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Improving Governance through Fiscal Decentralization in Pakistan: The Role of Provincial Finance Commissions

The issue of effective governance has received much of the attention of researchers interested in the region. Of these, a dominant trend that emerged in many of the studies has been centered on federalism and decentralization (Ali, 2015; Cheema, Khwaja & Qadir, 2006). The central argument here has been that, a balance of power between the center and all federating units has the potential to solve many of the obstacles the country faces; from militancy to state coercion, ethnic conflict and economic progress. Some of the recommendations of the studies however, may be argued to be over-ambitious and impractical. Nonetheless, the 18th amendment introduced in 2010 by the Pakistan People's Party (PPP) government has been, with some exceptions, widely celebrated as a step in the right direction by many researchers (Ali, 2015). Previously, the 1973 constitution had been amended multiple times by military rulers and its 'democratic' status was therefore rendered questionable. The changes thus introduced by the 7th National Finance Commission (NFC) award, that was agreed upon in December 2009, and the 18th Amendment, that was passed in April 2010, not only showed promise for improving the state of federalism in Pakistan but also of democratic atmosphere. For the first time in the history of Pakistan, population had not been made the only factor considered for the allocation of resources; other factors such as poverty and backwardness and inverse population density were included to ensure an improved, more equitable distribution. Since the amendment, many researchers have made the division of power and distribution of resources the center of attention to their studies. However, substantial work focusing on the distribution of the allocated budget within the provinces does not exist. Questions such as: How is this budget distributed? Who is responsible for it? To what extent are the Provincial Finance Commissions (PFC) functional? Are there differences between the PFCs, and if so, of what sort? Does the absence of a constitutionally binding framework for their existence have an effect on the functioning of PFCs? It is such questions that this study aims to find answers to.



Improving Governance through Fiscal Decentralization in Pakistan: The Role of Provincial Finance Commissions

Dr. Muhammad Younis & Dr. Aisha Shahzad

Introduction:

The central theme to the concept of federalism is decentralization of power to limit an all-powerful center from coercively oppressing the ruled. The idea is to allow for diversity to exist in a balance of power system, where legitimacy is grounded in a voluntary decentralized federation of almost directly democratic federating units that are involved in policy-making. The origins of the idea remain somewhat unclear; for theorists such as Burgess (2006), it is the shift of the United States from a confederation to a federation (1781- 1789) that was responsible for stirring up the intellectual debate. For others it is the unification of Germany by Bismarck and Emperor Wilhelm I (Ziblatt, 2006). These two however, belong to the same group, for the origin of the intellectual debate of federalism for these theorists is with the formation of modern nation states. The other category of theorists is on the other end of the spectrum, because they view the very idea of a nation-state as inherently coercive and are thus against the oppressive state, however, in favor of justified governance (Ward, 1992). This 'justified form of governance' for these theorists is based upon such decentralized small political units, where municipal organizations run on direct democracy, breaking the power of bureaucratic and capitalistic classes and giving it to the common man (Ward, 1992). The only logical conclusion that can be arrived from these two contrasting (almost contradictory) set of premises (interestingly) leading to the same conclusion, is that the necessary condition



for efficient governance (especially in diverse societies) is a well-functioning decentralized federal system.

This, however, should not be confused with an argument against the existence maintenance of a center. The negation of a center would mean the negation of the state (which would be acceptable to the anarchist, however difficult to bring about in reality).

The essence of federalism (according to its modern understanding) lies instead, in a well-established center that efficiently coordinates the federating units and regulates the foreign policy and defense of the state, while enjoying political legitimacy from all the federating units (Law, 2013). An exception to this rule however, is Germany, where the federating units also retain the right to act independently on an international level. This is the example of a more sophisticated form of governance, taking the idea further closer to the earlier established ideal, called multi-level governance (Liesbet & Gary, 2003). Such a form of decentralization further diffuses power across multiple layers of governing bodies, in the administrative as well as the financial (Liesbet & Gary, 2003).

The general idea is to have good coordination, without constant interference of the center on the functioning of the lower tiers (Alo, 2012). Some theorists argue that administrative 'freedom' depends upon the financial (Bello-imam, 2007), and thereby focus greater attention towards fiscal federalism, i.e. the sharing of resources within the federal system.

Analysis delving into the area of fiscal relations among federating units and their respective centers, have revealed high degrees of variation across countries (Alo, 2012).

In the United States, for instance, the major chunk of the local government revenue (62.8%) is generated internally, through property tax etc (Bello-imama, 2007). In this manner, the local authorities are given room to practice, within their sphere of influence,



their administrative autonomy by making use of their revenue and resources.

In contrast to these contemporary developments in the incorporation of efficient governance with ‘freedom’, some countries remain democratically challenged; due to which their very status as federations has been criticized (Chrysochoou 1998; McGarry and O’Leary 1993). This, however, is a problematic definition for federalism, where a term as ambiguous as democracy is added to the list of necessary conditions for a state to qualify as a federal one. Though it is true, as discussed above, that the idea of ‘freedom’ is at the heart of federalism but the defining feature of it must instead be decentralization, autonomous federating units and diffusion of power for an efficient and equitable allocation of resources.

Even this definition however, would prove too narrow in the case of Pakistan, which has gone back and forth as the center has continuously sought to compete for power. The role of military dictatorships and illiberal democracy must also be taken into account here (Adeney, 2012; Waseem, 1989; Yong, 2005; Shah, 2012; Ziring, 1997; Rizvi & Gilani, 2013), but what further complicates the issue is the formation and then sustenance of what many theorists have termed as the ‘core region’ (Hale, 2004). Consociational mechanisms (Adeney, 2009), small number of federating units (Adeney, 2012, Cheema, Khwaja & Qadir, 2006), unequal distribution of resources and uneven development in Pakistan’s regions have proven excessively problematic (Alavi, 1972; Shah, 2012). These factors owe a lot to the colonial legacy as well (Talbot, 2012; Tudor, 2013; Sökefeld, 2005; Alavi, 1972) and together precipitate into a controversial past of a failing state of ethno-federalism (Adeney, 2012).

Adeney (2009) argues, Pakistan’s experiment with democracy, though shaky, should not



prevent a researcher to select the case of such a region, if the aim is to reach a more comprehensive theoretical approach to federalism. The aim of this paper is therefore to analyze federalism in context of Pakistan and explore precisely how the system functions at the provincial level. In order to proceed further, a brief introduction to the history of the region with federalism must first be touched upon.

Historical Context:

The general structure of government in Pakistan was envisioned to be federal from the onset. This arrangement was necessitated by at least three socio-historical factors according to Professor Jaffer. (Ahmed, 2014) Firstly, The All India Muslim League, the founding political party of Pakistan, always championed the case of provincial autonomy in British India and consequently, in any future administrative settlement for major groups. While the group identity envisioned by Muslim league was solely based on religion, ethnic divisions within these groups were completely ignored. This misreading of the ethnic divisions within the areas that were to comprise Pakistan has had severe adverse consequences over the years. The common strand of the strong commitment of the Muslim League to the provincial autonomy project can be observed in the positions assumed by its top leadership at the Lucknow pact - 1916, Jinnah's Fourteen Points – 1929 and subsequent arguments during the Round Table Conferences – 1930-2, rhetoric employed in the 1937 provincial election campaigns leading up to the historic Lahore resolution in 1940 and the acceptance of Cabinet Mission Plan – 1946, amongst other critical historical junctures. Simultaneously, the Muslim league always advocated a group identity based around religion, which ultimately led to a separatist freedom movement.

Secondly, the modulation of the partition of British India also necessitated that both the



newly independent states, India and Pakistan, would benefit from operating under a federal form of government

The heterogeneous nature of the Pakistani society, if observed at the time of the partition, in terms of ethnicity, language and cultural diversity itself necessitated a federal arrangement in matters of power sharing. Only a decentralized federal setup could accommodate the socio-economic imbalances between the federating units, and within the units themselves.

Although Pakistan became a federation in letter, the ruling elites, in spirit, failed to run the state according to the established norms of federal constitutionalism. We will now view some explanations by different scholars on the reasons for the debacle of the concept of federalism in Pakistani context.

The democratic aspirations of the founding fathers of the nascent state were crushed by the juggernaut of the civil and military bureaucracy who assumed a preponderant role in the power configurations that ruled the country. The interests of the civil-military bureaucratic elite ran contrary to the interests of a political leadership trying to emancipate themselves and the people. The fact that the overdeveloped bureaucracies were already entrenched in the power dynamics historically through instruments employed by the colonial elites aided this development.

Jami Chandio and Amjad Bhatti sturdily argue that the anti-federalist and Punjab centric mindset of the ruling elites, coupled with the aforementioned dominance of the civil-military bureaucratic oligarchy curtailed the evolution of federalism in Pakistan in the institutional context. (Chandio, 2013)

Difference of opinion and dissidence in the nascent state were out rightly rejected by the



ruling elites under the hypocritical garb of an attempt to protect the Islamic nationalism project. Religious groups, marginalized in the political sphere, with meager populist support were pitted against ethnic demands to support the self-servicing ends of the ruling establishment. The Objectives Resolution – 1949 provided that space by institutionalizing the role of Islam in body politic of the country. The state was indirectly centralized through the use of Islamic rhetoric. The voices of the weaker federating units and marginalized societal groups were crushed as space for democratic dissent was curtailed. The constitution making process was delayed for nine years, significantly reducing the representative and legislative role of the elected institutions of the state.

According to Dr. Waseem, Pakistan, unlike many post-colonial states, lacked continuity in terms of a political center. Everything ranging from establishing the seat of government to the provision of institutional structures for financial stability, government coordination, tax collection and distribution, to name only a few, had to be constructed from scratch. Moreover, there was a perceived and to some extent, a real security threat from neighboring India. This facilitated a decisive role for a central government equipped with strong military muscle. The security problems coupled with newly emerging realities of the bipolar dynamics of the Cold War severely affected the governance strategy making Pakistan a highly centralized and, often, paranoid state immediately after independence. (Waseem, 1989)

The Muslim league, and especially its political elite from non-Pakistan areas, and the Muslim members of Indian bureaucracy who chose to join Pakistan were not very jovial about the increased role of the Bengalis and smaller provinces in the western Pakistan especially when the modalities for the country were put in practice. This mistrust was one



of the major reasons for the enhancement of the power of the central government as opposed to the provincial autonomy project. The politics of a few months preceding partition determined substantially the governing arrangements of the new state which were essentially centralized and autocratic.

The Objective resolution - 1949 can also be considered one of the root causes for strengthening central government. It institutionalized the role of religion in the politics of Pakistan. Religious parties, completely marginalized, owing to their anti-Pakistani role during the independent movement, were emboldened by the passage of the resolution. In the backdrop of this resolution they presented their charter of demands to be incorporated in the new constitution while presenting themselves as the sole authorities which could interpret religion. They started interfering in the matters of running the state openly while negatively influencing the political discourse in the constituent assembly through the backdoors.

The accession of Balochistan, especially the state of Qalat to Pakistan also raised many questions as to the nature of federalism in Pakistan. Many Baloch intellectuals still believe that it was a coerced, rather than a voluntary accession. The unfortunate saga took a violent turn when the brother of the Khan of Qalat took up arms against the state of Pakistan. The way he was treated also left many scars in the memories of Baloch people. Though a commission was constituted on Balochistan issue, its recommendations were never given due consideration. Baloch nationalists still remember their history with Pakistan as a tale of broken promises and blatant state aggression by the center. Balochistan has experienced at least four full-fledged military operations if we exclude the current ongoing battle between separatist insurgents and the military establishment.



It can however be concluded thus that the geographic entity named Pakistan has always been ethnically diverse with multiple ethno-nationalist communities living in different constituent units. But ironically the heterogeneous and diverse nature of Pakistan's population instead of giving strength to the federation has rather served as an impediment to the 'cause of nation building' or a single 'Pakistani national identity'. The willful 'exclusivity' of these sub-nationalities or ethnic groups has resulted in non-permeability, and therefore, created hindrances for these groups to co-exist with each other in order to emerge as one single and coherent identity.

The four provinces of Pakistan comprise various sub nationalities; Baluchistan, for example, is home to both Pashtuns and Baloch, amongst others, Muhajirs and Sindhis, primarily reside in the Sindh province, Punjab has Punjabis, Saraikis, Pathans and Afghan communities, and the Pashtuns and Hazaras, amongst others reside in KP. All these sub-national/ethnic groups consider themselves distinct on different grounds, from the other groups and have been actively resisting their integration into each other to form a singular and homogenous Pakistani national identity.

The Pakistani state has visibly failed to introduce or effectively define and implement processes for national integration on the attributes of a modern state and has relied only on religion as a tool to provide the basis for its identity. Frequent intervention of military in political decision making processes, inexperienced political leadership and strategic compulsions did not allow for mutually agreed identity parameters and a balanced federation to operate in Pakistan.

The state and government have been responding off and on to these demands of provincial autonomy by amending the constitution and attempting to structure it on a



federal model. However, even the 18th amendment, the most serious effort in this regard in Pakistani constitutional history, while aiming at the maximum devolution of powers to the constituent units has yet to completely address the ground realities due to lack of capacity of different provincial institutions in the underdeveloped federating units and as well as due to economic and social disparities amongst and within these provinces. The aim of this paper will be to highlight the future prospects for federalism in Pakistan by looking at how the political system is trying to cope with the diverse society of Pakistan and the main challenges that the federal system is facing.

Following the annexation of Sindh in 1843 and Punjab in 1849, the British introduced their system of governance, based on a 'top-down' engineering of institutions purposefully intended to be paralyzed without the imperial rulers that constituted the center. The focus of the political parties (including the Muslim League) remained on demanding for provincial autonomy because it was at the provincial level where most of the (attainable) power lay (Cheema, Khwaja & Qadir, 2006). The foundations of a strong rural-urban divide, ethnic cleavages, clientism, inequity, exploitation and the garrison state were laid (Alavi, 1972; Cheema, Khwaja & Qadir, 2006; Tudor, 2013; Talbot, 2012).

Directly following the partition, the inherited institutions of the imperial rulers continued to function on the same principles in the region. In the initial years elections were delayed, strengthening a non-representative government that promoted a highly centralized government that depended heavily on state coercion (Jalal 1995, Talbot 2012). The dwindling government was eventually put out of its misery when the military finally decided to formally fill in the void (Khan, 2009). The 'Basic Democracies',



'National Integration' and 'One Unit' schemes thus introduced merely translated into further continuation of authoritarianism and imperialism (Jalal, 1995; Talbot, 2012, Waseem, 1989). The dictator's rule produced an environment of inequality, political decay, military hegemony and absolute deterioration of the law and order situation (Shafqat, 1995; Talbot, 2012). Sentiments of deprivation existed, not only in the East Bengal region, but also in Sindh and Balochistan, where forced national integration and economic inequity became the breeding grounds of anti-state sentiments (Talbot, 2012; Waseem, 1989; Adeney, 2012). After the Ayub era formally ended, the military continued its rule under the leadership of Yahya Khan, who announced general elections in the wake of the deteriorating political scene at the hands of violent protests (Khan, 2009). The Yahya period, though short in its duration, implemented policies that were intended to pacify the mobilized masses (Waseem, 1989). The strategies introduced as a result of Noor Khan's dedicated work paid off for the time being, but their further continuation by the Bhutto regime resulted into utter chaos, becalmed of the backlash the inefficient policies saw (Waseem, 1989). Meanwhile, Bangladesh separated from Pakistan, the event becalmed to nothing other than the pathetic condition of federalism in the country (Talbot, 2012; Waseem, 1989; Adeney, 2012). The state unfortunately, did not learn from its mistakes and running from Zia's 'divide and rule' era down to the Musharraf's 'devolution of power plan' state heavy handedness, weakening of local governments, strengthening of the core region (Punjab), economic inequity and provincial dependence on a strong centre were imposed (Jalal 1995; Talbot, 2012; Waseem, 1989; Adeney, 2012; Cheema, Khwaja & Qadir, 2006).

Since independence, Pakistan has thus largely remained a highly centralized majoritarian



federation facing longstanding demands for change (Adeney, 2012). A substantial amount of literature today finds itself in agreement with a suppressed voice of the masses that pushes for a dramatic reorganization on the vertical as well as horizontal level (Cheema, Khwaja & Qadir, 2006; Adeney, 2009 & 2012). Interestingly enough, the country has gone through three major ‘reform experiments’, all of which were introduced by non-representative governments (Cheema, Khwaja & Qadir, 2006). Consequently, demands of decentralization have instead been met with further centralization at the hands of the state’s ‘constitutional reengineering strategy’ (Cheema, Khwaja & Qadir, 2006; Adeney, 2012).

Political representation and distribution of resources have continued to be amongst the major roadblocks to constitution making and continue to remain controversial issues even after the implementation of 1973 constitution followed by several amendments (Khan, 2009). Shah (2010) argues that regardless of regime type, the local governments have been continuously ignored and the state centre has consistently remained the actual beneficiary.

Revenue and collection shares by order of government in Pakistan

Government	1955	1965	1985	1995	2005	2010	2011
Expenditure shares							
Federal	60	60	65	67	70	66	67
Provincial	35	30	30	29	20	25	28
Local	5	10	5	4	10	9	5



Revenue shares

Federal	70	85	90	90	93	94	93
Provincial	25	10	5	5	6	5	6
Local	5	5	5	5	1	1	1

Source: Anwar Shah (2012)

The 18th Amendment

A turn of events came when in 2009, President Asif Ali Zardari commissioned a Special Parliamentary Commission on Constitutional Reforms (SPCCR), following which, on April 8, 2010 the 18th amendment to the constitution of Pakistan was passed in the parliament and signed by the president on April 19, 2010. One of the key features of the amendment was the provincial autonomy it granted. The important changes introduced by this amendment include: abolition of the Concurrent List, introduction of the Council of Common interests, a clear division of powers between the centre and provinces, ethnicization of the federation and the 7th National Finance Commission (NFC) Award. Though all of the afore mentioned bear significance, it is the latter that we shall limit our focus to, to remain focused on the functioning of the fiscal federal system.

The massive devolution of items of power on the central list to the provinces has created further challenges. The performance of the provinces in this regard has been sketchy at best - their lack of capacity in handling education, health, energy and other important sectors related to public sector development has been exposed. The main victim has been law and order where the provinces failed to allocate adequate resources.



The failure to create empowered local government institutions through devolution of fiscal powers, even after the elections of these bodies, reflects a structural democratic deficit in formal constitutional terms. All provincial governments have amended their respective Local Bodies Acts in an attempt to render them totally ineffective. local bodies do not have any real autonomy in matters such as education and health. This approach of the legislators is itself a sign of the hangover being suffered as a result of historically operating under the tutelage of non-democratic forces and being resistant to change.

NFC Award and fiscal decentralization:

In addition to the amendments required for the administrative domain, it is the financial one that deserves due attention. Firstly, the expansion of the duties of the provincial legislature and administration requires an improved system for the allocation of resources as well as an over-all increase in their budgets. Before the 18th amendment, provincial budget had largely been allocated on the basis of population, which is an exceptionally problematic rule of thumb when no (reliable) recent data on national census is available. What has further invited controversy is the demands from different provinces for focusing on other factors for budget allocation. Sindh's demand had been that the allocations should be made by keeping in view the province's contribution to revenue; KPK's had been that it should be done on the basis of poverty and 'backwardness'; while that of Balochistan was for inverse population density. The 7th NFC award has been largely applauded for having included all of these factors in addition to population (which had largely benefitted Punjab in the past). What has mostly been overlooked however, is the percentage each of these factors have received pertaining to their significance in



determining allocation of resources for the provinces. Inverse population density stands at a mere 2.7%, revenue generation at 5% and poverty/backwardness at 10.3%; while population at a staggering 82%. What this essentially means is that the trend has remained largely unchanged.

As Ahmad (2010) notes, own-source revenues play a significant role in promoting (local level) government accountability and effectiveness. Unfortunately, this aspect has largely been left ambiguous in the 18th amendment, leaving the provincial governments susceptible to falling short of their responsibilities merely because of the lack of resources (Ahmad, 2010). What is thus an imperative for the state of Pakistan now is provincial financial autonomy to be ensured through the constitution. The issue at hand is that administrative autonomy of provinces cannot theoretically exist in its true sense, unless the provinces also enjoy financial autonomy. When they remain dependent upon the centre for the allocation of finances, they remain dependent on the whole.

Having said that, the remarkable development itself should not be undermined; what must instead be said is, as Adeney (2012) put it, the 18th amendment was ‘a step in the right direction’, but much more is required to be done for an efficient ethno-federalism to become a reality in the region. Adeney (2012) notes, that the historical structure of federation in the region had intensified the conflict among groups and affected the legitimacy of the federation adversely. For this, the author argues, the exploitative and biased nature of the manner in which political and economic resources had been distributed was to blame. The implications of not taking further action in favor of decentralization may lead to the strengthening of ethnic conflict (Ahmad, 2010; Adeney, 2012; 2009; Shah, 2012). Fundamental reforms are thus needed in both,



administrative (public sector) as well as financial domains of the provincial powers. This is necessary (although by no means sufficient) not only for ensuring sustainable peace in the country but also for allowing for freedom to exist. It is such amendments that shall define if Pakistan can evolve into a multi-level governmental system or not. Having said that, a study focusing specifically on the functioning of provincial governments and their method of distribution of resources deserves attention; and it is precisely this gap in the literature that this study aims to fill.

Punjab is the most populous province of Pakistan. Its population is 56% of the total population of the country. Empirical evidence suggests that it is over represented in the core, as well as the representative, institutions of the federation. According to socio-economic variables, it is the most developed province. Generally, the province has no issue with the center or with any other province except for some differences with Sindh on the division of water. But a problem or at least a part of the problem for smaller province, and a source of instability of the federation- Henry Hale's thesis of core ethnic group,

Having some internal issues due to developmental disparities among its different regions; central and north Punjab are comparatively more developed than the south Punjab- the issue of Saraiki province- movement for the province apparently failed to muster masses support, seemingly dying down- results of general election of 2013 strengthen this claim although the key factor in this regard may be the lackluster political approach to gain public support in this regard.



Punjab does have functional Provincial Finance Commission but its role is quite limited in the allocation of resources to different region. Funds, instead, are allocated on the basis of the preferences of ruling elite.

Sindh is the second largest province in terms of population; 23% of the total population of the country., Sindhis, Muhajirs and Pathans are major ethnic groups. In addition, few Baloch tribes also dominate some areas.

Having 75 seats in national assembly, generally have no major issues with the center but presently having serious differences on Karachi operation and the powers of the Rangers; Problem with Punjab and other provinces on the distribution of water; Reasonable representation in the core institutions of the state, 19% quota in civil services of Pakistan, having problems with its own quota system, serious issues between urban and rural Sindh on quota system; 60% quota for rural areas and 40% for urban areas in jobs and admissions in the institutions of higher learning; House of many nationalist political parties but they lack electoral support; Issue of Muhajir province.

Khyber Pakhtunkhwa is the third most populous province of Pakistan, (Pushtuns and Hazaras are the major ethnic groups) 17% of the total population of Pakistan., 43 seats in national assembly, adequately represented in the core institutions of the state. 11.5% quota in the civil services of Pakistan, having problems with the central government on the issue of royalty of the hydroelectric projects and the supply of electricity to its areas, badly affected by the terrorist activities and also by the counter terrorism operations, facing the issue of IDPs, got its name changed through 18th amendment, new name prompted controversy between Hindkoh and Pushto speaking people, movement for



Hazara province for Hindkoh speakers, failed to receive public support. Resultantly lost its significance, hardly discussed now at any forum.

Balochistan is the least populated but the largest province of Pakistan in term of area. Most disturbed province having a long history of insurgencies, secessionist movements and military operations, the current one being the most violent and prolonged started in 2004. Most under developed province with wide spread and deeply entrenched poverty despite having huge treasure of minerals, high illiteracy rate, backwardness coupled with strong tribal culture. Major ethnic groups include Balochs and Pashtuns,

Hazaras and settlers (miscellaneous ethnicities). Serious differences with the center on the issues of gas royalty, military operation, missing persons, construction of military basis and mega projects launched by the central government there.

Mostly, the politics is dominated by ethno-nationalist and religio-political parties. The dissenting groups call these politicians as stooges of the establishment and not the representative of the Balochs.

Though the grievances of the people of Balochistan are not easy to resolve, given their complexity, successive governments have been undertaking measures to lessen their intensity. The problem in the province does not seem to resolve in near future as the armed groups are coming up with demands of more autonomy particularly with reference to ownership of natural resources which are not acceptable to the civil military establishment and the traditional ruling elite of the province.

Provincial Finance Commissions and intra-province allocations of resources:



concluding remarks

Fiscal Decentralization refers to the allocation and transfer of financial resources to lower levels of government for the purpose of devolution of power. As a result of fiscal decentralization, the governments at lower tiers can utilize the allocated funds with greater efficiency as they enjoy a better understanding of the problems faced at local levels. To ensure the practice of fiscal decentralization at provincial level, a mechanism named Provincial Finance Commission has been established at provincial level through which distribution of financial resources are made between provincial and various levels of local government. PFC Awards in Pakistan were introduced in 2001 in all the four provinces. The formula for devising PFC Award was based on two components. First component is about current transfers which refer to the maintenance aspect. This covers the aspect of retaining the level of improvement in infrastructure and public facilities. In so far as the second component is concerned, it relates to the development transfers and aims to ensure long-term sustainability of projects coupled with socio-economic progress and elimination of poverty within the district level. Provincial Finance Commission Award allocates resources on basis of fiscal needs among district units and local councils which ultimately ensures the proper functioning of local governments. Dissemination of allocable amount within a province is carried out with the help of Provincial Finance Commission Award. However, PFC has yet to develop definite rules for distribution of assets between province and local governments. It was for this reason that despite the introduction of PFC, district governments still needed to rely excessively upon provincial and federal funds due to which the idea of power devolution could not be practiced in true letter and spirit.



To examine the effect of PFC in province of Punjab, a brief account of 2016 PFC Award is hereby analyzed. It was informed recently by Finance Minister of Punjab that 2016 PFC award will be based on such a formula where 75 % weightage would be given to the factor of population and the remaining 25% bulk would be distributed considering factors like poverty, cost and need for expenses. By adding up factors of poverty and need of expenses, southern districts of Punjab would also get a chance to improve their condition. Improvement in preferences has already been reflected in 2016 PFC as 75% weightage has been given to population which was 91% in 2006 PFC Award. Addition of other multiple factors will give a chance of improvement to those districts which are facing poverty and have insufficient resources. Furthermore, presenting a formula based award will also help in ensuring credibility of the procedure. However, government has used the excuse of ongoing census in the delay of PFC Award.

When it comes to Sindh, the situation is quite dissatisfying as instead of accepting its own negligence, provincial government officials are blaming federal government in the delay of PFC Award. According to Article 140A of the Constitution, it is the duty of each province to establish its own local government and to ensure the devolution of power to the local government representatives. The Sindh Local Government also envisaged the creation of a Provincial Financial Commission consisting of thirteen members¹. To this date, the provincial finance commission has not been formed. Such circumstances show that there is no proper mechanism of allocating funds to the districts and provincial budgets, leading to arbitrary funding where officials can allocate funds on the basis of personal likes and dislikes.



Coming towards analyzing the situation of KPK, the scenario is not that different as government has yet to announce PFC Award. It has been reported that according to Khyber Pakhtunkhwa Local Government Act, 2013, provincial government is restricted to propose PFC award at the beginning of the monetary year. Under the law, before the beginning of the financial year, it is also obligatory for Nazims to approve the budget from their corresponding councils. Government officials are using it as an excuse while justifying the delay in the PFC award.

The case of Balochistan is interesting. If Balochistan will give a major chunk of weightage to the factor of area and population, it will not result in equal fiscal distribution. Taking the example of Quetta which is the capital of Balochistan, the most densely populated city but when it comes to area, it is one with the smallest region. Even if more percentage is given to index of poverty, Chaghi will get the highest share of transfers where as in this case Quetta will suffer. So there is a need to formulate such a system which would balance and compensate all factors in order to ensure justifiable distribution of assets and proper functioning of government.

All in all, if serious measures are not taken to ensure the inception of PFC awards in time, it would not be irrational to expect detrimental consequences in near future. First of all, if there is no proper system of allocating finances to the districts, personal biases can come into play. Due to incompetence of government officials, administration can allocate funds on the basis of their personal preferences. Furthermore, it may also upset the functioning of local government, because if local government representatives are not able to get funds in time, they will fail to carry out the functions adequately. Furthermore, if provincial government keeps on deserting responsibility role, it would lead to unnecessary



engagement of national government in provincial matters. In a nutshell, a proper formula should be derived for formulating PFC Awards to be implemented in practice. Plus, the allocations should be generic enough to be applicable on all four provinces alike.



End Notes

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