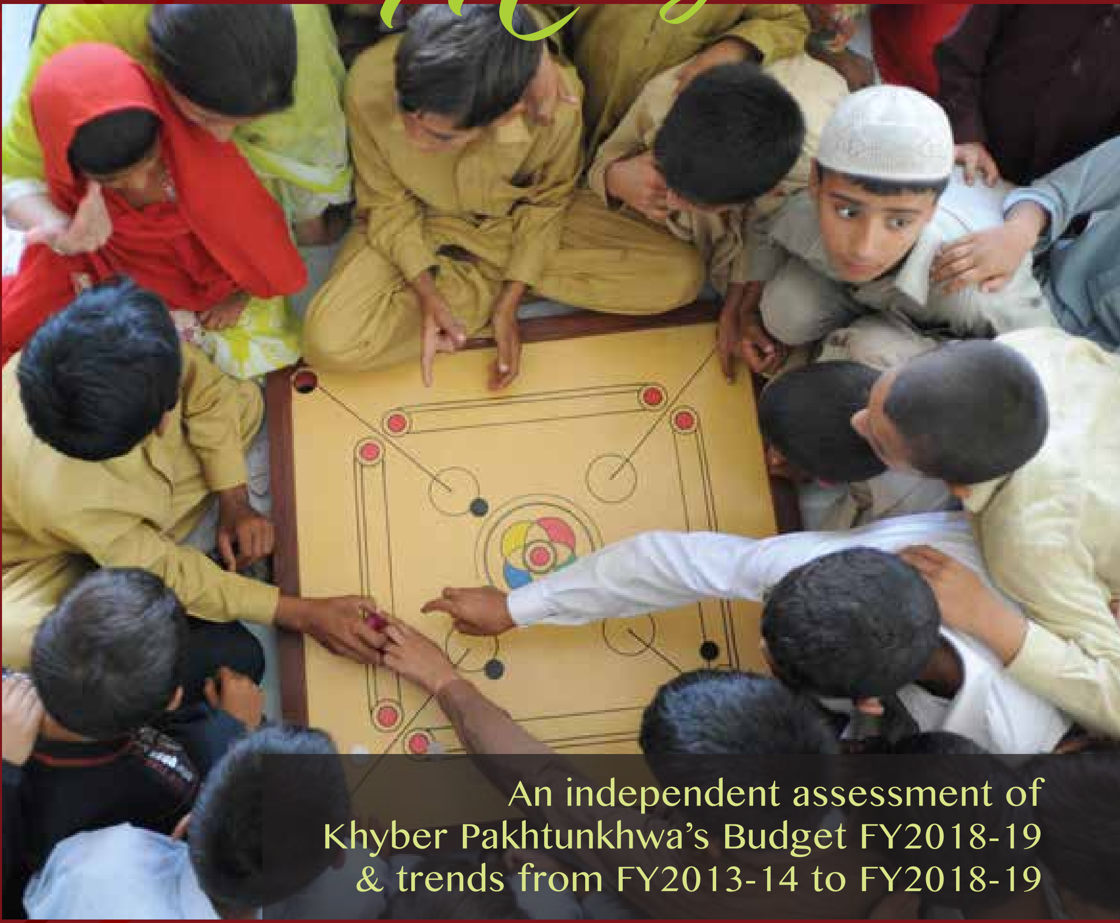
# Money Management



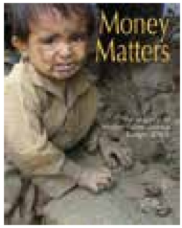
An independent assessment of
Khyber Pakhtunkhwa's Budget FY2018-19
& trends from FY2013-14 to FY2018-19

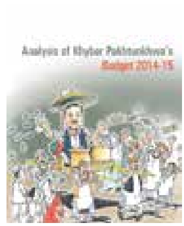
EUROPEAN UNION

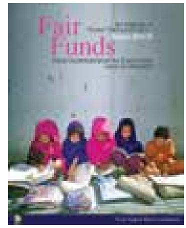
Omar Asghar Khan Foundation

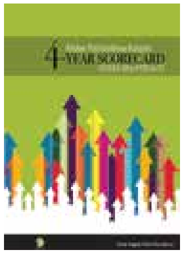
Omar Asghar Khan Foundation regularly analyzes Khyber Pakhtunkhwa's budget since 2010. Publications documenting its findings & recommendations are available at www.oakdf.org.pk

The use of the Foundation's budget analysis is encouraged. Acknowledgement is requested.






*This document has been produced with the financial assistance of the European Union. Its contents are the sole responsibility of Omar Asghar Khan Foundation and can under no circumstances be regarded as reflecting the position of the European Union.*

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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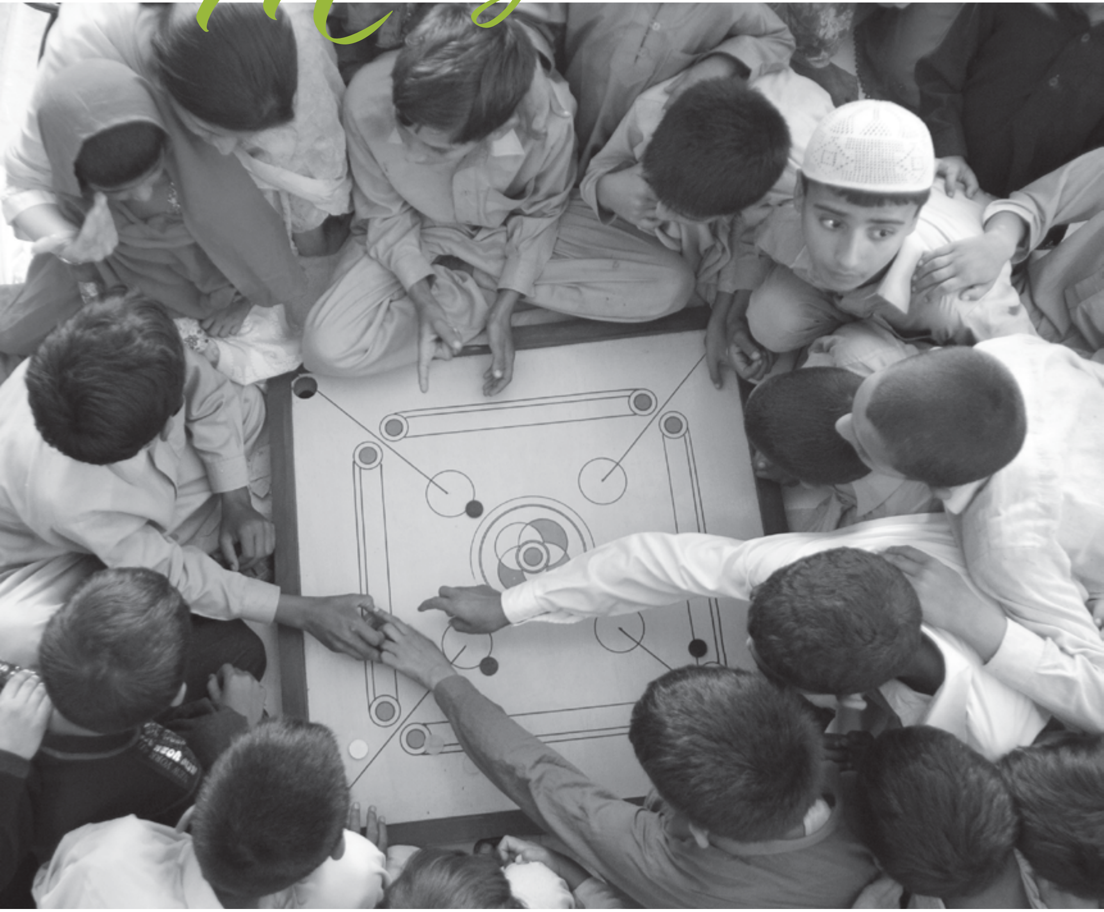

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# Acronyms

| | |
|---|---|
| CSO | Civil Society Organization |
| ERRA | Earthquake Reconstruction & Rehabilitation Authority |
| FY | Financial Year |
| IT | Information Technology |
| KP | Khyber Pakhtunkhwa |
| LG | Local Government |
| NFC | National Finance Commission |
| PFC | Provincial Finance Commission |
| PTC | Parent-Teacher Council |

# Contents

# Governing within means

Rs.648 billion is estimated as total revenue receipts for FY2018-19. This is 7.5 per cent higher than Rs.603 billion initially estimated in the preceding year, later revised down to Rs.546.5 billion. In other words, the revenue target for FY2018-19 is about 18.6 per cent higher than achieved in the preceding year.

Federal transfers are a key source of revenue for Khyber Pakhtunkhwa. Amounts from this source have increased since 2010 after the 7th National Finance Commission (NFC) Award revised the share of provinces upto 57.5 per cent.

The 7th NFC marked the departure from a population-centric to a multi-criteria formula for funds transfer. Under this Award, which continues to be applied, population retains a significant weightage of 82 per cent, but new variables are added, i.e., 10.3 per cent for poverty, 5 per cent for revenue generation and 2.7 per cent for geographical area.

Despite increased amounts, Khyber Pakhtunkhwa has consistently received less than its projected share of federal transfers. In FY2017-18, against a projected share of Rs.365.2 billion, the province received Rs.339.4 billion, i.e., a shortfall of 7.1 per cent. This was much reduced from the shortfall of 14 per cent in FY2012-13 when Rs.176.9 billion was transferred against a projected share of Rs.205.7 billion.

Revenue estimates are also affected by Khyber Pakhtunkhwa's inability to meet provincial collection targets. A review of the period FY2009-10 to FY2017-18 shows fluctuating collections, with significant shortfalls from targeted amounts since FY2014-15. Peak shortfall of 53.5 per cent was recorded in FY2015-16, reducing to 31.4 per cent in FY2017-18.

Revenue earned by Khyber Pakhtunkhwa as compensation for its role in the war on terror is more stable. Against an estimate of Rs.39.17 billion, revised figures for FY2017-18 show receipt of Rs.38.43 billion under this category. Estimated figures for FY2018-19 show an increase of 12.7 per cent, i.e., Rs.43.3 billion from estimates in the preceding year.

## Provincial Revenue Targets & Collection

Figures in Rs. Million

| FY | Budget | Actual | Variance | |
|---|---|---|---|---|
| | | | Amount | % |
| 2009-10 | 7,537 | 6,414 | (1,123) | (14.9) |
| 2010-11 | 7,232 | 8,829 | 1,597 | 22 |
| 2011-12 | 9,464 | 10,057 | 593 | 6.26 |
| 2012-13 | 10,215 | 11,720 | 1,505 | 14.7 |
| 2013-14 | 16,921 | 20,011 | 3,090 | 18.3 |
| 2014-15 | 28,781 | 22,706 | (6,075) | (21.1) |
| 2015-16 | 54,425 | 25,576 | (28,849) | (53) |
| 2016-17 | 49,507 | 28,347 | (21,160) | (42.7) |
| 2017-18 | 45,215 | 31,021 | (14,194) | (31.4) |

Source: White Paper 2018-19, Government of Khyber Pakhtunkhwa

# Districts & Development

In FY2018-19, Swat emerged as the district to receive the highest allocation of development funds, Rs.4.06 billion. Swabi followed with Rs.2.57 billion, and, Nowshera was third in line with Rs.2.41 billion. The cumulative amount for these power districts is Rs.9.04 billion. It is more than half of Rs.4.35 billion allocated to Hazara's six districts, and, 41.37 per cent more than Rs.5.30 billion allocated to the seven chronically poor southern districts of the province.

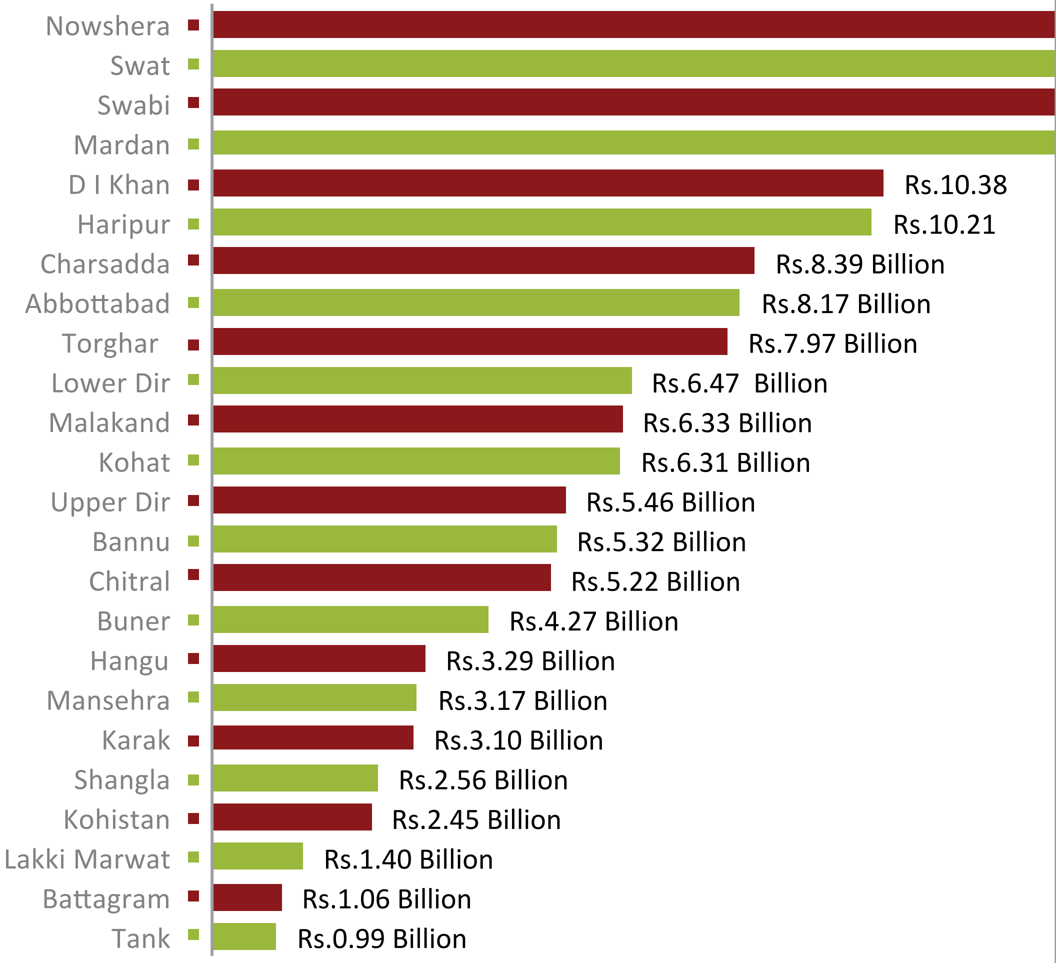
The rationale for allocating development funds to each district is unclear. If population is a key determinant, then the comparison of per capita allocations compounds confusion. In per capita terms, Swat received Rs.1,758, Nowshera Rs.1,590 and Swabi Rs.1,585. In contrast, per capita allocation for Tank was only Rs.190.81. In other words, the government spent 8-9 times more on citizens living in Swat, Nowshera or Swabi than the person residing in Tank.

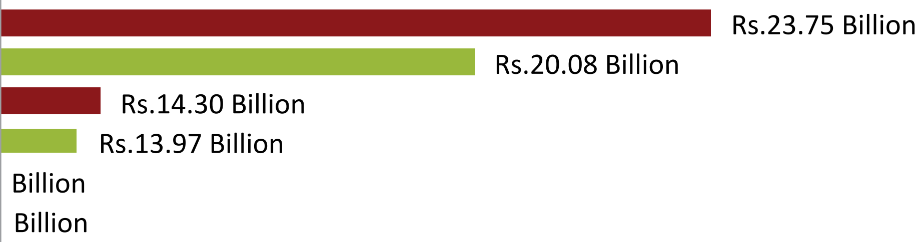
Trends over the period FY2013-14 to FY2018-19 reconfirm dominant allocations to:

| | |
|---|---|
| Nowshera | Rs.23.74 billion |
| Swat | Rs.20.08 billion |
| Swabi | Rs.14.30 billion |

The sum allocated to these three districts is Rs.58.13 billion, which is 47 per cent more than the total development funds of Rs.30.78 billion given to the province's seven chronically poor southern districts. The six districts of Hazara received Rs.33.26 billion or 42 per cent less than amounts given to Nowshera, Swat and Swabi.

In FY2018-19, funds provided for eight people in Tank were equal to that given for one person in Nowshera.


Nowshera
Swat
Swabi
Mardan
D I Khan
Haripur
Charsadda
Abbottabad
Torghar
Lower Dir
Malakand
Kohat
Upper Dir
Bannu
Chitral
Buner
Hangu
Mansehra
Karak
Shangla
Kohistan
Lakki Marwat
Battagram
Tank
Rs.10.38
Rs.10.21
Rs.8.39 Billion
Rs.8.17 Billion
Rs.7.97 Billion
Rs.6.47 Billion
Rs.6.33 Billion
Rs.6.31 Billion
Rs.5.46 Billion
Rs.5.32 Billion
Rs.5.22 Billion
Rs.4.27 Billion
Rs.3.29 Billion
Rs.3.17 Billion
Rs.3.10 Billion
Rs.2.56 Billion
Rs.2.45 Billion
Rs.1.40 Billion
Rs.1.06 Billion
Rs.0.99 Billion




# District-wise aggregate allocation for development over the period FY2013-14 to FY2018-19

*all districts of KP except urban Peshawar

From FY2013-14 to FY2018-19, among the seven southern districts, Tank received the lowest amount, i.e., Rs.0.99 billion followed by Lakki Marwat's Rs.1.4 billion. Dera Ismail Khan fared better with an allocation of Rs.10.38 billion and Kohat received Rs.6.3 billion.

In Hazara, Haripur ruled the roost with an aggregate allocation of Rs.10.2 billion followed by Abbottabad's Rs.8.17 billion. Trailing at the bottom of the pile are Kohistan with Rs.2.45 billion and Battagram receiving Rs.1.06 billion in the period FY2013-14 to FY2018-19.

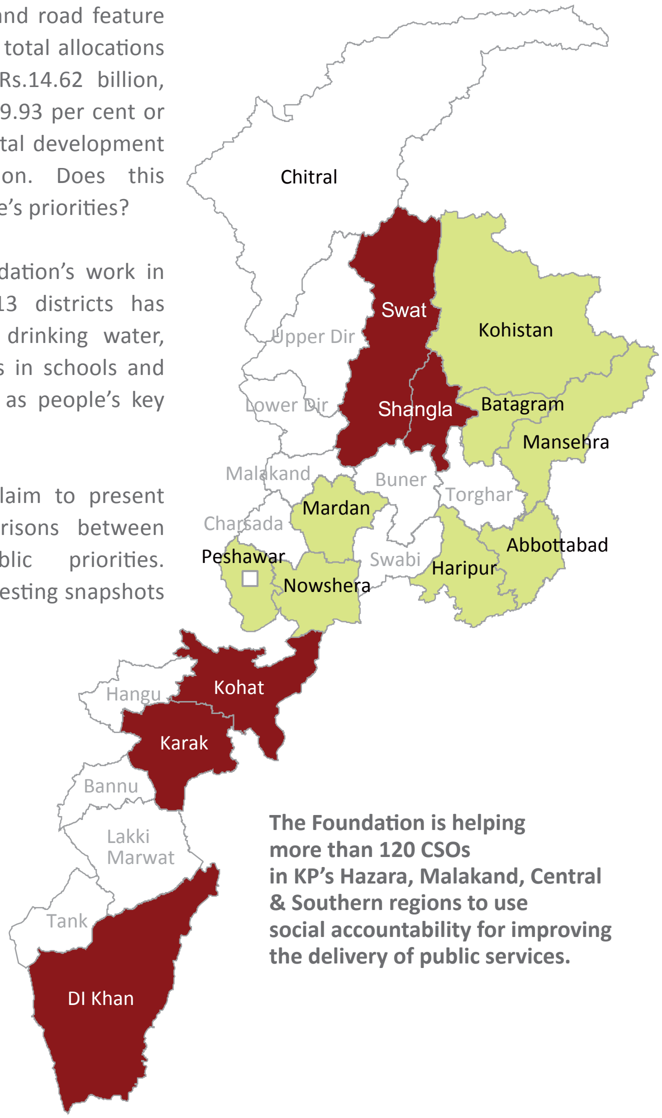
**Social Accountability** actions & mechanisms by citizens & CSOs to hold public officials, service providers to account

# Priorities:
# government, people

In FY2018-19, transport and road feature as dominant sectors with total allocations of Rs.39.25 billion and Rs.14.62 billion, together accounting for 29.93 per cent or about one-third of the total development budget of Rs.180 billion. Does this emphasis sync with people's priorities?

Omar Asghar Khan Foundation's work in Khyber Pakhtunkhwa's 13 districts has identified lack of clean drinking water, absence of basic facilities in schools and poor healthcare services as people's key concerns.

This dataset does not claim to present statistically valid comparisons between government and public priorities. However, it provides interesting snapshots of people's needs.




**The Foundation is helping more than 120 CSOs in KP's Hazara, Malakand, Central & Southern regions to use social accountability for improving the delivery of public services.**

## Tale of two schools

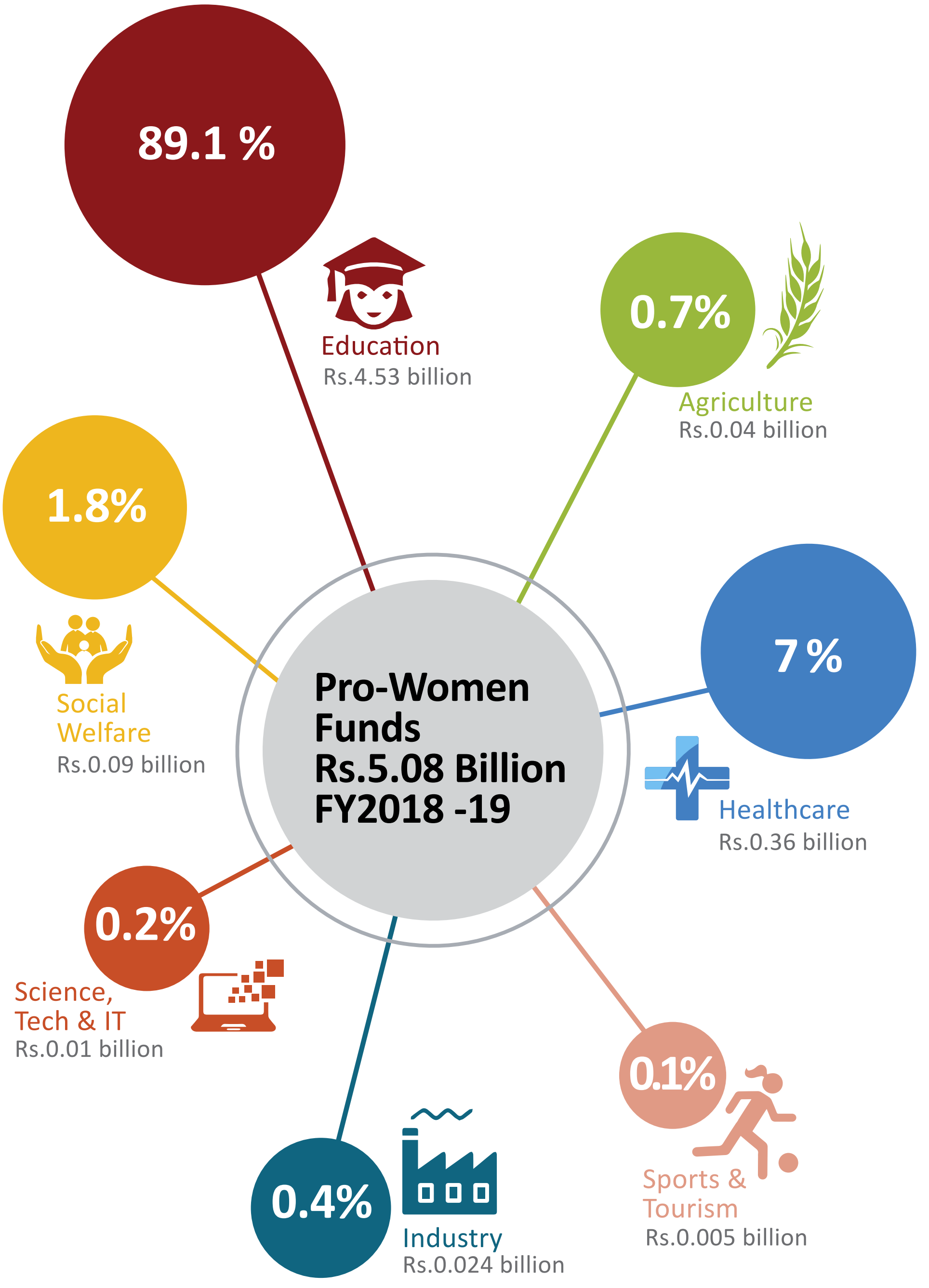
Nestled in the mountains of District Abbottabad lies the small village of Dowatta. Its primary school for girls was damaged by the 2005 earthquake. The surviving structure was torn down in 2008, with the promise to *build back better.* More than ten years later, around 2017, a contractor finally started rebuilding the school but abandoned construction before making much headway.

In March 2016, the Khyber Pakhtunkhwa's government committed Rs.8 billion to reconstructing 760 schools destroyed by the 2005 earthquake. Work is in process, but moving glacially with only Rs.1.37 billion or 17.12 per cent expended as of June 2018. In FY2018-19 a further Rs.0.35 billion is allocated – but these funds have not yet made their way to Dowatta where its young schoolgirls continue attending classes in makeshift schools.

A similar story, but with a happier ending is of the government primary school in village Kolay of Battagram. Jolted by the 2005 earthquake, its partially damaged structure was also razed to the ground in 2006. Reconstruction started in 2010 but was abandoned before completion. It restarted in 2017 and the school was reconstructed by early 2018. Its smaller design is compliant with ERRA's specifications. Additional funds from the local PTC helped add a boundary wall and toilet.

## ….not a drop of water to drink

About 800 households live in Village Takht-e-Nasrati of District Karak. According to local people a gravity-flow scheme, constructed before Independence in 1947, is the key source of drinking water. Over the years, its supply is unable to meet the needs of a growing population, leaving about 300 households with severely limited access to drinking water. In FY2018-19 the provincial government has allocated Rs.35 million for drinking water to the district. This accounts for only 1.02 per cent of the total amount of Rs.3.43 billion allocated for drinking water in the province.


89.1 %
Education
Rs.4.53 billion
0.7%
Agriculture
Rs.0.04 billion
1.8%
Social
Welfare
Rs.0.09 billion
Pro-Women
Funds
Rs.5.08 Billion
FY2018 -19
7 %
Healthcare
Rs.0.36 billion
0.2%
Science,
Tech & IT
Rs.0.01 billion
0.1%
Sports &
Tourism
Rs.0.005 billion
0.4%
Industry
Rs.0.024 billion

# Pro-Women Funds

Only Rs.5.08 billion can be identified as pro-women funds in FY2018-19. This is less than half of the Rs.12.70 billion allocated in the preceding year. This year's allocation is about 2.82 per cent of the total development budget, whereas last year it was 6.11 per cent.

Of the Rs.5.08 billion allocated this year, education has received the lion's share -- 89.1 per cent. In percentage terms it has received more than the preceding year's 63 per cent. But in absolute terms, the preceding year's Rs.8 billion is about double than the current year's Rs.4.53 billion. Similarly, healthcare received Rs.4.2 billion in FY2017-18 which is about 12 times more than Rs.0.36 billion allocated this year.

The absence of sex-disaggregated budgets challenge efforts to estimate pro-women funds.

■ FY2018 -19: 2.82%
■ FY 2017-18: 6.11%

“Women are not treated as equal councillors. They are denied development funds.”
Member, Tehsil Council, Haripur

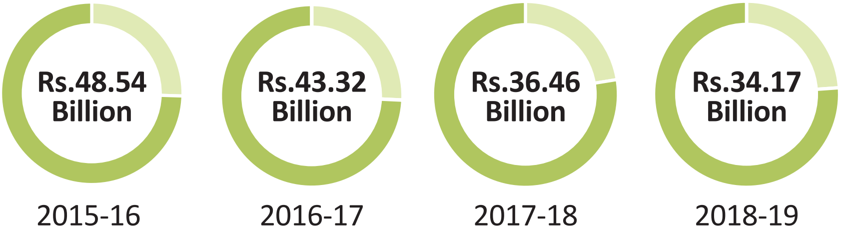
Elected councillors discuss local government in Khyber Pakhtunkhwa at a consultation organized by the Foundation, December 2018

“The current local government is good. More funds are available than in earlier LG structures.”
Member, Village Council, Abbottabad

# Fiscal decentralization

Khyber Pakhtunkhwa's Local Government Act 2013 stipulates allocating not less than 30 per cent of total development funds to local governments.

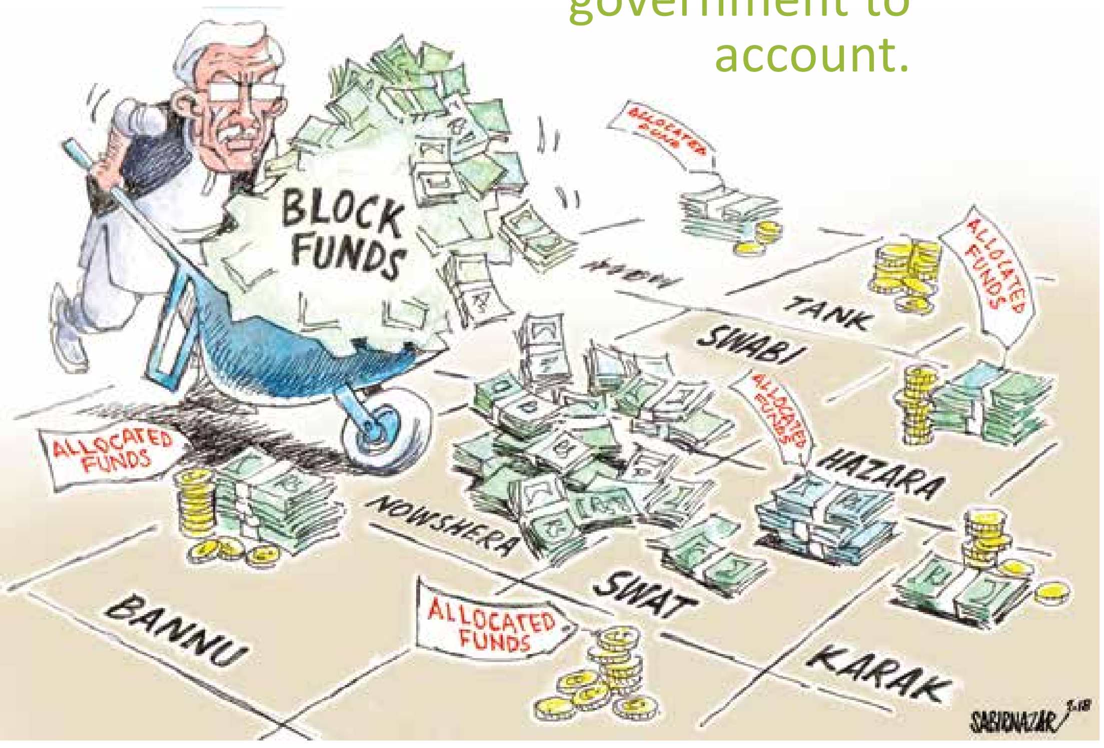
Since it became functional in September 2015, funds allocated for local government have hovered around the 30 per cent threshold. However, in absolute terms, amounts transferred to local governments are reducing.




Also, budget estimates often differ from actual amounts transferred. In FY2017-18, for example, the total allocation of Rs.36.46 billion included Rs.28 billion which was subsequently revised to Rs.10.94 billion.

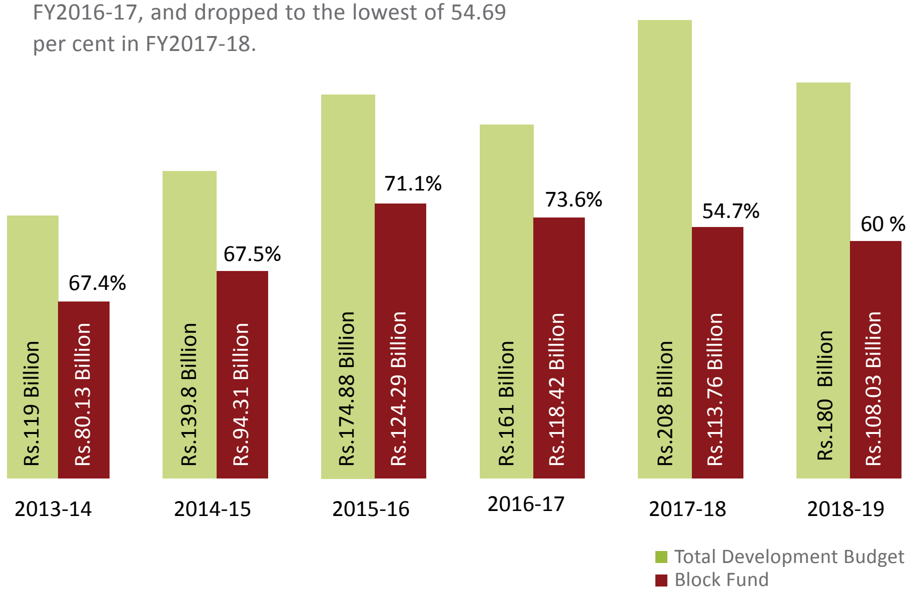
Elected councillors commend the availability of funds to different local government tiers. However, some criticize constraints in deciding priorities. Women and others elected on reserved seats also complain of discrimination.

## Block funds compromise transparency & make it difficult to hold government to account.



# Block funds

60.02 per cent of total development funds for FY2018-19 are retained in block funds. In the period FY2013-14 to FY2018-19, block funds have consistently accounted for more than half of the total development budget. Block allocations peaked at 73.56 per cent in FY2016-17, and dropped to the lowest of 54.69 per cent in FY2017-18.




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.

# Recommendations

- Establish credible and effective mechanisms for capturing a range of public perspectives on public finance priorities.
- Provide sex-disaggregated budget data.
- Devise a Provincial Finance Commission (PFC) Award for fair and transparent allocation of development funds to each district.
- Ensure not less than 30 per cent development funds are provided to local governments and that all councillors are given equitable access to them.
- Promote transparency by reducing block funds until they are effectively minimized or eliminated.
- Improve fiscal discipline, with better predictability of revenue & budget execution.

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