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Khyber Pakhtunkhwa Budgets 4-YEAR SCORECARD

FY2013-14 to FY2016-17

Omar Asghar Khan Foundation

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Omar Asghar Khan Foundation regularly analyzes Khyber Pakhtunkhwa's budget since 2010. Details of its findings and recommendations are available at www.oakdf.org.pk including the following publications:

2011-12 Money Matters-An analysis of Khyber Pakhtunkhwa's Budget 2011-12
2014-15 An analysis of Khyber Pakhtunkhwa's Budget
2015-16 Fair Funds-An analysis of Khyber Pakhtunkhwa's Budget 2015-16
2016-17 Broken Promises-An analysis of Khyber Pakhtunkhwa's Budget 2016-17

Omar Asghar Khan Foundation is a public advocacy organization helping build a state responsive to its citizens. It seeks to strengthen the resilience of citizens – particularly the most vulnerable – so that they can claim their rights from the state, counter violent extremism, and reduce the burden of poverty. The Foundation fundamentally understands how to engage citizens and civil society in demanding and promoting a functioning democracy, in which government is accountable, citizens are active participants, and civic space is effectively used to promote tolerance. The Foundation works across Pakistan, with its strongest fieldbase in Khyber Pakhtunkhwa. It has offices in Islamabad and Abbottabad.

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Acronyms

ADP	Annual Development Programme
ANP	Awami National Party
FY	Financial Year
NFC	National Finance Commission
PFC	Provincial Finance Commission
PTI	Pakistan Tehreek-e-Insaf

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Provincial Assembly of Khyber Pakhtunkhwa

Summary

On assuming power in 2013, Khyber Pakhtunkhwa's coalition government led by the Pakistan Tehreek-e-Insaf promised a strong local government, transparent governance divested from political interference, and, an education emergency.

This scorecard analyzes the province's annual budgets over the four-year period: FY2013-14 to FY2016-17 to assess the government's performance against its pledges. The public budget is a powerful tool to hold governments to account. It shows intent as the government puts money where its promises are.

A progressive local government law was passed in 2013 and local elections completed in May-August 2015. Yet, Khyber Pakhtunkhwa's local government is troubled by false starts. The provincial law stipulates allocating "not less than 30 per cent" of total development funds for local government. But the provincial government failed to meet this threshold. In FY2015-16 allocations of Rs.48.53 billion for local government accounted for about 30 per cent of the total, but much of it was pre-determined. In FY2016-17 the allocation dropped to 26.9 per cent of the total development outlay of Rs.161 billion.

Development allocations to districts mock the promise to establish fair, equitable governance. Overly generous allocations are given to power districts that are mostly home constituencies of those with influence in the province's ruling clique. Big beneficiaries among the powerful are Nowshera, the home district of Chief Minister Pervez Khattak, that received Rs.15.7 billion and Swabi the homebase of Mr. Asad Qaiser, the Spearker of Khyber Pakhtunkhwa Assembly, that received Rs.7.5 billion. In contrast, tight-fisted meanness is meted out to poor districts. For example, Tank received a total of Rs.0.79 billion and Kohistan was given Rs.1.7 billion in four years.

Rs.23.3 billion allocated to two power districts of Nowshera and Swabi outstrip the entire amount of Rs.18.5 billion given to the province's poorest seven southern districts of Bannu, Dera Ismail Khan, Hangu, Karak, Kohat, Lakki Marwat and Tank. The fate of Hazara's six districts: Abbottabad, Battagram, Haripur, Kohistan, Mansehra and Tor Ghar is similar to the impoverished southern belt. The region's total allocation in four years is Rs.22.8 billion, i.e., less than funds given to the favoured districts of Nowshera and Swabi.

Transparency also appears compromised as block allocations as a percentage of the entire development outlay recorded an increase from 67.4 percent to 73.56 per cent. Block funds also remained high within some sectors. Education, for example, retained 96.65 per cent of total allocation as block in FY2013-14. It increased a notch further to 97.35 per cent in FY2016-17. Block allocations make it difficult to hold governments to account and also give unlimited discretion to politicians and bureaucrats to move funds around within the purpose stated for the block.

The practice of retaining public monies under block allocations (aka as "umbrella" funds) is contrary to stated commitments to transparent and accountable governance.

The sliding scale of investment in public education contradicts the impositions of an education emergency. Rs.24 billion allocated for education in FY2013-14 accounted for 20.4 per cent of a total development outlay of Rs.118 billion. In FY2016-17 it stands at 10.51 per cent or Rs.16.9 billion out of a total development outlay of Rs.161 billion.

Recommendations

- Fiscal decentralization for empowered local governments must be ensured through strict compliance with the legal stipulation of allocating "not less than 30 per cent" of total development funds for local government.
- The Provincial Finance Commission must devise a fair equation for transfer of funds from the province to districts. It must benefit from extensive and inclusive stakeholder consultations.
- Like the 7th NFC Award, the PFC equation should apply to the entire divisible pool at the provincial level and not just to funds for local government.
- Block funds must be eliminated or at least substantially reduced.
- The Education Emergency must generate adequate funds to improve the province's public education system.

Introduction

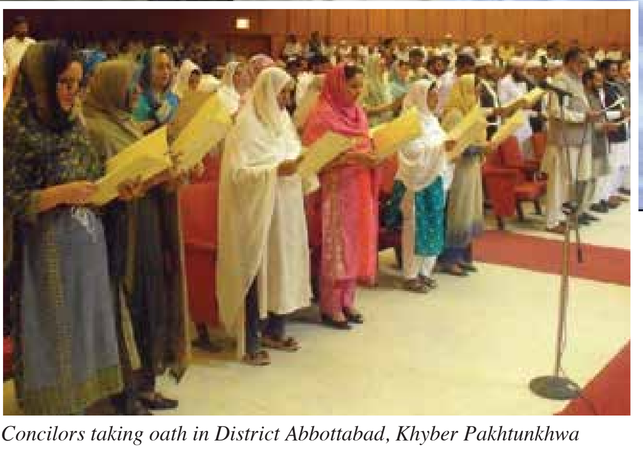
A coalition government led by the Pakistan Tehreek-e-Insaf took office in Khyber Pakhtunkhwa following the 2013 elections. A strong local government, transparent governance divested from political interference, and, an education emergency, were some of its passionate electoral promises and early public commitments after assuming power.

This scorecard uses Khyber Pakhtunkhwa's annual budgets over the four-year period of FY2013-14 to FY2016-17 to measure the government's performance against its pledges. The public budget is a powerful tool to hold governments to account. It shows intent as the government puts money where its promises are.

This scorecard assesses if budgets align with government commitments so as to hold it to their word. It reviews:

- fiscal decentralization supporting Khyber Pakhtunkhwa's new local government
- practice of placing public funds under block allocations
- district-wise distribution of development funds
- public finance investments in education

The scorecard has compared annual allocations to map trends, and has also drawn heavily on the findings of the Foundation's annual assessments of Khyber Pakhtunkhwa's budgets.



Concilors taking oath in District Abbottabad, Khyber Pakhtunkhwa

Khyber Pakhtunkhwa's local government:
false starts & failed fiscal decentralization

A strong, empowered local government was one of the prime promises made during Pakistan Tehreek-e-Insaf's spirited 2013 election campaign. It was reiterated in early public commitments after a coalition government led by PTI took office in Khyber Pakhtunkhwa.

In October 2013 the provincial assembly passed the Khyber Pakhtunkhwa Local Government Act 2013. Among the four provincial local government laws, Khyber Pakhtunkhwa's legislation stands out as the most progressive. It draws heavily on the 2001 Local Government Ordinance, giving elected local governments significant authority to decide development priorities and oversee performance of government services. It introduces a three-tiered structure, boldly including the basic tier of Village/Neighbourhood Councils, bringing governance closer to citizens. Fiscal decentralization is also ensured with the local government law stipulating the allocation of "not less than 30 per cent" of total development funds to elected local governments.

Violence and widespread mismanagement sadly marked local elections on 30 May 2015. Subsequent indirect elections were also not held on schedule. Despite these hiccups, the new local government became functional in September 2015. But more challenges followed.

Rules were approved and several amendments passed to the local government law restricting the powers of elected local councilors. The provincial government also failed to meet the fiscal decentralization threshold for allocating "not less than 30 per cent" of total development funds for local government.

In FY2015-16, two allocations appeared for local government. Combined they were just about 30 per cent. But the devil was in the detail. Rs.18.26 billion allocated for ongoing and new programmes under local government was just 10.44 per cent of the total development outlay of Rs.174.88 billion. Its use was already decided. One-third of this amount or Rs.6.1 billion was allocated to six of the 25 districts of the province for specified purposes. Much of the remaining amount of Rs.12.1 billion included block allocations for pre-determined priorities like provision of *LED/solar road lights, construction of slaughter houses, establishment of bachat bazaars*, etc. These allocations were of little use to local governments that need resources for priorities they set. The other allocation was Rs.30.27 billion under the District ADP, accounting for 17.31 per cent of total development funds.

Though unrestricted, the distribution of these funds to district governments, tehsil and village/neighbourhood councils was to be decided by the Provincial Finance Commission (PFC).

As per the Khyber Pakhtunkhwa Local Government Act 2013 the PFC was constituted in October 2015. But it has failed to fulfill its mandate to devise an equation for distributing public funds from the province to districts.

Perhaps even more disturbing was the evidence revealed in Khyber Pakhtunkhwa's budget documents for FY2016-17. It showed non-utilization of funds allocated under the District ADP for district governments, tehsil councils and village/neighbourhood councils in the preceding year.

The province's budget for 2016-17 adds more dismay. It shows Rs.33.9 billion and Rs.9.4 billion allocated for local government. Combined these account for 26.9 per cent, falling short of the minimum 30 per cent of total development outlay of Rs.161 billion promised to elected local governments.

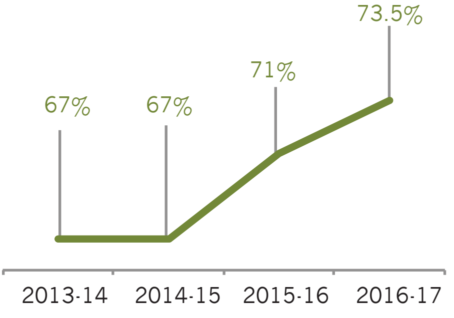
Rise & rise of block funds

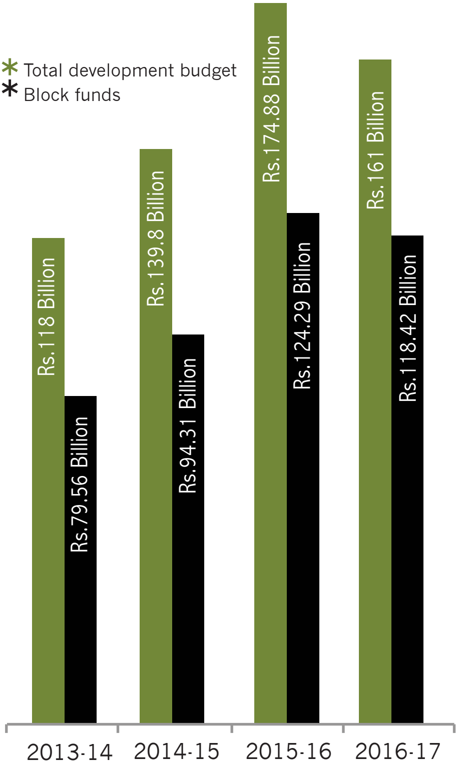
Block allocations as part of total development funds in Khyber Pakhtunkhwa's annual budgets show an upward trend. In percentage terms, the change is incremental over time, translating into more significant escalations in absolute terms.

In FY2013-14 block allocations accounted for 67 per cent or Rs.79.56 billion of the total development outlay of Rs.118 billion. In FY2016-17 it increased to 73.5 per cent or Rs.118 billion of the total development outlay of Rs.161 billion. Persistently keeping more than two-third of the total development budget shrouded in mystery negates stated commitments to open, transparent and accountable governance.

Block or *umbrella* funds are allocations made to sectors like education, health, etc., without specifying their intended location, giving politicians and bureaucrats tremendous discretion to move funds around within the purpose stated for the block. Block funds compromise transparency and make it difficult to hold governments to account.

% & absolute block of total funds





The amount of funds retained as block allocations can easily be calculated by disaggregating allocated and unallocable funds. Tracking where these funds are expended is more difficult. Block funds appear as single, bulk items. When moved around and expended they appear in a different form and generally do not retain traceable references.

Interesting patterns also emerge if block funds within sectors are mapped. During 2013-16, education emerged as the top-ranking sector, maintaining more than 90 per cent of funds under block allocations. It touched an all-time high of 97.35 per cent in FY2016-17. In absolute terms, the block amount, i.e., Rs.1.64 billion in FY2016-17 is less than Rs.2.37 billion in FY2013-14. But the reduced amount is attributed to decreased allocations for education, i.e., from Rs.2.4 billion in FY2013-14 to Rs.1.69 billion in FY2016-17.

Another high-scoring sector is health. In FY2013-14 block allocations under health accounted for less than half or 46.55 per cent of the total development funds for this sector. By FY2016-17 the proportion of block funds climbed up to 69.12 per cent. In absolute terms the increase is more significant: from Rs.4.7 billion in FY2013-14 to Rs.12.08 billion in FY2016-17.

EDUCATION

FY	Total Allocation	Block Amount	% Block of Total
2013-14	Rs.24.07 Billion	Rs.23.26 Billion	96.65
2014-15	Rs.19.93 Billion	Rs.19.26 Billion	96.70
2015-16	Rs.15.98 Billion	Rs.14.60 Billion	91.37
2016-17	Rs.16.91 Billion	Rs.16.46 Billion	97.35

HEALTH

FY	Total Allocation	Block Amount	% Block of Total
2013-14	Rs.10.08 Billion	Rs.4.70 Billion	46.55
2014-15	Rs.11.21 Billion	Rs.5.66 Billion	50.49
2015-16	Rs.12.43 Billion	Rs.7.50 Billion	60.39
2016-17	Rs.17.47 Billion	Rs.12.08 Billion	69.12

The government must come clean with the reasons for placing large amounts of public monies in block allocations, allowing unlimited discretion over their use. Such non-transparent practices make it difficult to hold governments to account, to understand its priorities for different districts or regions, and assess if all have fair access to development opportunities and quality social services.

If block funds were used in a fair way they would not create such a stir. But doubts abound about their equitable use as patronage remains a dominate feature of politics in Pakistan. With the freedom to move funds under block allocations around, these can more easily be used to grant development projects/schemes in exchange of voter loyalty. Public funds are also withheld to punish opponents by rejecting development projects in areas where they dominate. This is particularly true for rural areas. Till this transactional voting system continues to thrive, it is difficult to move towards equity or evidence-based use of public funds.

Development benefits like irrigation water are promised in Pakistan's transactional voting practice

District-wise comparative analysis of development allocations over the past four years defines districts and regions that are favoured and those that are short-changed. Not surprisingly, Chief Minister Pervez Khattak's hometown of Nowshera is the most favoured. It has been allocated a total of Rs.15.73 billion in four years.

District-wise comparison of share in development

The 7th National Finance Commission (NFC) Award signed in 2009 is a landmark victory for provincial autonomy and budget transparency. Its agreement was reached after intense rounds of negotiations between the center and the four provinces. It provided an equation for the transfer of funds from the center to the provinces. The 7th NFC Award is based on four weighted criteria: population (82 per cent), poverty (10.3 per cent), revenue capacity (5 per cent) and area (2.7 per cent).

No comparable equation exists for allocating funds from the province to districts. Political clout rather than sound development justifications often guides public finance decisions on how to cut the provincial development pie. These have a critical impact as they determine the scale of public funds allocated for a district, bringing or blocking development opportunities to its people.

After the May 2013 elections the incoming PTI-led coalition government passed its first budget in June 2013 for FY2013-14. Nowshera received 1.20 per cent or Rs.1.41 billion of the total development outlay. The following year, FY2014-15, the share was doubled to 2.49 per cent or Rs.3.49 billion.

The upward trend continued with Nowshera getting 3.08 per cent or Rs.5.37 billion in FY2015-16 and 3.21 per cent or Rs.5.18 billion in FY2016-17. The reduced absolute amount in FY2016-17 is due to a smaller development outlay of Rs.161 billion compared to the preceding year's Rs.174.88 billion.

Interestingly, under the outgoing ANP government in FY2012-13, Nowshera had received 1.54 per cent or Rs.1.5 billion of the total development budget for the province. As there is no significant change in Nowshera's basic statistics or conditions during the period 2013-16, it becomes difficult to understand or justify the sharp increase in development benefits bestowed on Nowshera.

Other power districts receiving generous development allocations are mostly constituencies of those who hold significant influence in Khyber Pakhutunkhwa's ruling clique.

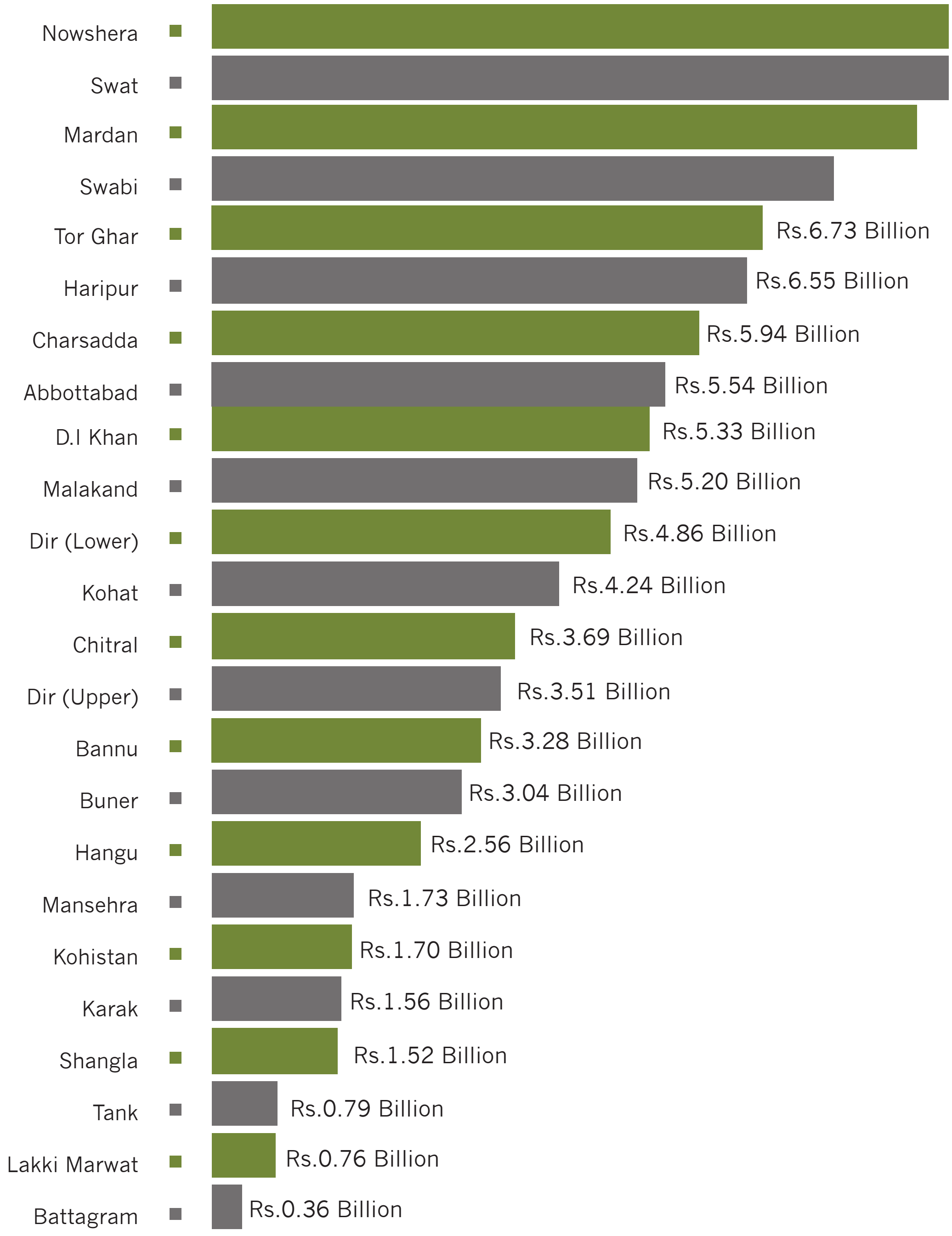
Magnanimity to Nowshera and other power districts is as tough to explain as meanness towards poor districts like Kohistan. In the comparable period of 2013-16, funds for the disaster-affected Kohistan show a steep downward slide. In FY2013-14 Kohistan was allocated 0.57 per cent or Rs.0.67 billion of total development funds. In FY2014-15 its share reduced to 0.32 per cent or Rs.0.45 billion, in FY2015-16 to 0.17 per cent or Rs.0.29 billion and in FY2016-17 a miserly 0.11 percent or Rs.0.17 billion. The amount of funds given to the severely poor Kohistan in FY2013-14 is indefensible. Further budget cuts in subsequent years adds insult to injury. These can only be described as cruel public finance decisions as the impoverished people of this region were reeling with unspeakable destruction caused by a spate of deadly natural disasters in this period.

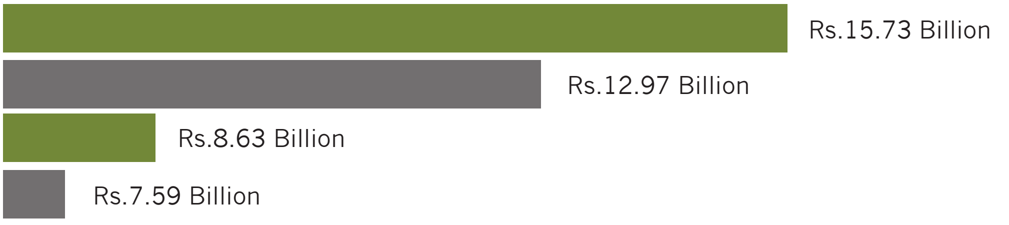
Floods in 2010 caused massive destruction across the valleys of Kohistan. While slow recovery and rebuilding was in progress, the area was struck by a devastating earthquake in 2015. And the pre-monsoon rains in 2016 brought more misery. Lives were lost, homes destroyed, roads wrecked, bridges collapsed, and water mills swept away -- the very foundation of people's survival remains badly broken. The tragic realities of Kohistan and its people desperately call for funds – for rehabilitation and also for development that builds resilience to face future disasters. Inexplicably the provincial government's response was to squeeze funds, reducing development allocations that were already tight-fisted.

A district-wise comparison of development allocations shows entire regions with less political power are denied development benefits. These include the chronically poor seven southern districts and the six districts that make up the Hazara region. These have consistently received small and dwindling allocations. However, some districts within these regions manage to use political clout to get more funds than others.

How does one understand the inequity in distributing public funds? Clearly, every politician is under pressure to fulfill electoral promises, which are often fantastically unrealistic, made in a desperate bid to win elections. Politicians also keep the next elections in their cross-hairs. Those who win elections on the basis of patronage or clan identity have an interest in perpetuating such myopic, self-serving politics, as their next electoral contest also depends on it. These interests pull in one direction.

On the other hand are responsibilities of public office, demanding a broader and fairer perspective that takes into account the needs of the entire province, not just the narrow interest of individual constituency or home districts. The findings of a comparative analysis of district-wise development allocations over the period 2013-16 suggests that personal political ambitions appear to have outweighed the burdens of public office.


Nowshera
Swat
Mardan
Swabi
Tor Ghar
Haripur
Charsadda
Abbottabad
D.I Khan
Malakand
Dir (Lower)
Kohat
Chitral
Dir (Upper)
Bannu
Buner
Hangu
Mansehra
Kohistan
Karak
Shangla
Tank
Lakki Marwat
Battagram
Rs.6.73 Billion
Rs.6.55 Billion
Rs.5.94 Billion
Rs.5.54 Billion
Rs.5.33 Billion
Rs.5.20 Billion
Rs.4.86 Billion
Rs.4.24 Billion
Rs.3.69 Billion
Rs.3.51 Billion
Rs.3.28 Billion
Rs.3.04 Billion
Rs.2.56 Billion
Rs.1.73 Billion
Rs.1.70 Billion
Rs.1.56 Billion
Rs.1.52 Billion
Rs.0.79 Billion
Rs.0.76 Billion
Rs.0.36 Billion



District-wise aggregate allocation for development over the period FY2013-14 to FY2016-17

*all districts of KP except urban Peshawar

Education Emergency – losing steam

The PTI-led government promised priority attention on education and declared an Education Emergency. A review of development funds allocated for Elementary & Secondary Education in the province's ADP over the four-year period 2013-16 reveals that the urgency is losing steam. Disaggregating development from current allocations is even more important in this sector as the Elementary and Secondary Education Department is the largest of all government departments, employing 168,000 employees including 123,380 teachers in 28,000 government institutions. With about 55 per cent of total employees of Khyber Pakhtunkhwa, this sector's current budget covering salaries, etc., is significant but unlikely to shed much light on the government's plans to make improvements in education.

In FY2013-14 20.4 per cent or Rs.24 billion was allocated for education out of a total development outlay of Rs.118 billion. The following year in FY2014-15 the allocation dropped to 14.25 per cent or Rs.19.92 billion out of total development funds of Rs.139.8 billion. The lowest allocation was made in FY2015-16, i.e., 9.14 per cent or Rs.14.59 billion of a total of Rs.174.8 billion. In the current fiscal year of 2016-17 allocation for education stands at 10.51 per cent or Rs.16.9 billion out of a total development outlay of Rs.161 billion. While the allocation for elementary education in FY2016-17 is more than the preceding year, it is still about half in percentage terms and substantially reduced in absolute terms from the allocation made in FY2013-14.

FY	Total ADP	Total Allocated for Education	% for Education of total ADP
2013 - 14	Rs.118.0 billion	Rs.24.0 billion	20.40
2014 - 15	Rs.139.8 billion	Rs.19.9 billion	14.25
2015 - 16	Rs.174.8 billion	Rs.14.6 billion	09.14
2016 - 17	Rs.161.0 billion	Rs.16.9 billion	10.51

Despite the dire need for funds, the public education system is disappointingly subjected to budget cuts. Too many schools like the government primary school in Village Council Shamozai near Peshawar are functioning in dangerously dilapidated rented buildings, putting the lives of their students and teachers at risk. Scores of schools are without adequate furniture, drinking water, toilets and other basic facilities. And then there are schools destroyed by natural disasters like the 2005 earthquake or blown up by militants. Too many have not yet been reconstructed. The government's failure to rebuild schools has subjected an entire generation of school-going children to study in stuffy make-shift structures that serve as classrooms.

Ignoring the pathetic realities of the public education system, the government has chosen to give it less funds. And, surprisingly public funds are being pumped into madrassahs. In FY2016-17 Rs.515 million was approved for ongoing and new initiatives to support madrassahs including Rs.300 million for the controversial Darul Uloom Haqqania in Akora Khattak. The amount of Rs.515 million is about four times more than Rs.130 million approved for different madrassahs in FY2015-16.

Recommendations

- Fiscal decentralization for empowered local governments must be ensured through strict compliance with the legal stipulation of allocating “not less than 30 per cent” of total development funds for local government.

- The Provincial Finance Commission must devise a fair equation for transfer of funds from the province to districts. It must benefit from extensive and inclusive stakeholder consultations.

- Like the 7th NFC Award, the PFC equation should apply to the entire divisible pool at the provincial level and not just to funds for local government.

- Block funds must be eliminated or at least substantially reduced.

- The Education Emergency must generate adequate funds to improve the province’s public education system.

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