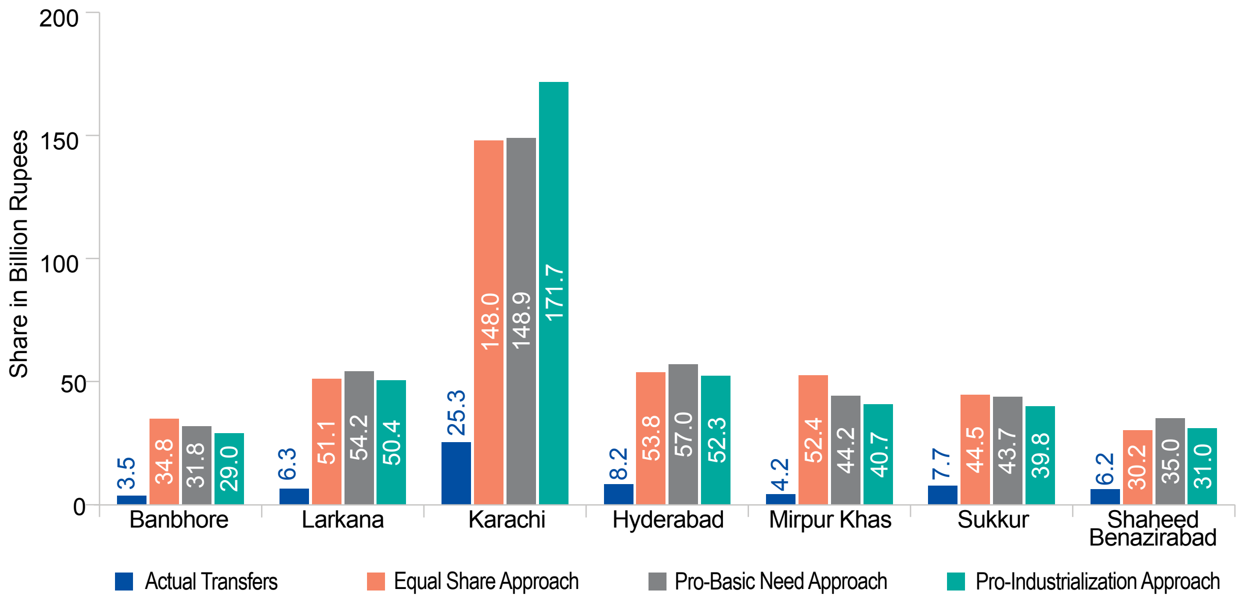
Table 15: Proposed Horizontal Distribution Criteria

Horizontal Distribution			
Indicator	Equal Share Approach	Pro-Basic Need Approach	Pro-Industrialization Approach
Basic Indicators	33.33%	50%	40%
Urban Indicators	33.33%	25%	35%
Rural Indicators	33.33%	25%	25%

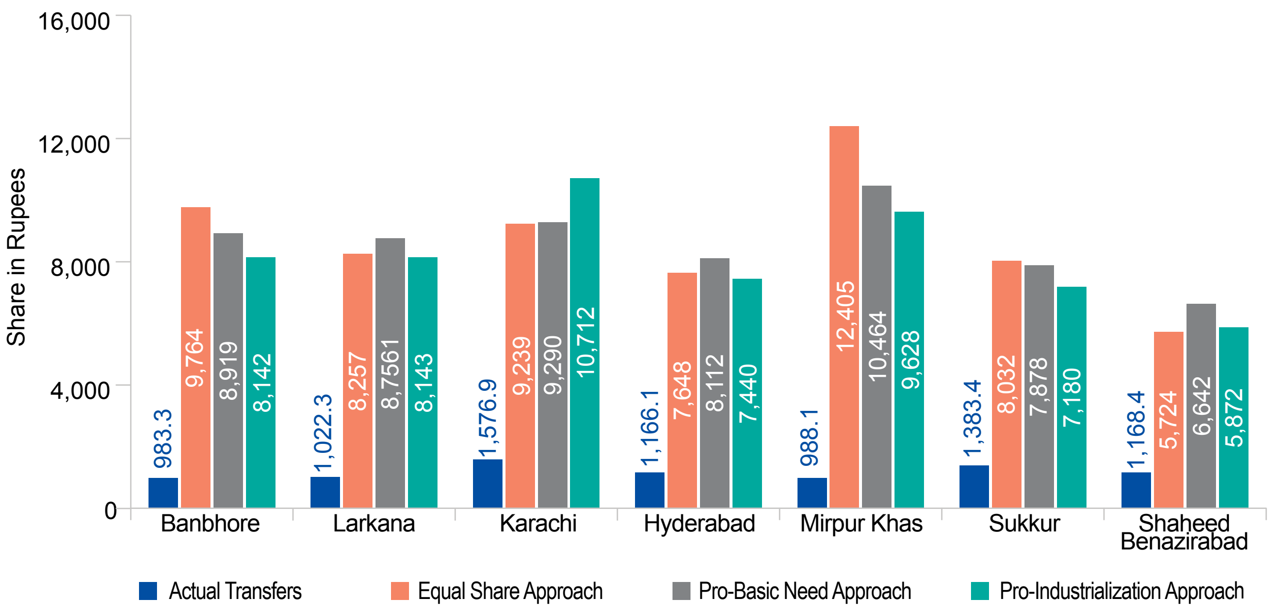
The panel (a) and (b) of the figure below provides division-wise absolute shares and on a per capita basis respectively. As compared to the benchmark, the basic approach allocates a relatively higher share to Larkana, Hyderabad, and Shaheed Benazirabad divisions whereas lower shares to Banbhore, Mirpurkhas, and Karachi divisions. Regarding the pro-industrialization approach, a higher share is devoted to the Karachi division, in comparison to the benchmark approach due to the fact that around 80 percent of industries are located in Karachi. A similar observation can be made while comparing division-wise per capita shares under basic and pro-industrialization approaches against that of the benchmark model.

Figure 10: Division-wise shares

(a) Division-wise shares



(b) Division-wise Shares Per Capita



5.2. Simulation Results

The table below exhibits the simulated shares of each division on the four different models as well as in the proposed model. Division-wise absolute shares as well as shares on a per capita basis, are calculated by aggregating district-wise shares.

In 2020-21, the provincial government released Rs. 61.4 billion to districts for which Rs. 3.5 bn (or 5.7%) was allocated to Banbhore, Rs. 6.3 bn (or 10.3%) to Larkana, Rs. 25.3 bn (or 41.2%) to Karachi, Rs. 8.2 bn (or 13.4%) to Hyderabad, Rs. 4.2 bn (or 6.8%) to Mirpurkhas, Rs. 7.7 bn (or 12.5%) to Sukkur, and Rs. 6.2 bn (or 10.1%) to Shaheed Benazirabad. The proposed pro-industrialization model allocated shares in a somewhat similar proportion with Rs. 29.0 billion (or 7.0%) to Banbhore, Rs 50.4 bn (or 12.2%) to Larkana, Rs. 171.7 bn (or 41.4%) to Karachi, Rs. 52.3 bn to Hyderabad (or 12.6%), Rs. 40.6 bn (or 9.8%) to Mirpurkhas, Rs. 39.8 bn (or 9. 6%) to Sukkur, and Rs. 31.0 bn (or 7.5%) to Shaheed Benazirabad. The largest absolute share corresponds to Karachi i.e. Rs. 171.7 billion, however, in percentage terms, share is similar to that in actual transfers.

Division-wise shares on a per capita basis however provide a fair comparison for which a more uniform distribution of shares can be observed in division-wise shares on a per capita basis. The higher per capita share to the Karachi division under the proposed pro-industrialization model is due to the fact that around 80 percent of industries are allocated in the Karachi division.

Table 16: Division-wise shares under each Model

Division-wise shares (Billion Rupees)	Actual Transfers (2020-21)	Sindh's PFC 2007	KPK's PFC 2021	07th NFC Model	The Proposed Model		
					Equal Share Approach	Pro-Basic Need Approach	Pro-Industrialization Approach
Banbhore	3.5	39.3	40.5	36.6	34.8	31.8	29.0
Larkana	6.3	68.0	65.2	57.1	51.1	54.2	50.4
Karachi	25.3	95.3	125.8	139.9	148.0	148.9	171.7
Hyderabad	8.2	74.5	72.1	65.3	53.8	57.0	52.3
Mirpur Khas	4.2	45.1	45.3	41.3	52.4	44.2	40.7
Sukkur	7.7	47.6	51.2	47.6	44.5	43.7	39.8
Shaheed Benazirabad	6.2	45.1	52.5	45.9	30.2	35.0	31.0
Per Capita Shares (in Rs.)							
Banbhore	983	11017	11352	10275	9764	8919	8142
Larkana	1022	10976	10530	9220	8257	8761	8143
Karachi	1577	5946	7853	8728	9239	9290	10712
Hyderabad	1166	10591	10251	9294	7648	8112	7440
Mirpur Khas	988	10679	10732	9777	12405	10464	9628
Sukkur	1383	8595	9234	8590	8032	7878	7180
Shaheed Benazirabad	1168	8554	9949	8698	5724	6642	5872

Source: *Release Position, Government of Sindh; author's estimates*

The summary of the division-wise shares including shares calculated through the pro-industrialization approach along with OZT shares are provided in the table below: (District-wise shares are attached in the appendix)

Table 17: Division-wise Shares from PFC and OZT Grants

Division-wise Shares (Billion Rupees)	Pro-Industrialization Model	OZT Share	Shares based on Pro-Industrialization + OZT Share
Banbhore	29.0	4.12	33.15
Larkana	50.4	3.25	53.67
Karachi	171.7	114.95	286.61
Hyderabad	52.3	8.73	61.03
Mirpur Khas	40.7	2.45	43.13
Sukkur	39.8	6.15	45.94
Shaheed Benazirabad	31.0	5.37	36.35

Source: *Author's estimates*

5.3. Transfers to Union Councils/Union Committees

Under the previous local government regime, Tehsil Municipal Administrations (TMAs) and Union Administrations (UAs) used to receive funds directly from the provincial government. TMAs and UAs are now merged into Union Councils (in rural areas) /Union Committees (in urban areas) under SLGA, 2013. The law has empowered the District Councils (DCs), District Municipal Corporations (DMCs), and Town Committees before TMAs and UAs. This study suggests that DCs/DMCs should distribute funds to Union Councils or Union Committees directly.

The PFC 2007 set the monthly fixed grant of Rs. 0.2 million per month per UA in 2007, the present value fixed grants are now Rs. 0.66 million per month. Therefore, the monthly fixed grant should be increased from Rs. 0.2 million per month to Rs. 0.66 million per month.

Chapter 6:
Unique Structure of the Metropolitan City

Karachi is the only metropolitan city in Sindh and the largest city of Pakistan with a population of 16 million (Census, 2017). The city is the commercial and economic hub of Pakistan contributing up to 20 percent in the national GDP, around 55 percent in the federal tax revenues and more than 90% of the provincial revenues. There has been a significant deterioration in the living conditions of the city over the years. The continuous rift between political parties towards the city's governance and upkeep have restrained the city from achieving its potential. According to the Census 2017, Pakistan's 20 percent and Sindh's 60 percent of the urban population resides in Karachi which is one of the world's fastest-growing cities and the third-largest by population. With the rapid increase in urban population, this city requires improved public services, such as modern civic infrastructure, better access to clean water, a modern sanitation system, efficient public transport, and an environmentally compliant sewerage system. Unfortunately, the conditions have deteriorated in Karachi since 2008, after rolling back of the devolution plan of 2001. It now falls way behind other cities of the country in terms of urban development and civic facilities.

Local governments, cantonments, and other land controlling agencies have unclear and overlapping functions in Karachi. Roughly 20 different federal, provincial and local bodies attempt to perform municipal functions, only leading to intense conflicts due to poor coordination and unclear line of authority among them making the megacity a political orphan. The provincial government took over most of the powers to itself including master planning, building control, solid waste management, and water and sewerage, making conditions worse in the process. Local governments are incapable of financing their own expenditures and rely on the provincial government even for the payment of employees' salaries leaving nothing for the city's development projects (World Bank Group, 2018). Sindh Building Control Authority (SBCA), Karachi Development Authority, Lyari Development Authority (LDA), Malir Development Authority (MDA), Sindh Solid Waste Management Board (SSWMB), and the Karachi Water and Sewerage Board (KWSB) come under the purview of the Sindh Government. Such recentralization was in violation of the clear provisions of Article 140A of the Constitution which mandates devolution.

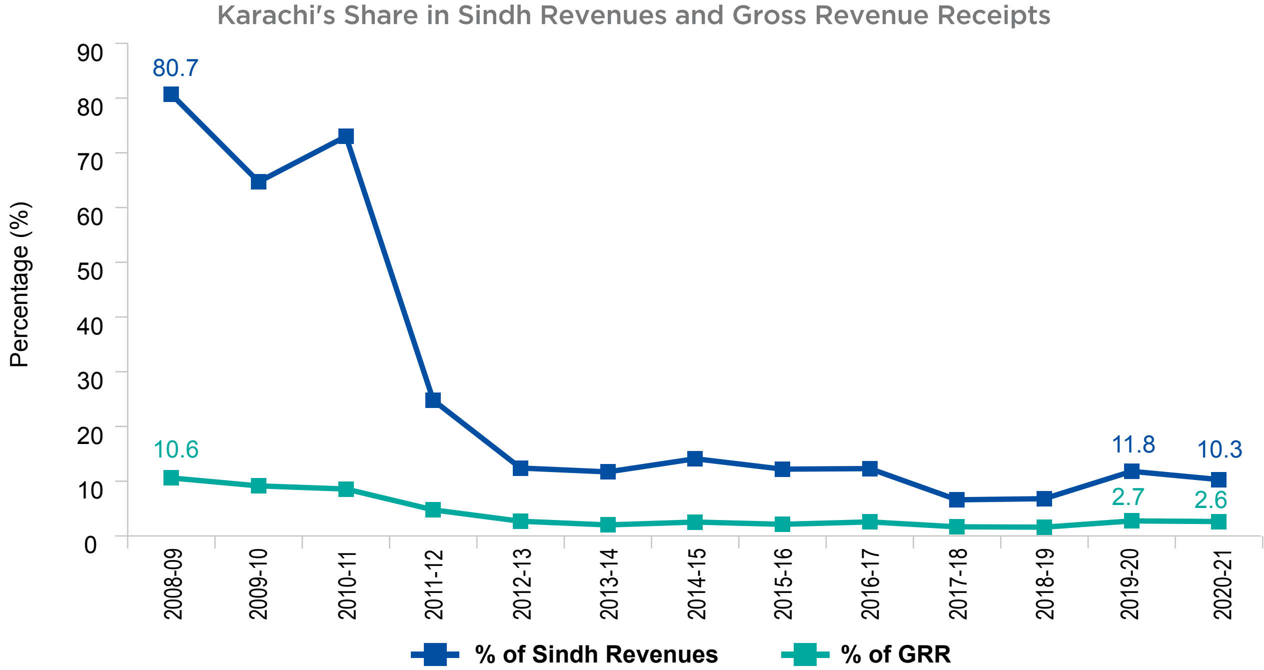
The Economist Intelligence Unit (EIU) ranked Karachi as the 7th least livable city in the world on the Global Livability Ranking[12] of 140 cities in 2021. The financial hub of Pakistan, Karachi has been in the ten least livable cities for many years. Hanoi (Vietnam) and Tehran (Iran) have improved from 118 and 130 to 107 and 128 respectively, whereas Karachi has gone down five places to 134 in 2021 from 129 in 2007.

6.1. Provincial Transfers and Grants to Karachi

Actual transfers to Karachi as a percentage of Sindh's revenues have declined from 81 percent in 2008-09 to 10.3 percent in 2020-21. Similarly, actual transfers to Karachi as a percentage of General Revenue Receipt[13] has also declined from 10.6 percent in 2008-09 to 2.6 percent in 2020-21 as presented in the figure below. The graph below shows that the total transfers to Karachi (including transfers to KMC, DC, DMCs, and KDA) remained significantly lower than what was due as per Karachi's share in Gross Revenue Receipt in 2008-09. The deficit between actual transfers and the due share has reached 81 billion rupees in the year 2020-21. The cumulative gap has reached Rs. 876.1 billion (in present value) during FY 2009 – FY 2021

[12]The index is based on 5 broad categories: stability, education, healthcare, culture and environment & infrastructure.
[13]General Revenue Receipts include both provincial revenues and federal transfers.

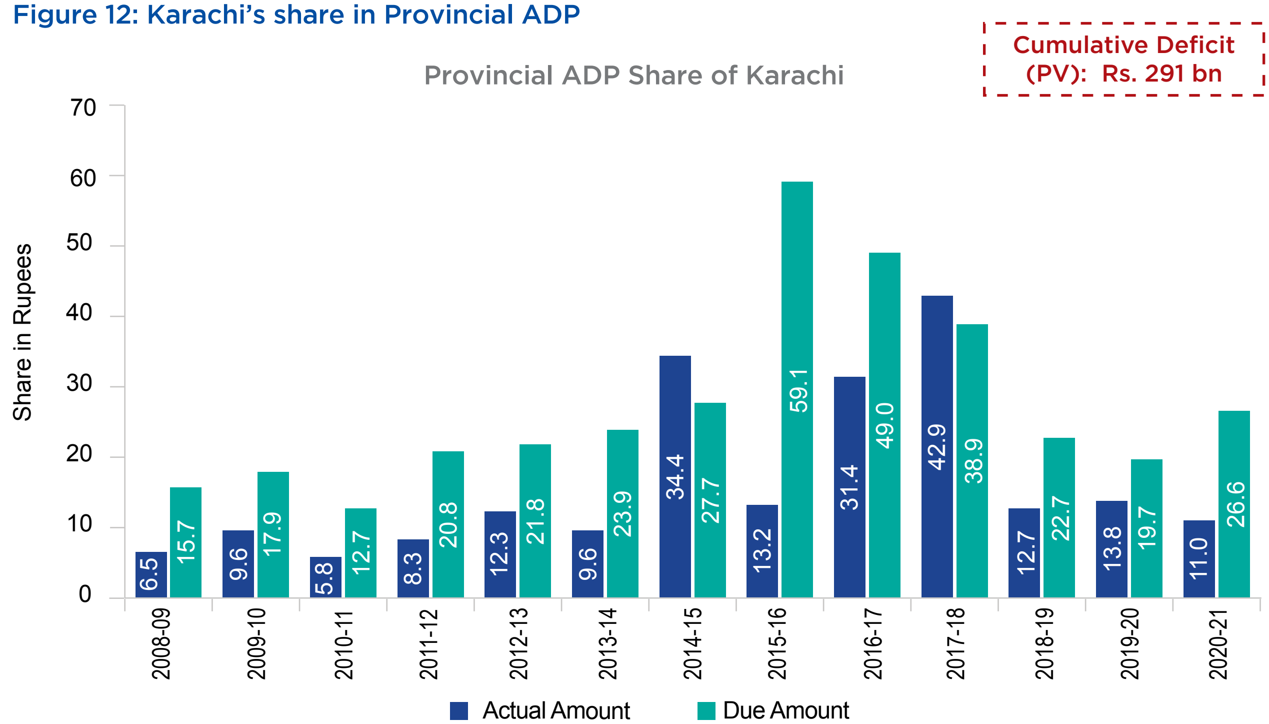
Figure 11: Transfers to Karachi



Source: *PFC Releases and Budget at Glance of Various Issues, Sindh*
Note: *Total Transfers to Karachi include releases from the Sindh Government to KMC, District Council, DMCs and KDA.*

The figure below presents actual provincial annual development program (ADP) expenditures on Karachi along with what is due on the basis of population. According to the Census 2017, the population of Karachi was 33.49 percent of the Sindh population. Based on this share, the present value of the deficit between what Karachi should have received and actually received over the past years is aggregated to Rs. 291 billion. The due ADP for Karachi was Rs. 15.7 billion in 2008-09 whereas it was Rs. 26.6 billion in 2020-21.

Figure 12: Karachi's share in Provincial ADP



Source: *Planning and Development Department, Government of Sindh*
Note: *Due amounts are based on Karachi's share in the population of Sindh as per the Census 2017, i.e. 33.49%*

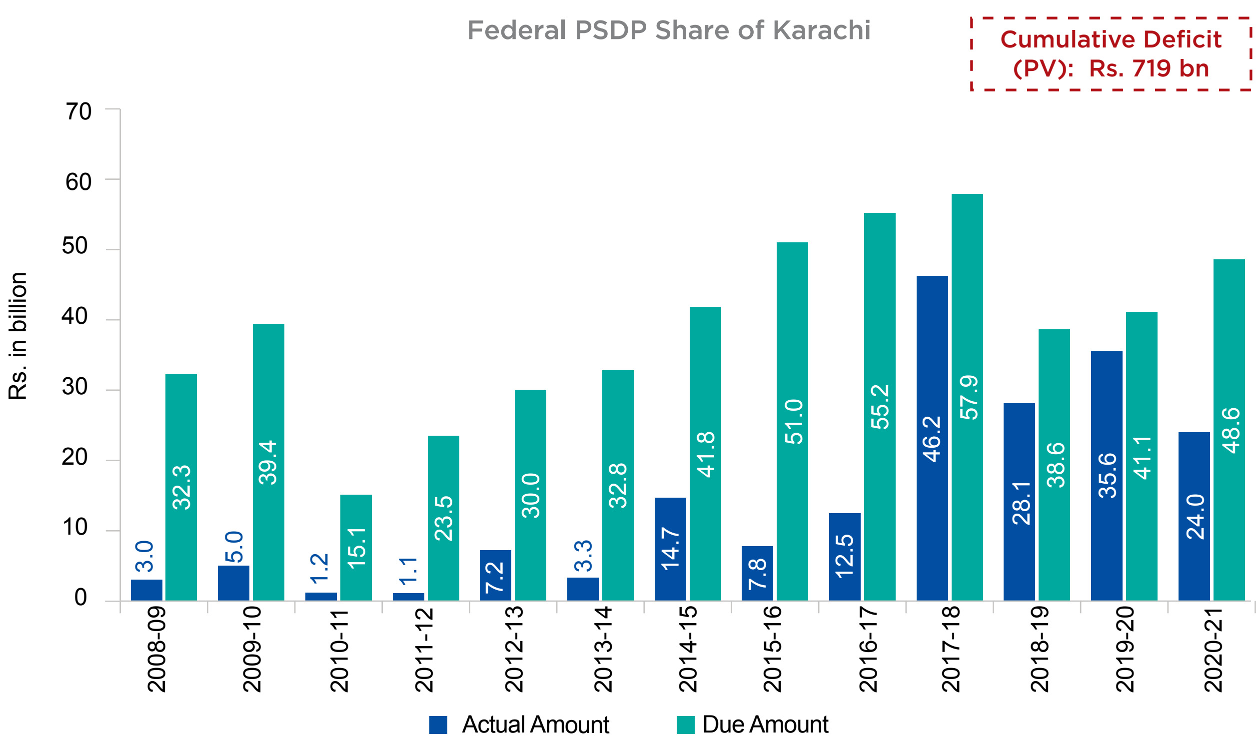
6.2. Federal Grants and Packages for Karachi's Development

Before the 18th Amendment of the Constitution, Karachi had been receiving a significant amount from the federal government which helped cater to the development needs of the economic hub of Pakistan for various development projects including the **'Tameer-i-Karachi'** program. Under the program, substantial development was achieved including flyovers, underpasses, low-cost housing projects and the Greater Water Supply Project (K-III 100-MGD). Multiple federal entities contributed to the infrastructure development of the city; these entities include Karachi Port Trust (KPT), Pakistan Steel Mills, Pakistan International Airlines (PIA), Pakistan Air Force (PAF), and others. Since FY 2009, after the passage of the 18th Constitutional Amendment in the constitution, a negligible share has been allocated to Karachi.

The World Bank report (2018) estimates the infrastructure gaps in Karachi to be around US$ 10 billion which includes gaps in the availability of public transport, water supply, sanitation, and solid waste management. These gaps resulted from the shortfalls in financing not only from the provincial budgets and Annual Development Plans but also from the meager allocations in the Public Sector Development Plans of the Federal Government for the past several years.

The figure below presents actual federal PSDP expenditures on Karachi along with what is due on the basis of population. According to the Census 2017, the population of Karachi was 7.72 percent of the total population. Using population share as a benchmark to calculate due share, the present value of the deficit Karachi should have received and what it actually received over the past years is aggregated to Rs. 719 billion. The due federal PSDP on Karachi was Rs. 32.3 billion in 2008-09 whereas it was Rs. 48.6 billion in 2020-21.

Figure 13: Karachi's share in Federal PSDP



Source: *Budget in Briefs and Demand for Grants of Various Issues*
Note: *Total due amount is based on Karachi's share in population as per the Census 2017, i.e. 7.72%*

6.3. Karachi Metropolitan Corporation (KMC)

Karachi Metropolitan Corporation (KMC) takes its roots from the Municipal Act of 1850, a Conservancy Board was established in Karachi in 1846 under British Rule. It became the Municipal Corporation in 1933 by the passage of 'Karachi Municipal Act' and was then turned into Karachi Metropolitan Corporation in 1976. The Corporation was headed by Mayor and Vice Mayor. According to SLGO 2001, Karachi Metropolitan Corporation was given the status of district government in Karachi known as City District Government of Karachi (CDGK). However, in 2013, the promulgation of SLGA 2013 narrowed the domain of KMC by distributing the key functional and revenue responsibilities to DMCs and the provincial government.

6.3.1. Authorities/Functions under KMC

During the period before SLGA 2013, the City District Government of Karachi (CDGK) administration had various functions under its jurisdiction including City Administration, Taxation, Master Plan & Building Control, Water, Sanitation (Sewerage & Solid Waste Management), and City Transport, City Development- KDA, land revenue, education, health, and other miscellaneous municipal functions. After the promulgation of SLGA 2013, major functions were taken over by the Sindh Government through various laws and amendments.

Table 18: KMC's Jurisdictions Before and After 2013

KMC's (CDGK) jurisdiction 2001-2012	KMC's Jurisdiction after SLGA-2013	KMC's Jurisdiction after Amendment Act, 2021
Taxation	Sanitation	Sanitation
Master Plan & Building Control	Civil Defense	Civil Defense
Water	Medical College & Teaching/Specialized Hospitals	Miscellaneous Functions
Sanitation	Miscellaneous Functions	
City Transport		
City Development Authorities		
Land Revenue		
Civil Defense		
Excise and Taxation		
Disaster Management		
Education		
Health		
Solid Waste Management		
Medical College &		
Teaching/Specialized Hospitals		
Miscellaneous Functions		

Source: *SLGO-2001, SLGA-2013 and amendments.*

In addition, some of the functions recognized under the domain of KMC by SLGA-2013 are being executed by the provincial government. For instance, KMC's function of coordination, monitoring & supervision of inter-district development is being carried out by the Sindh local government department. Similarly, the civil defense function of the KMC was being managed by the Sindh home department, the traffic engineering function by the transport department, and regulations related to milk by Commissioner Karachi and the price control department of the provincial government.

6.3.2. Revenue Sources of the KMC

The primary sources of revenues of KMC include transfers from SBCA, dues from K-electric, KMC's own income, OZT, funds under the annual development program and grants. Among its assets, Karachi Metropolitan Corporation (KMC) has very valuable assets with rental units stretching from Karachi's most popular markets such as Empress Market, Lea market, Mian Miani Market, Saddar to Lyari. Certain anomalies have been found among tax and non-tax revenue streams, some of them are discussed below:

Anomalies under Tax Revenues

There are certain tax revenues that are under the purview of KMC as per the SLGA-2013 but are, being collected by provincial departments limiting the revenue pool and financial autonomy of the corporation including the entertainment tax and tax over the installation of Base Transceiver Station (BTS) which are now collected by Excise Department and SBCA. Moreover, SLGA-2013 requires the provincial government to pay a certain percentage of taxes, that is, cess to KMC but the cess rate has been determined nor been paid to the KMC since then.

Anomalies under Non-Tax Revenues

KMC has around 9,192 units which are currently being managed by KMC which includes shops, offices, and stalls. Other than these units, KMC also manages a few petrol pumps in posh areas of Karachi and 100 huts at Hawke's Bay Beach. The rental value charged by the KMC authorities on all of these commercial sites is not at all comparable with the current market rates of those areas. It is obvious that the rentals from properties owned by KMC are highly undervalued against the prevailing market rates which are estimated to be around 25-30 times higher. Several Committees were formed to restructure the rents of the commercial sites but nothing has yet been implemented.

Karachi Transformation Plan

In the aftermath of record rainfall in 2020, the Federal Government announced a package of 1100 billion rupees (or US$ 6.8 billion) in September 2020 under the Karachi Transformation Plan jointly with the provincial government. The amount comes to 60% of the infrastructure funding gaps identified by the World Bank (2018), a welcome move though the pace of implementation has been much slower than promised by the Federal and Provincial governments.

The list of the projects and the distribution of expenditure responsibilities among Federal and Provincial governments are provided below:

Table 19: Karachi Transformation Plan

Projects Under Karachi Transformation Plan	Projected Amount (Billion Rupees)
Bahria Town Settlement Fund	**125.0**
Federal Government	**611.0**
Greater Karachi Water Supply Project (K-IV)	46.0
Karachi Circular Railway (KCR)	300.0
Railway Freight Corridor	131.0
Green line BRT	5.0
Rehabilitation of River, Nullahs & Storm Water Drains and resettlement of affected people	254.0
Projects under Provincial Government	**378.0**
Karachi Circular Railway (KCR)	11.0
Water & Sewerage	119.0
Roads and Mass Transit	233.1
Solid Waste Management	14.86
Total Package	**1114.0**

Source: *Ministry of Planning, Development & Special Initiatives*

These allocations to cover up the infrastructure gaps in Karachi would have not been necessarily had the city got it shares regularly in the Federal PSDP (shortfall of Rs. 718.6 bn since 2008-09), Provincial ADP (shortfall Rs. 291 since 2008-09) and empowered sufficiently to raise its revenues in property and other taxes.

Chapter 7:
Conclusions and Policy Recommendations

The Constitution of Pakistan acknowledged the local tier of government in Articles 7 and 32 in 1973 and 140-A after the 18^{th} Amendment to the Constitution. The historic 18^{th} Constitutional Amendment in 2010 attempted to change the course and developed three benchmarks, to design local government structure, including political, administrative, and financial responsibility and authority devolved to the elected representatives of the local governments. However, fiscal decentralization in Pakistan has stuck at the provincial level and very little progress has been made on the local government tier. In contrast to the constitutional responsibility; the provincial government in Sindh dominates across all three benchmarks.

On a financial benchmark, many revenue sources that should be under the purview of local government are currently under the control of the Provincial government which includes property taxes, fees on transfer of properties, fees pertaining to building controls (such as licensing for professionals, building approvals, sale proceeds from public buildings), motor vehicle tax, and user charges. Most importantly, the abolition of OZT and its adjustment to the provincial divisible pool have incurred a revenue loss of around 60-70 percent to the local government's own revenue resources. Administrative responsibilities in Sindh have rather been recentralized, in contravention of the Article 140A of the Constitution, with the took over of functions/authorities like Solid Waste Management, Water & Sewerage Board, Master Planning, Building Control, City Development agencies by the provincial government. These are the globally accepted municipal functions that are now controlled by the provincial government. Across the political benchmark, delays in local government elections are a common phenomenon not only in Sindh but in other provinces as well. Moreover, power is mainly clustered among non-elected representatives such as nominated political administrators or civil servants. Unlike other provinces (where tenure for local governments is five years), tenure for elected local governments in Sindh is four years. Aberration from best practices and sub-optimal allocation of resources and responsibilities have rendered both urban and rural needs largely unaddressed.

The Provincial Finance Commission (PFC) Awards which allocate the financial resources from the province to the local governments were suspended in 2009. The last PFC Award in Sindh announced in 2007 was terminated after two years with the abolition of local governments. While recommending revival of the PFC award, this study has proposed indicators that explicitly incorporate urban and rural needs and shares are simulated using a equal share, pro-basic need and pro-industrialization approaches. This study recommends the pro-industrialization approach for the horizontal distribution of funds to develop a competitive environment amongst the recipient local governments to work towards facilitating industrialization in rural areas. Indicators used are also classified into urban and rural needs as per Sindh Local Government Act (SLGA), 2013.

7.1. Policy Recommendations

7.1.1. Proposed Mechanism for OZT Grants

It is proposed that a mechanism for OZT transfers similar to that in DRGO 2006 be adopted. The provincial government disburse OZT grants to district governments by applying 34.85 percent to the one-sixth of sales tax on goods. For the district-wise shares, it is recommended to allocate OZT to the district government with the same proportions as were in 2007-08.

7.1.2. Framework for the 5th Provincial Finance Commission (PFC) Award

The fourth Provincial Finance Commission (PFC) Award for Sindh was held in the year 2007 and remained intact till the termination of local government in the year 2009. The 5th Provincial Finance Commission (PFC) Award is due since then, this section proposes the framework for the 5th PFC Award - Sindh.

i. Composition of Provincial Finance Commission (PFC)

It is proposed that the Provincial Finance Commission remains the same as SLGA 2013 with a few amendments that among two members (including Chairman of a District Council, and Chairman of a Municipal Committee); one member to be nominated by the leader of the provincial assembly and the other by the leader of the opposition. Similarly, among two professionals from the private sector, one member must be nominated by the leader of the provincial assembly and one by the leader of the opposition.

ii. Provincial Divisible Pool

All provinces except Sindh include federal transfers, taxes, and non-tax receipts into the provincial divisible pool. Sindh did not count non-tax receipts into the divisible pool in any of the last four PFC Awards. Currently, the provincial government is collecting most of the revenues on account of non-tax receipts. It is therefore proposed to include non-tax revenues under provincial divisible pool until the collection of non-tax revenues gets completely devolved to the local government.

This study proposes General Revenue Receipts excluding OZT shares as well as obligatory expenditures to get Net Divisible Pool. Obligatory expenditures include Pensions and Charged Expenditures. Net Divisible Pool is then divided into Allocable Fund and Retained Amount.

iii. Criteria for Vertical Distribution

Vertical distribution divides the net divisible pool into allocable funds and funds retained by the provincial government based on certain criteria. This policy framework recommends that the vertical share should be maintained as per the criteria of the 4th PFC Award which was as follows:

- Allocable Funds: 55 percent,
- Funds retainable by Provincial Government: 45 percent.

iv. Criteria for Horizontal Distribution

Horizontal distribution further segregates the allocable funds into districts based on pre-defined criteria. In line with the Sindh Local Government Act's (SLGA)-2013 classification into Urban and Rural local governance structure, this study categorizes indicators for Urban and Rural needs along with basic indicators. After comparing distribution on three variants of the proposed model along with replicating Sindh's last PFC, KPK Model, and 7th NFC Model, this study proposes a vpro-industrialization weighting scheme for our proposed model. Indicators and corresponding weightages are provided in the table below:

Table 20: Proposed Indicators and Weightages

Proposed Indicators	Proposed Model (Pro-Industrialization approach)
Basic Indicators	**40%**
Population	30%
Area	5%
Inverse per capita basic drinking water, sanitation and hygiene services	5%
Urban Indicators	**35%**
Revenue Collection	10%
Industries	25%
Rural Indicators	**25%**
Multidimensional Poverty	6.67%
Inverse Per Capita Hospital Beds	6.67%
Inverse Road Density	6.67%
Revenues from Oil, Gas and Coal	5.00%

7.1.3. Recommended Local Government Reforms and actions by the Provincial Government

According to the Sustainable Development Goals, United Nations; local and regional governments are directly or indirectly related to SDG targets. Local governments' role in investments in basic services, resilient urban and territorial infrastructures are crucial for the achievement of the SDGs. Policymakers at the local tier of government are best placed to link the global goals with local communities and territorial realities.

To strengthen the local government structure of Sindh, the following measures are recommended:

i. Local Government Elections must be held on a regular basis

The tenure of the elected local governments in Sindh ended in August 2020. Section 219(4) of the Election Act, 2017 requires local government polls to be conducted within 120 days after the expiry of the term. Article 140-A of the constitution also requires to devolve political, administrative, and financial responsibility and authority to the elected representatives to the Local Government. The provincial government has been non-compliant with these legal provisions.

It is imperative for the Sindh government to conduct local government elections on regular basis. Moreover, the tenure of local government in Sindh should be matched with that of local governments in other provinces of Pakistan, that is, five years rather than four years in SLGA 2013. Local government elections must be held based on the Census 2017 figures as was the case with the provincial assembly elections rather than using it as an excuse to delay LG elections.

ii. Devolution of all municipal and related functions to Local Governments especially the Karachi Metropolitan Corporation (KMC)

Local governments functioning and the social indicators of the Province are going down as found in this study. Karachi, the industrial and commercial capital of the country cannot be kept under perpetual civic crisis anymore. The World Bank (2018) recommended that a highly empowered metropolitan corporation headed by an elected mayor responsible for planning, development, and service delivery with the district municipalities as the second tier of metropolitan governance is crucial for Karachi in order to transform the city into a competitive megacity. Such empowerment of Karachi Metropolitan will require returning back:

a. Master Planning and Building Control
b. Water Supply and Sewerage
c. Solid Waste Management
d. Mass Transit, Urban Transport, and Traffic Control
e. City Development Agencies (KDA, LDA, MDA, etc.)
f. Intra-City Roads Infrastructure
g. Disaster Management
h. All other municipal functions and regulations

Similar empowerment of all the local governments as per their roles needs to be reinstated as per their functioning before rolling back of the Devolution Plan in 2009 to enable the rural and urban local governments to play their effective role in the socioeconomic development of the province.

iii. Devolution of Primary and Secondary Education to Local Government

After taking over the subject of education by the provincial government, the literacy rate in rural areas has gone down from 41 percent in 2008 to 39 percent in 2020, and the enrolment rate has gone down from 44 percent to 39 percent. Similarly, in urban areas, the literacy rate has gone down from 74 percent in 2008 to 73 percent in 2020 and the enrolment rate from 62 percent to 51 percent. These figures make a strong case for the re-devolution of the subject of Education to the local governments.

It is recommended to restore planning, development as well as operation & maintenance of primary and secondary schools under the purview of local government. The provincial government may keep curriculum settings and regulations under its purview.

iv. Local Governments' revenue and development funding from the Provincial Divisible Pool and Annual Development Plan must be restored and rationalized

As discussed in the report, the revenue allocation and releases to the local governments have become negligible since the suspension of the PFC award in 2009. Similarly, the allocation and releases under the Annual Development Plan have been inappropriately divided especially for the city of Karachi. For sustainable and equitable development of rural and urban areas, it will be required that:

a. Provincial Finance Commission Award is announced regularly;
b. Till the time agreement on a new award is arrived at, the previous PFC award shall continue to hold the ground as it the case with NFC awards;
c. Transfers to the districts shall not be lesser than those already given in the previous PFC award, similar to the existing condition of the NFC;
d. Annual Development Plans must evenhandedly allocate development funds to various districts/areas according to their population and development needs.

v. Fiscal Devolution to the local governments:

The complete dependence of the local governments on the PFC, ADP and other grants takes away their initiative and capacity to innovatively and effectively levy local taxes and charges to be able to take up larger development and welfare projects. The local governments need to be empowered to levy and collect:

a. Property Tax
b. Transfer of Property Tax/Fee
c. Motor Vehicle Tax
d. Non-Tax Revenues of local nature
e. Entertainment Tax
f. Local Cess
g. Entertainment tax
h. Building Control Taxes/Fees including BTS Installation Tax

vi. Local Government autonomy needs to be restored

Sindh Local Government Act 2013 allows such powers to the Provincial government which can in no manner fit into any democratic setting. Sections 74 and 75 allow the provincial government to take over any of LGs functions it may choose to. Sections 91-93 allow to suspend and disband any local government body or its department after its own inquiry.

The aforementioned provisions severely limited the functional autonomy of the local governments which is inevitable for effective performance and delivery of services for a democratically elected institution.

7.1.4. Recommended Measures for Federal Government

i. Adequate constitutional coverage needs to be provided to local governments

Most of the countries following fiscal federalism across the world have covered local government structure comprehensively through Constitutional provisions. For instance, 73rd and 74th Indian Constitutional amendments in 1992 have added a new chapter in the process of democratic decentralization. Besides devolving administrative, financial, and political authorities; the 73rd Amendment act clearly defines compulsory and voluntary provisions for the third-tier of the government. The 74th amendment explicitly focuses on urban local governments. However, the Constitution of Pakistan does not adequately cover the functional as well as revenue assignments of local governments[14].

In line with the global best practices, the Constitution of Pakistan needs to be amended and new chapters should be introduced that outline the devolution of compulsory and optional expenditure as well as revenue assignments for local government in general and for urban local government in particular.

ii. Federal Government must allocate a fair share in Federal PSDP for the development of Karachi

Karachi is the industrial, commercial and financial capital of the country. This engine of economic growth has been the victim to neglect by the Federal Government as well. Article 156(2) of the constitution requires the federal government to ensure balanced development and regional equity. In line with the constitution, the federal government must allocate the equitable and fair share in the federal PSDP pool for Sindh, in general, and for Karachi in particular.

As shown in the report, Karachi never got its due share after Tameer-e-Karachi Programme during the military regime. The cumulative loss in federal development outlays through PSDP since 2008 has been Rs. 719 billion (in present value).

It is suggested that the Federal government makes inviolable legislation to ensure that the provision of Article 156(2) of the Constitution will be complied with in framing of PSDP every year for all areas of the country according to its population as well as revenue collection.

iii. Anomalies in the Census methodology must be resolved

All Provincial Finance Commission (PFC) Awards as well as National Finance Commission (NFC) Awards allocate significantly higher weightage for population, therefore, accurate representation of population is crucial for fair distribution for resources. The Pakistan Bureau of Statistics (PBS) defines two approaches for Census enumeration. The first is the de-jure approach where heads are counted based on their ‘usual place of residence’. The second approach is the de-facto approach in which persons are counted where they are found on the census date. While the PBS used the de-jure approach during Census 1998 and planned to use the same for 2017, however, even the standard questionnaire to count de-jure population was not followed (Wazir & Goujon, 2019). Moreover, the census also does not define ‘usual place of residence’

[14] Khan (2021)

To correct anomalies in the census, the following measures are recommended:

- Census organization must adopt both the de-facto and de-jure approaches simultaneously and publish results of both approaches.
- Clarity over the definition of 'usual place of residence' and 'household' must be provided within the explanatory notes in subsequent censuses. Any household enlisted in the voters list of a particular area should not be allowed to declare its "usual place of residence" in any other area.
- Provincial Finance Commission (PFC) awards should be based on population measured using the de-facto approach.

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Appendix

Table 21: District-wise absolute shares for approaches used

District-Wise Shares (Rs. Billion)	Actual Transfers	Sindh's PFC 2007	KPK's PFC 2021	07th NFC Model	Sensitivity Analysis			Estimated OZT Share
					Equal Share Approach	Pro-Basic Need Approach	Pro-Industrialization Approach	
Badin	1.68	15.01	17.77	16.27	13.10	13.13	11.63	1.58
Dadu	1.50	16.60	14.51	13.50	11.09	11.66	10.48	2.21
Hyderabad	2.95	12.09	17.56	17.42	8.02	11.48	10.12	2.71
Jamshoro	1.19	15.21	10.67	10.39	13.82	12.43	12.02	1.16
Matiari	0.87	8.81	9.33	7.74	5.54	6.21	5.60	0.94
Tando Allahyar	0.82	11.41	10.15	8.48	8.01	8.15	7.45	0.90
Tando Muhammad	0.87	10.34	9.84	7.81	7.28	7.10	6.64	0.81
Thatta	0.92	11.33	12.00	10.80	10.79	9.54	8.85	1.29
Sujawal	0.90	12.94	10.71	9.57	10.93	9.14	8.56	1.24
Jacobabad	1.25	10.60	11.44	9.97	8.28	8.53	7.87	0.45
Kashmore	1.03	21.22	12.63	10.78	16.41	15.16	14.41	0.42
Larkana	0.99	10.41	14.57	12.57	6.15	8.98	8.13	0.81
Kambar Shadad Kot	1.65	14.44	13.97	12.55	12.00	12.61	11.92	0.75
Shikarpur	1.41	11.29	12.58	11.21	8.27	8.96	8.09	0.82
Mirpur Khas	1.97	11.39	15.37	13.64	9.10	10.40	9.21	1.31
Tharparkar	1.13	21.80	16.82	16.28	32.98	24.07	22.64	0.29
Umer Kot	1.08	11.93	13.15	11.38	10.33	9.75	8.83	0.85
Ghotki	1.77	14.26	15.80	14.72	17.16	15.72	14.56	3.05
Khairpur	2.96	20.06	20.43	20.13	16.02	16.25	14.29	1.85
Sukkur	2.94	13.31	14.94	12.76	11.33	11.70	10.94	1.25
Sanghar	2.35	19.36	19.12	18.03	14.77	15.29	13.76	2.07
Naushero Feroz	1.94	14.82	14.64	13.39	8.29	10.39	9.10	1.37
Shaheed Benazirabad	1.87	10.95	18.72	14.47	7.13	9.36	8.12	1.93
Karachi (Division)	25.27	95.29	125.84	139.86	148.05	148.88	171.66	114.95

Source: *Release Positions FY 2020-21, author's own estimates*
Note: *Actual transfers include Straight Line Transfers, OZT share, and transfers to TAs, UAs, KMC, DC, DMCs and KDA. These figures do not include adhoc grants.*

Table 22: District-wise Shares in percentage across indicators of the Proposed Model

District-Wise Shares Based on Indicators	Population	Area	Inverse per capita basic drinking water, sanitation & hygiene services	Industries	Revenue Collection	Multidimensional Poverty Index	Inverse per capita hospital beds	Inverse Road Density	Revenue from Gas, Oil and Coal	OZT Share*
Badin	3.77%	4.87%	7.99%	0.25%	0.10%	5.37%	4.00%	3.03%	2.64%	1.09%
Dadu	3.24%	5.58%	2.12%	0.67%	0.12%	3.06%	3.52%	5.02%	4.32%	1.53%
Hyderabad	4.60%	0.70%	1.69%	1.23%	1.39%	1.60%	0.52%	1.59%	4.91%	1.87%
Jamshoro	2.08%	7.95%	1.70%	1.90%	0.29%	3.68%	1.11%	12.61%	2.56%	0.80%
Matiari	1.61%	1.01%	1.13%	0.23%	0.05%	4.02%	3.79%	2.64%	0.00%	0.65%
Tando Allahyar	1.75%	1.10%	1.90%	0.10%	0.03%	4.54%	8.67%	2.56%	0.79%	0.62%
Tando Muhammad	1.41%	1.01%	3.08%	0.52%	0.06%	5.64%	4.94%	1.79%	0.17%	0.56%
Thatta	2.05%	6.08%	3.92%	0.42%	0.34%	5.42%	2.02%	4.35%	1.81%	0.89%
Sujawal	1.63%	6.23%	4.80%	0.41%	0.03%	5.54%	3.58%	4.35%	0.39%	0.86%
Jacobabad	2.10%	1.91%	4.55%	0.92%	0.07%	4.85%	2.65%	3.06%	0.00%	0.31%
Kashmore	2.28%	1.83%	3.29%	0.86%	0.10%	5.35%	22.55%	3.62%	4.17%	0.29%
Larkana	3.18%	1.38%	2.19%	2.12%	0.16%	2.41%	0.66%	1.17%	0.00%	0.56%
Kambar Shadad Kot	2.80%	3.89%	3.59%	2.23%	0.04%	4.75%	6.59%	5.10%	0.05%	0.52%
Shikarpur	2.58%	1.78%	5.66%	0.87%	0.06%	4.02%	2.26%	2.43%	0.00%	0.57%
Mirpur Khas	3.14%	2.08%	2.35%	0.49%	0.08%	4.97%	3.17%	2.06%	4.88%	0.91%
Tharparkar	3.44%	13.94%	14.39%	0.00%	0.02%	5.97%	3.73%	11.76%	31.54%	0.20%
Umer Kot	2.24%	3.98%	4.69%	0.00%	0.04%	6.25%	5.79%	3.21%	0.00%	0.59%
Ghotki	3.45%	4.32%	3.12%	1.00%	0.33%	4.42%	3.28%	4.19%	20.59%	2.10%
Khairpur	5.03%	11.29%	4.47%	0.42%	0.21%	3.24%	1.95%	4.12%	8.06%	1.28%
Sukkur	3.11%	3.67%	1.79%	1.60%	0.96%	2.44%	1.09%	3.89%	8.82%	0.86%
Sanghar	4.28%	7.61%	4.42%	0.94%	0.23%	4.79%	4.09%	5.45%	4.29%	1.43%
Naushero Feroz	3.37%	2.09%	2.11%	0.42%	0.08%	2.65%	7.41%	2.83%	0.00%	0.95%
Shaheed Benazirabad	3.37%	3.19%	2.19%	0.71%	0.07%	4.79%	0.82%	1.77%	0.00%	1.33%
Karachi (Division)	33.49%	2.50%	12.88%	81.68%	95.13%	0.24%	1.81%	7.39%	0.00%	79.27%

** OZT Shares are based on district-wise OZT shares for 2007-08*

Note: *District Sujawal was created in 2013 by bifurcating Thatta, therefore, data on some variables were not available. This study has made the following estimations for district Sujawal for the missing indicators:*

i. OZT Shares: The OZT proportion for Thatta and Sujawal in 2019-20 were 51% and 49% respectively. Thatta's (old) OZT share of 2007-08 was divided using Sujawal (49%) and Thatta (51%).

ii. No. of Industries: The total no. of industries in Thatta was also divided into 51% in Thatta and 49% in Sujawal. A similar approach is adopted to divide no. of industries for Jacobabad (51.8%) and Kashmore (48.2%).

iii. Inverse Road Density: The study assumed the same road density for newly created Sujawal and Thatta districts.

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