

Fair Funds

An analysis of
Khyber Pakhtunkhwa's
Budget 2015-16

Fiscal Decentralization for Empowered
Local Government



Omar Asghar Khan Foundation regularly analyses Khyber Pakhtunkhwa's budget since 2010. Details of its annual analysis and findings for FY2010-11 to FY2014-15 are available at www.oakdf.org.pk

The use of the Foundation's budget analysis including material from this publication is encouraged. Acknowledgement is requested.

Omar Asghar Khan Foundation

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 works across Pakistan, with its strongest field-base in Khyber Pakhtunkhwa. It has offices in Islamabad and Abbottabad.

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Acronyms

ADP	Annual Development Programme
DHQ	District Headquarter (hospital)
FY	Financial Year
KP	Khyber Pakhtunkhwa
MNA	Member of National Assembly
MPA	Member of Provincial Assembly
NFC	National Finance Commission
PFC	Provincial Finance Commission
PTC	Parents-Teachers Committee
THQ	Tehsil Headquarter (hospital)

Fairly funding local government

Creating an empowered local government is the ruling Pakistan Tehreek-e-Insaf's landmark policy intervention in Khyber Pakhtunkhwa. Its success will depend on effective fiscal decentralization.

Khyber Pakhtunkhwa's local government law stipulates allocating “not less than 30 per cent of total development funds” to local government.

An analysis of Khyber Pakhtunkhwa's budget for FY2015-16 shows an allocation of Rs.18.26 billion for ongoing and new programmes under local government. Another Rs.30.27 billion is provided under the District ADP. Combined these allocations are just about 30 per cent. But the devil lies in the detail. The sum of Rs.18.26 billion provided under local government is just 10.44 per cent of the total development outlay of Rs.174.88 billion. Its use is already decided.

One-third of this amount or Rs.6.1 billion is allocated to six of the 25 districts of the province for specified purposes. Much of the remaining amount of Rs.12.1 billion includes block allocations for pre-determined priorities like *provision of LED/solar road lights, construction of slaughter houses, establishment of bachat bazaars*, etc. Such allocations are of little use to local governments that will need resources for priorities they set.

The allocation of Rs.30.27 billion accounting for 17.31 per cent of the total development funds is unrestricted for use by local government. While unrestricted, the distribution of these funds to district governments, tehsil and village/neighbourhood councils will depend on decisions made by the Provincial Finance Commission (PFC). The Khyber Pakhtunkhwa Local Government Act 2013 stipulates the formation of a PFC with authority to devise an equation for distributing public funds from the province to districts. But without the equation, or a PFC Award, the idiom that appears apt is: the more things change, the more they remain the same.



Whose job is it, anyway?

Some budget allocations in FY2015-16 under provincial control counter the spirit of devolution prescribed in Article 140-A of the Constitution of Pakistan.

For example, Rs.39.8 billion is allocated for building additional classrooms, playgrounds, and the like, through Parents-Teachers Committees (PTCs). But school management and interaction with PTCs should now stand devolved to local government. Unless this is done, turf wars are likely between provincial and local governments especially if different political parties are in charge in the province and district levels.

Such jurisdictional confusion may compound the provincial government's inability to deliver social services like quality education or put in place institutional mechanisms required for implementing Article 25-A of Pakistan's Constitution mandating the provision of free and compulsory education to all children aged 5-16 years.

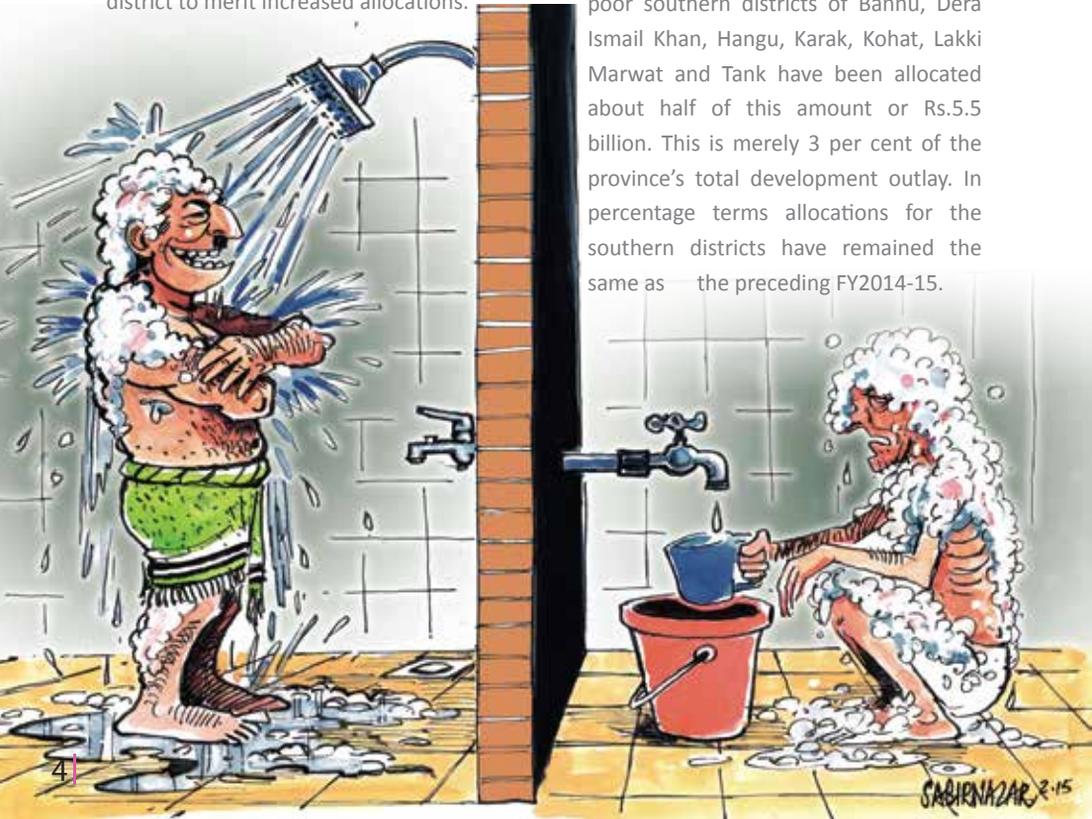
Some get more, some less

The allocation of public funds to districts reconfirms the dominance of patronage politics. Generous amounts are allocated to districts that include constituencies of powerful MNAs and MPs from the ruling coalition parties.

Nowshera, the home district of the Chief Minister, has received Rs.5.3 billion or 3.08 per cent of the total development outlay. During the previous regime, in FY2012-13, the same district was allocated Rs.1.5 billion or 1.54 per cent of total development funds. The increase in absolute terms and also as a percentage of total development funds is significant, despite no apparent change in the district to merit increased allocations.

Similarly, Rs.2.6 billion is allocated for Swabi which is the homebase of the Speaker of the Provincial Assembly, Mr. Asad Qaiser, and also of the Senior Minister for Health Mr. Shahram Khan Tarakai belonging to the coalition partner Awami Jamhuri Ittehad. The other coalition partner, Jamaat-e-Islami, has also benefited. For example, Rs.1.3 billion is allocated for Upper Dir, which is the constituency of Jamaat-e-Islami's Mr. Inayat Ullah.

While Khyber Pakhtunkhwa's three power districts have received a total allocation of Rs.10.6 billion or 5.38 per cent of the development funds, its seven poor southern districts of Bannu, Dera Ismail Khan, Hangu, Karak, Kohat, Lakki Marwat and Tank have been allocated about half of this amount or Rs.5.5 billion. This is merely 3 per cent of the province's total development outlay. In percentage terms allocations for the southern districts have remained the same as the preceding FY2014-15.

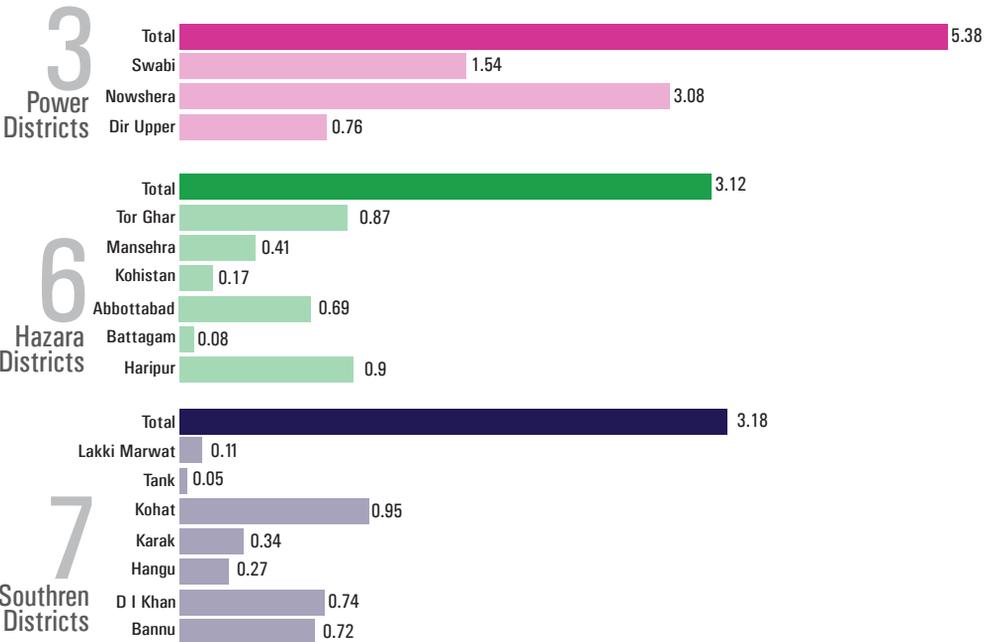




Hazara is also unfairly treated. The region's districts of Abbottabad, Battagram, Haripur, Kohistan, Mansehra and Torghar, cumulatively received Rs.5.4 billion or 3.1 per cent of the total development outlay.

If the provincial government intends to establish open, transparent and accountable governance it must equitably distribute public funds, giving a fair chance of accessing social services and development opportunities to all citizens of the province, those that voted for or against the ruling parties.

Allocating 5.38 per cent to three power districts and only 3 per cent to seven poor southern districts or 3.1 per cent to the entire Hazara region is not fair play.

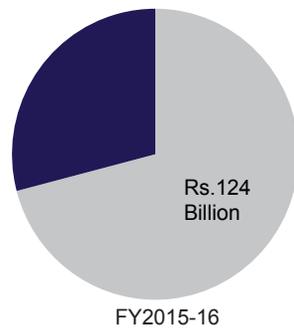
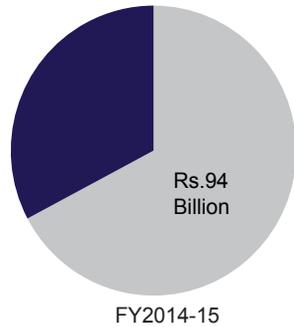
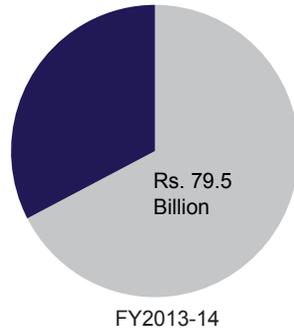


Blocked transparency

Allocations to the three power districts, possibly compelled by political considerations, reflect a feudal mindset in which patronage continues to thrive. They also negate the provincial government's claimed strong commitment to open, transparent and accountable governance. Further evidence of failure to match actions with intended transparency is the retention of Rs.124 billion or a staggering 71 per cent of total development funds in block allocations, giving unlimited discretionary powers to politicians and bureaucrats to move amounts around within the purpose stated for the block.

A comparative analysis of block allocations since the present government took office shows an upward trend as a percentage of total funds, and a sharp increase in real terms.

In FY2013-14 the block amount was Rs.79.5 billion or 67.42 per cent of the total of Rs.118 billion. In FY2014-15 it increased to Rs.94 billion or 67.46 per cent of the total of Rs.139.8 billion. And in FY2015-16 it has swelled to Rs.124 billion or 71 per cent of the total development outlay of Rs.174.8 billion.



Reduced funds, deprived basic services

Adding insult to injury is reducing development funds in absolute terms and also as a percentage of the total. District Abbottabad, for example, is allocated only Rs.1.2 billion or 0.69 per cent of the total development outlay of Rs.174.88 billion in FY2015-16. This is less than half of the 1.6 per cent, or Rs.2.2 billion, allocated in the preceding year.

Last year's allocation appears as adhoc as this year's much reduced level of development funds given to the district. If the criteria applied for the NFC Award is used to determine fiscal transfers from the province to districts, then Abbottabad should receive 4.72 per cent of total development funds.

This means that in FY2015-16, the district should get Rs.8.25 billion and in the preceding year Rs.6.59 billion. In other words, cumulatively in two years Abbottabad has been denied a total due share of Rs.11.44 billion in development funds, depriving its people access to healthcare, education and other basic facilities. The following case studies are illustrative.

Repeated commitments were made by the Chief Minister and other senior members of the provincial cabinet to complete “*on war-footing*” the upgradation of DHQ Abbottabad that serves as a critical referral point for patients from across Hazara. The urgency expressed in public pledges sharply contrasts with the glacial pace of government action. According to available data, the PC-1 for the upgradation was approved in 2012. Its total cost was estimated as Rs.200 million, and it was due for completion in 2016. In FY2013-14 an allocation of Rs.5 million was made and another Rs.20 million provided in FY2014-15. Both allocations remained unused.

No work has started on the ground. And now, in FY2015-16 a further Rs.30 million is allocated. Will the government be able to use this new allocation? Or will this allocation, like its predecessors, remain unutilized? The government has further muddled the matter by issuing a notification in FY2014-15 asking for submission of a modified PC-1 in which all construction work is to be deleted. Without construction work, will it be possible to fully upgrade the DHQ?

DHQ Abbottabad



DHQ Abbottabad awaits upgradation to better serve as an important referral healthcare facility

In the remote mountains of Kohistan a newly built THQ is wasting away due to government neglect. It was inaugurated on 1st February 2007 by an MPA from the Muttahida Majlis-e-Amal. Its sprawling structures include a 100-bed capacity, operating theater, emergency care and other much needed healthcare facilities.

These can potentially provide direly needed healthcare to the people of this district which is one of the poorest in the province and the country. Despite the passage of eight years, and budget allocations made in FY2013-14 and FY2014-15, the THQ is not functional due to lack of staff and equipment.

THQ Pattan Kohistan



Sprawling building of the THQ Pattan awaits staff, equipment and medicines

Ten years ago the horrific 2005 earthquake wreaked havoc in Hazara. According to government data, 6,300 schools were destroyed across the affected region. Many surviving but damaged school structures were torn down with the promise to “*build back better.*” Between 2005-2014 less than half of the total schools were rebuilt.

In FY2014-15, the provincial government allocated Rs.300 million for the reconstruction of 760 schools affected by the earthquake. Of this amount only Rs.4.1 million appears expended.

For ten long years, an entire generation of young children has been forced to study in makeshift classrooms. Many of them are still asking: “*when will my school be rebuilt?*”

Earthquake-affected schools, Hazara



Awaiting government attention: abandoned, incomplete government school in village Kolay, District Battagram



Extraordinary opportunity to change lives

Khyber Pakhtunkhwa has an extraordinary opportunity to break away from patronage politics and firmly establish openness and transparency.

It must move swiftly to form the Provincial Finance Commission stipulated in Khyber Pakhtunkhwa's local government law. It must use its authority to devise an equation for distributing public funds from the province to districts.

Such a PFC Award, on the lines of the NFC Award, can effectively reduce wide-ranging discretionary powers of the executive and help determine evidence-based fiscal transfers giving equitable access to social services and development opportunities across the province.

A fair equation, devised in close consultation with districts, will give a basis for allocating funds that is not hostage to political expediency or used to victimize political opponents. It will also provide critically required fiscal space to devolved systems of local governance.

Much of the government's dysfunction can be reversed through an effective local government. The electoral process that began on 30 May 2015 concluded with the election of Nazims and Naib Nazims on 30 August 2015. Elected councils are now in place at the district, tehsil and village/neighbourhood levels. With elected councilors closer to the people, it is possible that some of the public grievances related to government performance can be addressed. But effective local governments are only possible if there is effective fiscal decentralization.

Equally critical will be the ability of local governments to efficiently use funds for equitable development.

Local government must be supported in mapping each village, neighbourhood, tehsil and district of Khyber Pakhtunkhwa showing all available or missing public services. This data should be used to draw up development plans using the principles of subsidiarity and cost-effectiveness. Until this is done, public funds may continue to be used to appease constituents or punish opponents rather than providing services and development opportunities to all, especially the more deserving.

If the province is able to seize this extraordinary opportunity to break away from patronage politics and firmly establish open, transparent and accountable systems of devolved governance, it can rightfully claim that change has come to Khyber Pakhtunkhwa.

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