

PAKISTAN

FEDERAL COUNTRY

BASIC SOCIO-ECONOMIC INDICATORS

INCOME GROUP: LOWER MIDDLE INCOME

LOCAL CURRENCY: PAKISTANI RUPEE (PKR)

POPULATION AND GEOGRAPHY

Area: 796 095 km²**Population:** 207.897 million inhabitants (2017), an increase of 2.1% per year (2010-2015)**Density:** 261 inhabitants / km²**Urban population:** 36.4% of national population**Urban population growth:** 2.7% (2017 vs 2016)**Capital city:** Islamabad (1.0% of national population)

ECONOMIC DATA

GDP: 1 091.3 billion (current PPP international dollars), i.e. 5 249 dollars per inhabitant (2017)**Real GDP growth:** 5.7% (2017 vs 2016)**Unemployment rate:** 5.9% (2017)**Foreign direct investment, net inflows (FDI):** 3 232 (BoP, current USD millions, 2017)**Gross Fixed Capital Formation (GFCF):** 14% of GDP (2017)**HDI:** 0.562 (medium), rank 150 (2017)

MAIN FEATURES OF THE MULTI-LEVEL GOVERNANCE FRAMEWORK

Pakistan is an Islamic and federal parliamentary republic. The 1973 Constitution (as amended) defines the overall framework for the political structure of the country. The President is the head of State and is indirectly elected by an electoral college composed of the Senate, the National Assembly and the four provincial assemblies. The Prime Minister is the "chief executive of the Republic" and is usually the leader of the largest party in the National Assembly. Both are elected for a five-year term. The Parliament consists of two houses: the National Assembly, whose 342 seats renewed every five years are partly directly elected and partly reserved for women and religious minorities; and the Senate, composed of 104 members indirectly elected for six years by each of the four provinces, as well as the Federally Administered Tribal Areas (FATA) and Islamabad Capital Territory (ICT).

The provinces are the four federating units which are represented in the Council of Common Interests (CCI), an inter-governmental body to discuss policies and strategies between federal and provincial levels. The Ministry of Inter Provincial Coordination provides a coordination role reaching the provincial departments of local governments. The provinces do not have constitutions of their own. Each province is headed by an appointed governor and a provincial assembly directly elected for five years.

Although local governments in Pakistan have existed since the country's creation in 1947, their role has been undermined by the alternative pattern of political and military rule at the federal level, and they were often managed by non-elected administrators. The 18th Amendment of the Constitution, passed in 2010, represented a major re-arrangement of the relations between the federal level and the provinces. It strengthened the role of the Council of Common Interests, the National Economic Council and the National Finance Commission as inter-governmental bodies. It made it mandatory for the provinces to establish a local government system, and to devolve political, administrative and fiscal responsibility and authority to the elected representatives of the local governments (Art. 140 A). It also gave responsibility for holding local elections to the Election Commission of Pakistan. Together with Art. 32, this amendment provided constitutional protection for local governments.

The local government systems of the provinces differ substantially from one province to another. Main differences include (i) the tenure of elected local representatives (between 4 and 5 years), (ii) the tiers, composition and categories of local governments, (iii) the kind and scope of functions devolved to the local governments, (iv) the fiscal arrangements, and (v) the election mode for local representatives (direct vs. indirect, party-based vs. non-partisan). One feature common to all four provinces is the subordination of local governments to the provincial level of government, which has the authority to suspend or remove heads of elected local governments, thereby limiting local autonomy.

TERRITORIAL ORGANISATION

MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGS
Union Councils, Union Committees, Tehsil Municipal Administrations, Municipal Committees, Town Committees, Municipal or Metropolitan Corporation, District Councils, District Authorities (Health; Education) (in Punjab only), Villages/Neighbourhoods (in KP only)		Provinces (Balochistan, Khyber Pakhtunkhwa (KP), Punjab and Sindh)	
Average municipal size: 21 014 inhabitants			
10 124		4	10 128

OVERALL DESCRIPTION. Pakistan is territorially divided into four provinces as federating units, the Islamabad Capital Territory (ICT) and the Federally Administered Tribal Areas (FATA) and other areas not regarded as provinces. From the perspective of general administration, revenue administration, and government supervision, there are four territorial units below the level of the province: divisions, districts, tehsils and revenue villages. The division, headed by a Commissioner as direct representative of the provincial government, is a purely administrative, de-concentrated unit which does not have direct supervisory functions vis-à-vis the local governments. District, tehsil and villages, on the other hand, are local government units with, elected councils. Overall, there are more than 120 000 elected local representatives in the four provinces.

PROVINCES. Provinces are the main subnational tier of government. There are four: Balochistan, Khyber Pakhtunkhwa (KP), Punjab and Sindh. The majority of the population lives in the Indus Plain, located in Punjab and Sindh provinces. These two provinces are home to the largest cities: Lahore, Karachi, Faisalabad, Hyderabad, Rawalpindi and Gujranwala (all exceeding one million inhabitants). Balochistan province is by contrast the largest and least populated

province, mostly due to its mountainous terrain and water scarcity. The July 2018 national and provincial elections resulted in a change of government. Consequently, some provinces (such as Punjab and KP) have announced plans to revise their existing local government acts: reducing the tiers of the local government system has been mentioned as one of the possible changes. Local Council Associations at provincial level were re-established towards the end of 2018 in two provinces (Punjab and KP), whereas efforts are underway to revive them in the remaining two provinces (Sindh and Balochistan) and at the national level as well. Additionally, there are plans to bifurcate Punjab and to create a new South Punjab Province.

MUNICIPAL LEVEL. Tiers and categories of local government units differ between the provinces. Historically, there was a three-tier system of local governments with the district level at the top, the tehsil level at the medium level, and the union council at the lowest level. The existing local government acts of all provinces excluding that of KP make a distinction between urban and rural local government units, each having differing sets of functions (asymmetric decentralization). The current set-up is more fragmented and does not necessarily imply a hierarchical relationship between the levels of local government. Urban local governments (e.g. Metropolitan Corporation for Lahore) are de facto “middle level” in Punjab (Act XVIII of 2013), Sindh (2013) and Balochistan (2010). In Punjab, the District Authorities for Health and Education are hybrid organisations, consisting partly of district-level elected representatives, and partly of public servants from the respective sector department.

OTHER TERRITORIAL UNITS. Beside the local government systems of the four provinces, separate legal arrangements exist for certain areas, including ICT and for the cantonments (i.e. housing settlements of the Armed Forces located within the territory of a district). The seven so-called “tribal districts” bordering Afghanistan were until mid-2017 grouped as “Federally Administered Tribal Areas (FATA)” without any form of elected local governments. With the 25th Constitutional Amendment of May 2018, FATA was merged into the province of KP, and steps are being taken to build up a local government system in line with the existing KP system.

SUBNATIONAL GOVERNMENT RESPONSIBILITIES

The 18th Amendment of the 2010 Constitution abolished the concurrent list of functions of the 1973 Constitution and most functions were devolved as exclusive functions to the provinces, which were then required to devolve them to local governments within their jurisdiction. Some federal functions, which in practice are discharged by federal departments, come under the guidance of the Council of Common Interests to inculcate the norms of participatory federalism.

Mandate and functions of the different local government units are regulated in the provincial local government acts and lower-level regulations, such as Rules of Business for each local government tier. Most of these acts do not specify local government functions as “mandatory” or “discretionary”. Due to the lack of constitutional directives, the scope and depth of local government functions differ substantially between the provinces. The table below gives an overview of the main responsibilities assigned to provinces and local governments. The lowest level (union council/committee or village/neighbourhood council level) of local government is usually in charge of community development, community infrastructure projects, and civic registration. The medium level (such as tehsil municipal administration, town committee, municipal committee) normally deals with so-called “municipal services”. For the highest level, functions differ substantially between urban (metropolitan/municipal corporations) and rural local governments (district councils). The urban governments usually deal with municipal services in the widest sense. District councils often have a monitoring role for the lower levels, and also carry out some of the functions assigned to the lower levels (in Punjab, district councils are tasked with sanitation and waste management normally assigned to union councils). In KP, the 2013 local government act devolved a substantial number of social services (such as health, education, social welfare) to the district level.

Often, sectoral policies, regulation and planning are the jurisdiction of the provincial level while implementation is with local government units. In addition, all provinces have created public sector corporations (such as local development authorities, water and sanitation companies) dealing with local-level functions, which are run by the provincial administrations and thus encroach on local government autonomy. The vertical coordination between the tiers of local government remains a major challenge, and inter-local government cooperation is unknown.

MAIN RESPONSIBILITY SECTORS AND SUB-SECTORS

	PROVINCIAL LEVEL	LOCAL GOVERNMENT LEVEL
1. General public services	Administrative service; Police; Revenue Administration/Excise/Taxation; Planning; Administration and operation of general services (not assigned to specific functions)	Civic registration (birth and death, marriages and divorces certificates etc.)
2. Public order and safety	Disaster Management, Relief and Rehabilitation	Public safety
3. Economic affairs /transports	Provincial-level infrastructure and services (roads and buildings); Public Works; Agriculture; Cooperatives; Energy; Forestry, Wildlife and fisheries; Industries, Commerce and investment; Labour; Mines and minerals	Local-level infrastructure and services, Roads; Bus terminal/stand; Urban public transport; Licensing of local transport services; Urban traffic regulation of livestock and dairy development; Slaughterhouses; Fairs and local markets
4. Environmental protection	Policies and regulations; Enforcement	Support in enforcement; Public parks and green areas; Street cleaning; Protection of local water supply sources; Sewerage; Waste management (collection and disposal)
5. Housing and community amenities	Urban housing, Regional spatial planning; Large scale water supply and sewerage schemes; Irrigation	Building Control; Urban and land use planning; Zoning; Local/urban water supply schemes
6. Health	Sector regulation; Sector planning; Tertiary health services and teaching hospitals	Primary health services (such as basic health units); Secondary health services (such as tehsil and district hospitals); Mother & child health care centres
7. Recreation, culture & religion	Museums; Libraries; Arts and sports facilities; Religious affairs	Local museums; Libraries, Arts and sport facilities
8. Education	Sector regulation; Higher education, teacher education; Curriculum development; approval and provision of teaching material and equipment; Sector planning; Tertiary education, Policies and sector planning for non-formal and adult education	Primary and Secondary Education; Pre-School Education; Non-Formal and Adult Education
9. Social protection	Policy and regulation; Population issues; Women development; Youth	Social welfare services

PAKISTAN

FEDERAL COUNTRY

SUBNATIONAL, STATE AND LOCAL GOVERNMENT FINANCE

Scope of fiscal data: provincial councils (no disaggregated data between provinces and local governments).

Other

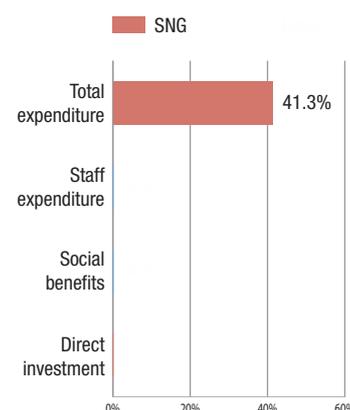
Availability of fiscal data:
Low

Quality/reliability of fiscal data :
Medium

GENERAL INTRODUCTION. According to the 2010 Constitution, the National Finance Commission should meet every five years to regulate the annual distribution of national financial revenues between the federal government and the provinces and among the provinces (Art. 160). Part IV of the Constitution details the fiscal and financial powers of provincial governments (Art. 118-127). In most cases, the provincial governments have the authority to review approved budget of the local governments in their jurisdiction, thus making local governments reliant on provincial discretion of funding. In Punjab, KP and Sindh, Provincial Finance Commissions make recommendations to the provincial governments on the amount of grant for local governments. In Balochistan, the local government act provides for the establishment of a Local Council Grants Committee for awarding grants to local governments. In each province, the local government act restricts the ability of elected local governments to impose taxes and prohibits local governments – including those belonging to the Islamabad Capital Territory (ICT) – from borrowing. In addition, all four provinces and ICT provide for a Local Government Commission to carry out inspections, social audits and to report to the federal government.

SUBNATIONAL GOVERNMENT EXPENDITURE BY ECONOMIC CLASSIFICATION

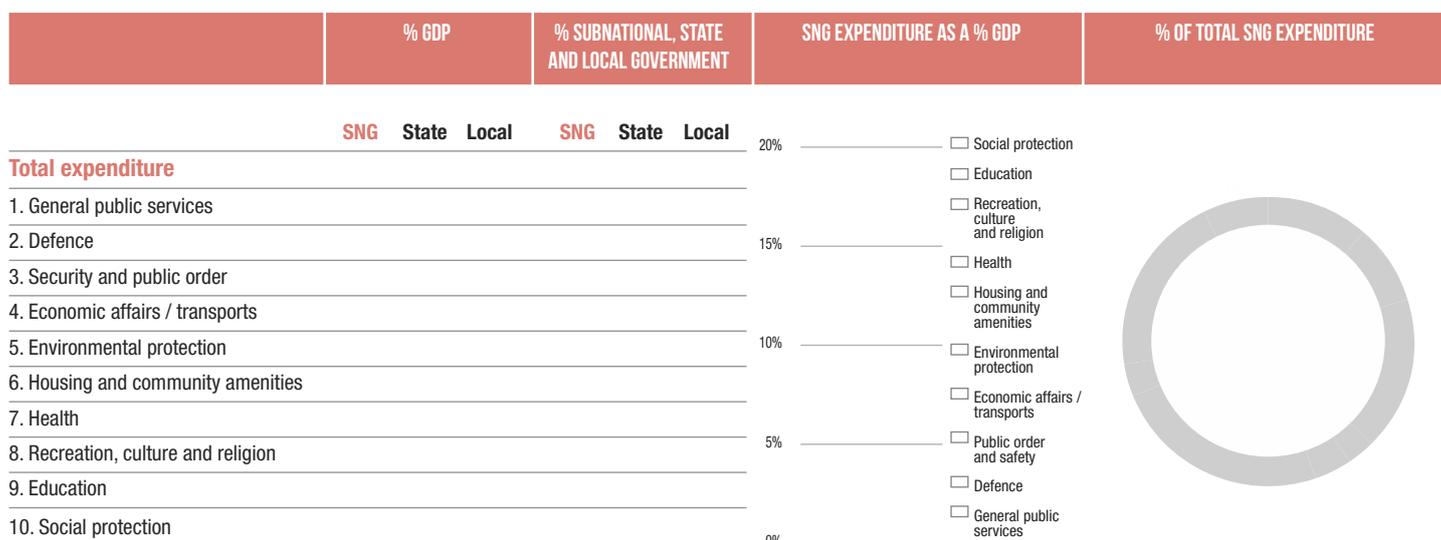
2016	DOLLARS PPP / INH.			% GDP			% SUBNATIONAL, STATE AND LOCAL GOVERNMENT EXPENDITURE			% GENERAL GOVERNMENT EXPENDITURE (SAME EXPENDITURE CATEGORY)
	SNG	State	Local	SNG	State	Local	SNG	State	Local	
Total expenditure	424			8.5%			100%			
Incl. current expenditure	290			5.8%			68.3%			
Staff expenditure										
Intermediate consumption										
Social expenditure										
Subsidies and current transfers										
Financial charges										
Others										
Incl. capital expenditure	134			2.7%			31.7%			
Capital transfers										
Direct investment (or GFCF)										



EXPENDITURE. The 18th Constitutional Amendment was a milestone in the evolution of fiscal federalism in Pakistan, as it devolved significant power and expenditure responsibilities from national to the provincial governments, especially in the area of social services. Despite transferring functions to provinces, the federal government did not reduce its expenditure adequately. Instead, as the fiscal space shrank, expenditure increased at both the federal and provincial government levels. From the financial year 2009/10 to 2015/16, the provincial share in total expenditure increased from 28% to 41.3%. The breakdown of expenditure by province reveals that Punjab and Sindh provinces make up almost three-quarters of provincial expenditure (47.2% and 27.4% respectively), while their share in total public expenditure amounts to 19.6% for Punjab and 11.4% for Sindh in 2016. By contrast, KP and Balochistan account for only 16.8% and 8.7% of provincial spending respectively and their combined expenditures represent slightly more than 2% of GDP. In 2016, current expenditure and capital (development) expenditure accounted for 68.3% and 31.7% of provincial expenditures and 5.8% and 2.7% of GDP respectively.

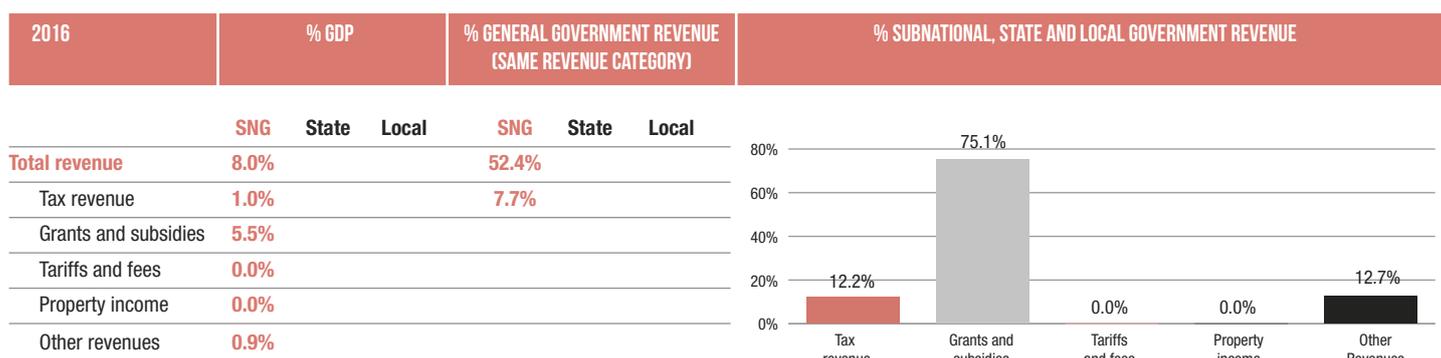
DIRECT INVESTMENT. Capital expenditures at the provincial level make up a significant portion of total public capital expenditures in 2016 (59.8%). The allocation of capital expenditures further increased during 2017, with a 33.4% growth compared to the previous year. Capital expenditures are incurred at the federal government level through the Federal Public Sector Development Programme (PSDP) and at the provincial government as part of the Annual Development Programmes (ADP). In its 12th Five Year Plan, the federal government targets an investment of Rs10 581 billion (i.e. USD 1773 per capita PPP), including Rs5 000 billion for Federal PSDP (i.e. USD 838 per capita PPP) and Rs5 581 billion for Provincial ADPs (i.e. USD 935 per capita PPP). Social and infrastructure sectors have been given the highest priority, with planned investment representing 47% and 45% of total planned investment respectively. These sectors are followed by productivity enhancement, science and information technology, and governance.

■ SUBNATIONAL GOVERNMENT EXPENDITURE BY FUNCTIONAL CLASSIFICATION – COFOG (OR OTHER CLASSIFICATION OR ESTIMATION)



It is estimated that provincial governments are spending significant amount of their Annual Development Plan on education (elementary, secondary and higher education) and health. The provinces' contribution to the country's public health expenditure has risen from 72% in 2009-10 to 82% in 2013-14, as a result of the devolution of functions following the adoption of the 18th amendment to the Constitution in 2010. In addition to the substantial spending on education and health, the Annual Development Plans of the provincial governments for 2016-17 were mainly devoted to infrastructure development (including roads, water supply and sanitation, and housing), urban development, special initiatives and services.

■ SUBNATIONAL GOVERNMENT REVENUE BY CATEGORY



GENERAL DESCRIPTION. Subnational governments in Pakistan are highly dependent on fiscal transfers from the federal government. The fiscal equalization mechanism is composed mainly of unconditional vertical transfers. The National Finance Commission (NFC) is in charge of determining the allocation of fiscal transfers, through an award, to provinces out of a “divisible pool of resources”. The last 7th NFC award (2010-2015) allocated 57.5% of the divisible pool resources to the provinces, while 42.5% was kept by the federal government, a substantial shift from 2006 (47.5% to provinces and 52.5% to the federal government). Although the 7th NFC award expired in 2015, the 8th NFC did not conclude with an award. This is attributed to the constitutional clause stating that the share of provinces may not be reduced in subsequent awards, leading to a political blockage in the NFC.

TAX REVENUE. Provinces are in charge of collecting property taxes, capital gains taxes on property, motor vehicle tax, excise duty on alcohol/liquor/narcotics and other duties and fees. These tax revenue represented 12.2% of provincial revenues in 2016, and 7% of total public tax revenue raised in Pakistan. The 7th NFC award granted provinces increased tax autonomy by transferring the collection of the general sales tax (GST) on services to them. In 2016, GST accounted for 6.4% of provincial tax revenues and 7.7% of total public sales tax. The provinces have created revenue authorities to collect and facilitate payment of the sales tax on services. However, they often lack the capacities to collect taxes effectively.

GRANTS AND SUBSIDIES. Grants are unconditional with the exception of transition grants that help cover deficits at the end of the financial year. Grants are largely predictable and are normally paid on a monthly basis. The main source of grants comes from the redistribution of tax revenue by the NFC through the divisible pool of resources. According to Art. 160 of the 2010 Constitution, this divisible pool taxes consist of the following taxes levied by the federal government on behalf of provincial governments: taxes on income, wealth tax, capital value tax, taxes on the sales of goods (excluding general sales tax on services), federal excise duties (excluding the excise duty on gas), export duties on cotton and customs duties. These tax revenues are then distributed between federal and provinces and between the provinces according to the NFC award, which sometimes result in fiscal imbalances. The 7th NFC award was the first to introduce criteria other than population for transfer allocation amongst the provinces. The revised criteria and their weights are: population (82%), poverty (10.3%), revenue generation by provinces (5%), and inverse population density (2.7%). According to this formula, the total amount of grants is divided as such amongst provinces: 9.09% to Balochistan, 14.62% to KP, 51.74% to Punjab, and 24.55% to Sindh.

At the provincial level, the Provincial Finance Commissions determine the amount and distribution of fiscal transfers from provinces to local governments to compensate for their low level of fiscal revenue. As each province has its own local government system, devolution of taxation powers varies from

PAKISTAN

FEDERAL COUNTRY

province to province. In its interim Provincial Finance Commission Award of 2017/18, the province of Punjab also introduced criteria for transfers from provinces to districts and municipalities, while union councils receive a uniform grant. Capital grants to local governments amounted to only 6.4% of the Provincial Annual Development Program. In KP, the local government act provides that the Provincial Finance Commission transfers at least 30% of the Provincial Annual Development Program to local governments. However, in 2017/2018, capital grants to local governments only amounted to 22.2% of the province total amount. In Sindh and Balochistan, no NFC awards have been given yet. Tehsil governments in KP province stand out as an exception as the only local governments for which own source revenue represent the largest share of revenue: several Tehsil Municipal Administrations managed to triple their own source revenue generation between 2012-13 and 2016-17.

OTHER REVENUES. Provincial governments also levy administrative fees and charges including market place selling fees, visitor fees, exploitation fees, among other. Property income consists of property leasing and sales and income from municipal companies and public utilities. Possible additional provincial government revenues include service and license fees that do not enter in the “Single Treasury Account”, for instance local market fees. Local governments also receive an additional 10% of the value of fines and inherent interests related to the use of land. Finally, provinces receive a share of the net proceeds of the federal royalties on crude oil, on natural gas, and on development surcharge on natural gas.

■ SUBNATIONAL GOVERNMENT FISCAL RULES AND DEBT

	DOLLARS PPP/INH.			% GDP			% GENERAL GOVERNMENT DEBT			% SNG DEBT		
	SNG	State	Local	SNG	State	Local	SNG	State	Local	SNG	State	Local
Total outstanding debt												
Financial debt*												

* Currency and deposits, loans and bonds

FISCAL RULES. The Auditor General of Pakistan, appointed under the Constitution of the country, releases reports on public finance that are laid before the federal, provincial and district legislatures, and are considered in the Public Accounts. In addition, all revenues received by the provincial government should form part of a provincial consolidated fund.

DEBT. As stipulated in Art. 167 of the Constitution, the provincial government has the authority to access to loans (both domestic and international) within the limits set by the Provincial Assembly Act. The federal government may also borrow on behalf of any province, and the sums required for the purpose of making loans to a province should be charged upon the Federal Consolidated Fund.



Lead responsible: UCLG
Last update: 11/ 2019

www.sng-wofi.org

Socio-economic indicators: OECD statistics // World Bank // UNDP // UN Desa // ILO.

Fiscal data: Ministry of Finance, Pakistan Economic Survey 2016-17 – Fiscal Development // Ministry of Finance, Federal Budget in Brief 2016-17

Other sources of information: PILDAT (2019), Briefing Paper – Comparative Analysis of Local Government Laws in Pakistan // Commonwealth Local Government Forum (2018) Country Profile 2017-2018 Pakistan // SPDC (2018), Strengthening Fiscal Federalism in Pakistan: The Way Forward. Social Policy and Development Center // Bengali, Kaiser (2018), “Reconfiguring NFC”. Presentation at the Sustainable Development Conference, Islamabad on 7 December 2018 // Syed Mohammad Ali (2018), Devolution of Power in Pakistan. United States Institute of Peace (Special Report No. 422) // UNDP Pakistan (2017) Local Governance Strategy for Balochistan, Khyber Pakhtunkhwa, Punjab and Sindh. Decentralization and Local Governance Support Project // Gabe Ferrazzi & Rainer Rohdewohld (2017), Emerging Practices in Intergovernmental Functional Assignment // Islam Z.M (2015), Local Government in Pakistan 1947–2015 // SDPI and CIPE, Reforming Provincial Tax Framework in Pakistan Challenges and Way Forward (available at: https://www.sdpi.org/research_programme/uploads/SDPI-Provincial-tax-model.pdf).