

## ***Conference Reports***

### **First Meeting of the PIDE Committee on Devolution Reforms in Pakistan Lahore, June 1, 2006**

The Local Government Ordinance (LGO), formulated by the National Reconstruction Bureau (NRB) in 2000 and promulgated by provincial governments in August 2001, assigns powers, responsibilities, and service delivery functions to three levels of local governments: district, *tehsil*, and union. Responsibilities for the delivery of social and human development services, such as primary and basic health, education and social welfare, are delegated to the district level, whereas municipal services, such as water, sanitation and urban services are assigned to the *tehsil* level. The LGO does not only deal with the delivery of public services in its plan but also stresses the need for fiscal decentralisation, claiming that “Fiscal decentralisation is the heart of any devolution exercise. Without fiscal decentralisation no authority is devolved.”

Five years into its implementation the debate on the successes or failures of the LGO is getting more polarised than ever. There are questions regarding: the design and sustainability of the reforms; fears of a bureaucratic claw back and re-centralisation; actual decentralisation as against a conceived one; and issues related to vertical programmes and overlapping of jurisdictions. There are also questions related to the system achieving the objectives that any devolution plan intends to achieve, including: a more efficient provision and delivery of public services; improved spatial efficiency in planning and expenditure; greater responsiveness to local preferences; and more transparent accountability in policymaking.

Themes emerging from the day long deliberations on decentralisation in Pakistan can be classified in four categories: political; administrative; spatial; and market, having six interlinked dimensions to governance assessment. These dimensions include: (i) conceptual; (ii) empirical; (iii) community action and social mobilisation; (iv) capacity building; (v) policy inputs; and (vi) research.

### **Theme I: The Structure and Conceptual Definition of Decentralisation**

There are several questions that beg answers regarding the structure of the devolution reforms. Some of these are:

- (i) There is a need to *conceptualise decentralisation* in Pakistan to understand what does it actually mean in the country? Do the devolution reforms envisage just decentralisation of functions or does it entail devolution of power as well? There is thus a need to expand, explain and explore terms like devolution and decentralisation to understand what they stand for in Pakistan in reality and what an *idealised model* can look like.
- (ii) What is the unit of decentralisation, and thus the *unit of analysis*?
- (iii) How are the sub-nationals linked with the national and the power relations between different tiers of government? What are the linkages between the national, provincial and local governments, and what are the anomalies in it?
- (iv) How many of the *existing national and sub-national structures* can be deemed *consistent with devolution*?
- (v) Should devolution reforms have a *uniform design* to be implemented across the country, be it a city or a village, *or* have provision for *heterogeneous designs* for different regions/areas?

### **Theme II: Free Markets and Decentralisation**

The form of decentralisation that interests economists the most is market decentralisation, with many considering free markets quintessential for decentralisation. *Market decentralisation* is generally used by economists to analyse and endorse actions that promote the creation of an environment that allows goods and services to be produced and provided by market mechanisms sensitive to the preferences of individuals. Recent trends of economic liberalisation and privatisation have further strengthened the idea of market decentralisation. For real decentralisation to take place there is a need to deregulate markets in both rural and urban areas. In this scenario there is a need to explore:

- (i) What should be the *role of the state* in the devolution process in Pakistan, and procedures required to *deregulate markets* in both rural and urban areas?
- (ii) What kind of *administrative reforms* are needed to have free markets in the country?

### **Theme III: Resource Control and Decentralisation**

The relation between decentralisation and resource control, including tax and revenue assignments, is key to fiscal decentralisation, which in turn is the

cornerstone of any genuine devolution effort. It involves issues like, who pays for what and how much, who provides what, who delivers and, most importantly, who takes all these decisions. There is a need for a clear cut resource mandate at every level of government to avoid any confusion. However, that is not the case in Pakistan. There are frequent overlappings, mainly because different jurisdictional tiers are trying to perform the same function. Likewise, there are inadequacies in tax and revenue mandates. Administrative responsibility to collect various sub-national taxes has been assigned to one level of government or another. However, it is common that provincial governments and local governments share the tax revenues that are collected, or one level of sub-national government might collect a tax on behalf of another level of government. This arrangement has the potential to perverse incentives, where one level of sub-national government depends for its resources on the fiscal capacity of another level of government to levy and collect taxes. In the devolution reforms of Pakistan the link between local taxpayer cost and local service delivery clearly is lacking, while evidence shows that people are ready to pay taxes if they know the collected amount would be spent for their betterment. This inconsistency is due to ***restrictions on the legal right of local governments to impose taxes or fees***. A more efficient fiscal decentralisation would require reforms to expand the types of taxes that local governments can impose and providing them with more ***autonomy to set tax rates***. In certain cases however, local governments can misuse their power to collect revenues stressing the need for a more transparent and accountable system.

#### **Theme IV: Developing a Scoring System for Decentralisation**

There is a need to develop a scoring system that could be used to evaluate and rate the performance of local governments. This requires a selection of indicators and devising a system to gather information regarding these indicators at the local government level. Such an exercise can also help garner a sense of competition among different districts to get better ratings, and consequently enhancing their performance.

#### **Theme V: The Role of Donors and Devolution in Pakistan**

Pakistan's devolution plan has the support of many international donors, who at times are held responsible for certain ills as well, including vertical programmes. Vertical programmes defy the whole logic behind decentralisation, however, it is a common occurrence in Pakistan. For instance, roads and transport are being dealt with by all tiers of government, that is the federal, provincial, district and *tehsil* governments. Same is the case with water and sanitation. This lack of clarity of responsibilities and functions undermines the whole process of devolution and fragments the incentive structure. It is claimed that it is the donors who give funds

for similar kind of projects at different levels of government, which generally leads to bypassing of the lowest tier. In their defence, donors maintain that projects are identified by the respective governments and they only fund it and they do not have any role in deciding the nature of the project.

#### **Theme VI: Evaluating Citizen Community Boards (CCBs)**

How important is notion of participation to devolution? According to the LGO, community is expected to contribute in planning and execution of the development projects and have ownership of development. In the Plan, community participation has been ensured through village/neighbourhood councils and Citizen Community Boards (CCBs). However, certain apprehensions exist regarding elite capture, leading to factionalism, at the local level. There is a need for countervailing centres of power. This can be done by forming autonomous organisation of the poor. Experience tells that poor are ready to organise, despite the presence of an elite class, if there is an incentive to get organised. They can get organised, gain skills, get credit and initiate a localised process of capital accumulation. Group formation is a dynamic process, and sense of consciousness emerges as more collective ventures are carried out. Even in cases where poor belong to different *baradaris* given an opportunity of economic growth new identities transcend old ones—multiple identities can coexist. This is the logic that was behind the conception of CCBs. However, there are certain problems in realisation of this concept. All communities are not alike, as they are a product of their respective patterns of socio-economic differences, history of factionalism, and a horizontal based ideological history. Different areas receive different shocks, setting different communities on different trajectories. There is a need for a *typology for CCBs, explaining which CCBs perform well and which do not*. There is also a need to evaluate the strength of CCB not only as a self-sustaining body—that is being more than a project driven organisation and going beyond the support of donors, but also as a trigger for social mobilisation.

#### **Theme VII: Capacity at the Local Level**

An evaluation of urban government budgets suggests that these governments in fact have quite vast revenue sources and have much more revenue generating opportunities than they actually implement. This raises questions regarding the capacity of the local government personnel to implement the LGO and run the system. It includes not just the human and managerial capacity but also political capacity to run the system efficiently. Skills required, like those required for budget making, may be absent at the local tiers of government. Along with political capacity political maturity is also a much wanted trait needed to make any devolution plan work. Institutional analysis of local governments can help us gauge

the level of capacity available at the lowest tier to carry out the functions as envisaged by the LGO.

Other issues related to devolution reforms in Pakistan deliberated upon during the meet included: demand for devolution at the grassroots level; national goals and local governments; issues of equity, transparency and accountability; corruption; lack of regulation regarding hazardous activities; need for standard operating procedures at all tiers of government; and sustainability of local governments.

Participants included Dr Akmal Hussain, Dr Ali Cheema, Mr Shahid Hafiz Kardar, Mr Ijaz Haider, Mr Qaim Shah, Dr Sohail Malik, Mr Harris Gazdar, and Dr Nadeem Ul Haque.

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