



Implementation Report of PFC Award 2004-05

**Finance Department
Government of Sindh**

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Introduction:

1. The Provincial Finance Commission (PFC) is an apex body at the Provincial level headed by Minister Finance/Advisor to Chief Minister Sindh for Finance, having the mandate of deciding the financial allocations between the Provincial Government and different tiers of Local Government System.

2. The financial resources are distributed amongst local governments according to a sharing formula based on differential need assessments. PFC has so far given two Awards viz Award for 2002-03 and 2004-05. The Award 2002-03 was an interim award which was subsequently extended for F.Y 2003-04. Since it was the first award for local governments, therefore its implementation did face some problem regarding fiscal issues of TMAs and UAs. However, in the 3rd quarter of F.Y 2003-04, this issue was temporarily resolved in a way that TMAs began to get separately their historic share of OZT revenue from Finance Department. UAs continued to rely on Districts for their fiscal need.

3. The PFC Award 2004-05 addressed the fiscal issues of every tier of local governments separately in such a fashion that a systematic and transparent fiscal transfer was ensured throughout the year. Resultantly, not only Districts, TMAs and UAs were receiving their shared grants from their respective pool but for the first time an allocation was also made for coping up the woes of pensioners and retirees of Sindh Local Government Board (SLGB) working in the UAs. In the Award 2004-05, the District Governments got the increased share at 55% from the net Provincial Divisible Pool, being called as 'Allocable Amount' where as the Provincial Government's share (Retained Amount) in the Divisible Pool was at 45% . In the last Award, Allocable Amount and Retained Amount were pitched at 40% : 60% respectively. The distribution of Allocable Amount amongst Districts was made on the basis of five recognized criteria viz Population (50%), Backwardness (17.5%), Tax Collection (7.5%), Transitional/ Deficit transfer (20%) and performance benchmark (5%) which was to be retained. However, during the course of implementation of Award some of the Districts voiced concern of deficit in their budgets, therefore, the performance criteria of 5% was added to transitional benchmark and the funds were accordingly released to Districts on the basis of above principle.

4. The funds of OZT/2.5% GST were distributed amongst the local governments on the basis of agreed recommendation of Local Government Department. The principle was that from the Federal share of Rs 10,000 Million of OZT/2.5 % GST, the first priority must be made for protection of historic share of District Governments and TMAs, the additional revenue from this head must be used to provide fiscal base for Union Administrations (UAs), pensioners / retired employees of SLGB and the residual funds to be distributed amongst TMAs on the basis of agreed formula viz Population (50%), Collection (10%) and Human Development index, HDI, (40%). Accordingly, the fiscal transfers were made to local governments on the basis of above recommendations.

5. Moreover, in addition to above regular funds to DGs, TMAs and UAs, funds of ADB assisted Sindh Devolved Social Services Programme (SDSSP) were also placed at

the disposal of Districts and TMAs for three social service sectors i.e. Education, Health and Water sanitation. In order to provide fiscal cover for the PHED employees devolved at TMAs level as per provisions of SLGO 2001, an amount of Rs.488.329 Million was also earmarked for TMAs for catering the needs of devolved PHED staff.

PFC AWARD 2004-05 : Review of Implementation.

6. Based on the principles mentioned above the fiscal transfers were made to triangular local government system as under during F.Y 2004-05:

Fiscal Flows to Districts:

The fiscal flows to Districts are at **Table-I** with following details:

- ❖ As against the budgeted salary of Rs 27,938.268 Million, the whole amount was released to DGs as Salary Component.
- ❖ An amount of Rs 3120.000 Million was released for non salary component as against the budgeted amount of Rs.5,944.908 Million. An amount of Rs.3,177.117 million was released to DGs as an OZT grant on the basis of their historic share. During F.Y 2004-05, seven new districts were created in two phases. In December 2004, Government of Sindh created four new Districts namely Umerkot, Jamshoro, Shahdadkot @ Kamber and Kashmore. These districts were carved out from the peripheries of old districts viz Mirpurkhas, Dadu, Larkana and Jacobabad respectively. In the second phase, in the month of April 2005, three more districts were created from District Hyderabad. These were, Tando Allahyar, Tando Mohammad Khan and Matiari.. In the absence of requisite data of tax collection, backwardness and transitional transfer, PFC decided that amount of OZT and Non-salary may be distributed on the basis of population between the new and old districts. Accordingly, funds started flowing to these districts, from the share of their respective parent districts..

- ❖ Funds of Rs 1,344.709 Million were released on account of ADB assisted SDSSP grant to those Districts and TMAs who had completed the required codal formalities for qualifying these funds viz signing of MoUs and submission of Annual Sector Plans (ASPs).The details are at **Tables 2-A and 2-B**

- ❖ In addition to above funds, Finance Department released bulk of amount of Rs 2,616.599 Million on account of KESC/HESCO dues of Districts/ TMAs.

Allocation for TMAs:

7. During F.Y 2004-05 TMAs were provided three types of funds under different heads viz OZT, DSSP and PHED . These are discussed as under:

(a) OZT funds:

8. In the Award 2004-05 , for the first time the fiscal issues of TMAs & UAs were separately addressed and the requisite funds were provided to them so that inter local government fiscal harmony may prevail amongst different tiers of local government as previously these second & third tiers of LG system were dependent on Districts for covering their fiscal needs. TMAs, the second important tier of local government, were therefore, provided separately the funds from OZT revenue. In view of the increased receipt of revenue in OZT pool from Federal Government during F.Y 2004-05, it was decided that in addition to historic share of TMAs on the basis of audited figures of 1998-99, the additional amount will be provided to TMAs on the basis of three agreed principles viz Population (50%), Collection (10%) and HDI (40%). Thus on the basis of above sharing arrangement, TMAs received the enhanced OZT funds consisting of historic plus additional amounts during F.Y 2004-05. The details are at **Table 3**.

(b) SDSSP Funds:

9. As mentioned earlier, the Asian Development Bank (ADB) assisted funds of Sindh Devolved Social Services Programme (SDSSP) were also provided to TMAs over and above the regular funds of OZT. These funds were provided exclusively for three social services sectors namely Education, Health and Water Sanitation and these were given to those TMAs who had completed the requisite formalities for qualifying these funds viz signing of MoUs & completion of Annual Sectors Plans (ASPs) for above three sectors . The funds transferred to TMAs on account of DSSP grant are at **Table- 2-B**

(c) PHED funds:-

10. As per section 52 of SLGO 2001, the employees of Public Health Engineering Department (PHED) now stand devolved at TMAs level. In order to provide fiscal cover to PHED staff for meeting their salary and non salary requirements, Finance Department released Rs 486.681, Million for covering their fiscal need. The details are **Table- 4**

Grant for UAs:

11. PFC in its Award 2004-05 provided separate fiscal cover to Union Administrations (UAs), the third layer of LG system. An amount of Rs. 109.400 million per month was being released to all 1094 UAs in Sindh at the rate of Rs. 100,000/- per month per each UA. This fixed grant to UAs was being financed from OZT revenue.

Funds for SLGB:

12. For the first time, PFC in its Award 2004-05 provided cushion for easing the burden of pensioners & retirees of Sindh Local Government Board(SLGB). An amount of Rs 140 million was earmarked for the said purpose. However, Local Government Department suggested that above amount may be provided to SLGB under three components namely:

(a) Pension Contribution to retired SCUG officers/Secretaries and Naib Qasids in Union Administrations.	Rs.90.00 Million
(b) Contribution for establishment charges and maintenance of SLGB	Rs. 30.00 Million
(c) Capacity building of employees of Local Govt: & SLGB	Rs.20.00 Million
Total	Rs.140.00 Million

13. It was therefore agreed that the funds on account of above two components at (a) &(b) would be released to SLGB and funds for capacity building would be provided only when the LG Department evolved training program for the said purpose. Accordingly, the funds of Rs. 120 Million under above two components were released to SLGB during F.Y 2004-05 and the amount relating to capacity building of employees was retained as the LG Department could not evolve the training programme for the capacity building of its employees.

Fiscal Decentralization needs to be moved gradually:

14. As the devolution phenomena has completed its first term (2001 to 2005) and first generation of elected Nazims have gone through the decentralization process in Pakistan, one thing that has prominently figured in this whole process and that is the 'learning process'. Both government functionaries and elected Nazims have realized the importance of decentralization of fiscal and administrative powers to local governments. Of course Pakistan is a country where due to multiple politicosocio and economic factors, devolution process cannot implemented at once nor it can be trusted Upon abruptly. Pakistan having its peculiar social and economic structure can only adopt and implement the devolved system of governance through a process of gradual consultation and careful way forward..

15. Not withstanding its first experience to ongoing devolution process, Pakistan is general and Sindh in particular, have remarkedly moved ahead towards the concept of financial empowerment of local governments. As earlier said, during F.Y 2004-05 PFC Award tried to address the fiscal issues of local governments separately so that fiscal harmony can be promoted amongst different tiers of local government and efforts can be made to reduce the chances of polarization amongst local governments.

During FY 2004-05 fiscal devolution moved ahead further in Sindh. Few major achievements can be quoted in this regard.

16. Firstly, as per requirement of SLGO 2001, property tax and entertainment duty devolved to local level and receipts of this tax began to flow into Account – IV of Districts for further distribution to respective TMAs. Secondly, Fiscal Transfer Rules (FTRs) were notified for proper monitoring of fiscal flows to DGs, TMAs and UAs. Thirdly, Local Finance Wing having a secretariat of PFC, was established in Finance Department in October, 2004 for exclusively addressing the financial issues of local governments and lastly, extensive trainings, workshops & seminars were organized for Nazims and officers of LGs under the aegis of Decentralization Support Program (DSP) & Sindh Devolved Social Services Program (SDSSP) in order to educate the local representatives on the new budget rules notified for Districts, TMAs & UAs.

17. As the three pronged local government system is moving ahead with the passage of time, the issues cropping up there are being resolved with the mutual consultation of local representatives, NRB and Provincial Government. .

Issues Ahead

18. Although PFC Award 2004-05 encompassed the fiscal issues separately of DGs, TMAs and UAs yet there is still a room for refinement of things so that future awards can truly represent the overall fiscal pictures of all tiers of local government. An analysis is needed on updating the fiscal data at provincial and local level. Currently, DSP under its various Technical Investment Proposals (TIPs) is working on this account.

19. With the establishment of Local Finance Wing in Finance Department, the issues of fiscal decentralization are now being addressed in a proper manner. Local Finance Wing is already working with ADB funded Decentralization Support Programme (DSP) for exploring ways and means to acquire, more data on actual expenditures, receipts, revenue potentials, development indicators, and other indicators for determining every possible aspect of fiscal need of Districts, TMAs & UAs. Recently, DSP has conducted trainings of Nazims of Districts & TMAs for guiding them on preparation of their budgets on the basis of new budget rules of LGs. These kind of trainings will be beneficial for capacity building of Nazims on budget making process..

20. As discussed earlier, in the wake of creation of new Districts, in Sindh, there also need a thorough study on exploring the data for determining bench marks such as tax collection, backwardness, transitional transfer as the funds on account of Allocable Amount & OZT have been provided in this Award to these districts on the basis of sole available criteria of population as the information on above criteria was not available for the new districts.