

TREND ANALYSIS OF DEVELOPMENT BUDGETS FOR LOCAL GOVERNMENTS IN KHYBER PAKHTUNKHWA

FINANCIAL YEARS 2017-2018 , 2018-2019, 2019-2020

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Acronyms

- ADP Annual Development Program
- AIP Accelerated Implementation Program
- DC Deputy Commissioner
- FATA Federally Administered Tribal Areas
- FDWP FATA Development Working Party
- GoKP Government of Khyber Pakhtukhwa
- KP Khyber Pakhtunkhwa
- LG Local Government
- NAB National Accountability Bureau
- PHE Public Health Engineering
- PKR Pak Rupees
- PDWP Provincial Development Working Party
- TMO Tehsil Municipal Officer
- USD United States Dollar

1. Budget Allocation to Local Government Through Provincial Annual Development Program (ADP)

1.1 Introduction

The Khyber Pakhtunkwa (KP) Local Government Act 2013 laid down the foundation of the new three-tiered Local Government system comprising of district, tehsil/town and village/neighbourhood levels.

The policy promulgated thereafter was to enable cities and towns in the province:

- To become engines of economic growth,
- To create efficient mechanisms for governance of urban and rural areas that can facilitate the flow of goods and services
- To address inter-jurisdictional and intra-jurisdictional issues between cities, towns and villages, and to build the capacity of local governments to provide municipal infrastructure, facilities and services.

In order to ensure that the future local governments are run more successfully, based on the experiences of the past, this study is being conducted to put forth the current realities on ground.

1.2 Purpose & Objectives of Study

Under the KP Local Government Act 2013, the provincial government is obligated under the law to allocate 30% of total Provincial Annual Development Program (ADP) to the local governments e.g. districts, Tehsils/towns and village/neighborhood councils. The study will assess how much budget has been allocated and how much has actually utilized by local governments in Khyber Pakhtunkhwa. One of the key hurdles in the way of the functioning local governments is the tension between provincial and local governments on the utilization of development funds. The provincial legislators consider development work in the constituency as the main votes puller. This study will also see the challenges faced by the local government in getting development funds from the provincial government and process of utilization of development funds.

1.3 Sources & Methodology

The primary sources used for this report were the annual development programs, white papers issued by GoPK Budget Documents, and Expenditure Reports. The secondary sources comprise International Institutions' audit reports, media investigative reports, donor agencies' comments, and general public opinion and observation. The relevant data and reports were analyzed to assess the allocation, actual release and utilization of funds by the Local Government during the fiscal period between 2017 and 2020. The findings were used to formulate recommendations that would lead to better functioning of the Local Government by removing hurdle in way of efficient budgeting practices and execution.

The report makes no mention of the quality of the feasibility reports (PC-1) or the project costing. It is important to note that, given the opinions expressed on the quality of feasibility studies and project cost estimates, this is one dimension that must be explored separately. Although both the

quality of feasibility reporting and project costing are critical, they are not addressed because they are beyond the scope of this report. Political economy issues, particularly corruption, hidden incentives, and aspects of civil service recruitment and pay, have a significant impact on PFM system performance. This report acknowledges the report's overall influence.

1.4 Current Status of Local Government In KP

Polls for local bodies were last held in KP in 2015 under the reforms introduced by the previous Pakistan Tehreek-e-Insaf (PTI) government, which continued to work till August 2019. The provincial government first postponed the local body elections in the province for a year and then provided legal cover to its decision through a law it passed through the assembly to curb the spread of the novel coronavirus (Covid-19) pandemic.

It was ironic that PTI's government took active part in Gilgit Baltistan and Azad Jammu & Kashmir elections, both held in 2021, but was hesitant to hold elections for local bodies. Before sailing through the Khyber-Pakhtunkhwa (KP) Assembly as a bill in its last session, the provincial government had put in place an ordinance called the Khyber Pakhtunkhwa Epidemic Control and Emergency Relief Ordinance, 2020, promulgated on May 12 "to control the spread of the virus".

One of the clauses in the ordinance was about postponing the local government elections in the province for at least two years. The law is considered to have come into effect from August 2019, when local bodies completed their tenure. The Election Commission of Pakistan raised objections to this ordinance and declared the move a violation of the local government law and the Election Act, 2017. After delay of more than 2 years, the provincial government has agreed to hold it in the end of 2021 and start of 2022.

1.5 Allocation & Utilization 2017-18

The total outlay of Annual Development Program at the start of financial year 2017-18 was Rs. 208000.000 Million with local component of Rs 126,000.000 Million and Foreign Assistance of Rs 82,000.000 Million. However, due to financial limitations the total outlay at the end of financial year 2017-18 was revised to Rs 147,047.188 Million including provincial component of Rs 108,522.144 Million and Foreign Assistance of Rs 38,525.044 Million. The provincial program comprised of 1674 projects including 1197 ongoing, 477 new projects including 03 devolved ADP Projects, out of which 215 projects were completed.

REVENUE/RESOURCE TRANSFERRED TO LOCAL GOVERNMENTS

Based on the recommendations of the said Commission, the proposed budget contained the following shares/grants to Local Governments for Financial Year 2017-18:-

| S.No | Particular | Amount |
|--------------|-------------------------|----------------|
| 1 | Salary | 121.378 |
| 2 | Non-Salary | 21.021 |
| 3 | Grant to Local Councils | 5.187 |
| 4 | Districts ADP | 28.000 |
| Total | | 175.586 |

Table 1.1

According to the white paper of Government of KP or GoKP) for financial year 2017-2018, the percentage of Districts ADP out of the total Provincial ADP, comes to around 28.5%. Moreover, the component of Foreign assistance amounted to Rs.82 billion, making it around 77% of the Districts ADP. while the local funding was around Rs.24.9 billion.

| | | | |
|---------------------------------------|--------------------|--|--------------------|
| Total-B | 25,250.000 | Total-B | 7,000.000 |
| C-Development Receipts | | C-Development Expenditure | |
| Cash Balance/Savings | 24,895.526 | ADP (Provincial) | 98,000.000 |
| Foreign Projects Assistance | 82,000.000 | ADP (Districts) | 28,000.000 |
| Total-C | 106,895.526 | Foreign Projects Assistance | 82,000.000 |
| Total Revenues (Account-I) | 603,000.000 | Total-C | 208,000.000 |
| | | Total Expenditure (Account-I) | 603,000.000 |

Table 1.2

Now looking at the table below, that is given in the Expenditure Report 2018-2019, a different side of the whole picture comes up.

Department wise Expenditure
Units: Rs. Mln

| Head | 2017-18 | | | 2018-19 | | | Year on Year increase | |
|--|------------------|-----------------|------------------------|------------------|-----------------|------------------------|-----------------------|-------------|
| | Budget Estimates | Actuals | Actuals as % of Budget | Budget Estimates | Actuals | Actuals as % of Budget | BE v BE | Act v Act |
| COMMUNICATION & WORKS | 29,040.2 | 27,372.5 | 94% | 23,486.0 | 26,348.6 | 112% | -19% | -4% |
| Current | 6,604.3 | 5,185.3 | 79% | 7,046.7 | 6,093.6 | 86% | 7% | 18% |
| Development | 16,589.3 | 21,813.5 | 131% | 11,020.4 | 17,323.1 | 157% | -34% | -21% |
| FPA | 5,846.6 | 373.8 | 6% | 5,419.0 | 2,931.9 | 54% | -7% | |
| HIGHER EDUCATION, ARCHIVES AND LIBRARIES | 18,732.9 | 12,330.6 | 66% | 18,798.2 | 16,625.3 | 88% | 0% | 35% |
| Current | 11,993.8 | 8,649.0 | 72% | 13,924.8 | 10,025.1 | 72% | 16% | 16% |
| Development | 6,320.0 | 3,495.9 | 55% | 4,125.0 | 6,072.8 | 147% | -35% | 74% |
| FPA | 419.1 | 185.8 | 44% | 748.4 | 527.4 | 70% | 79% | |
| PLANNING & DEVELOPMENT AND BUREAU OF STATISTICS | 18,666.9 | 19,972.1 | 107% | 16,935.2 | 14,802.1 | 87% | -9% | -26% |
| Current | 337.1 | 317.5 | 94% | 601.3 | 411.6 | 68% | 78% | 30% |
| Development | 10,398.9 | 11,503.9 | 111% | 7,438.0 | 5,663.7 | 76% | -28% | -51% |
| FPA | 7,930.9 | 8,150.7 | 103% | 8,895.9 | 8,726.9 | 98% | 12% | |
| LOCAL GOVERNMENT AND RURAL DEVELOPMENT | 16,131.6 | 18,063.0 | 112% | 11,290.4 | 12,214.2 | 108% | -30% | -32% |
| Current | 6,578.1 | 5,552.2 | 84% | 5,922.5 | 5,719.5 | 97% | -10% | 3% |
| Development | 5,601.4 | 10,533.4 | 188% | 3,476.9 | 6,269.3 | 180% | -38% | -40% |
| FPA | 3,952.0 | 1,977.4 | 50% | 1,891.0 | 225.5 | 12% | -52% | |
| AGRICULTURE, LIVESTOCK, FISHERIES AND COOPERATIVES | 12,560.4 | 8,233.5 | 66% | 12,203.1 | 9,309.7 | 76% | -3% | 13% |
| Current | 6,965.5 | 5,833.4 | 84% | 7,715.9 | 6,245.9 | 81% | 11% | 7% |
| Development | 4,296.1 | 2,256.3 | 53% | 3,577.4 | 3,028.0 | 85% | -17% | 34% |
| FPA | 1,298.8 | 143.8 | 11% | 909.8 | 35.8 | 4% | -30% | |

Table 1.3

According to this Expenditure Report of Finance Department KP for the year 2018-2019, the Local Government's ADP in 2017 was estimated as 5.6 billion, whereas the actual expenditure went way above that, equalling Rs.10.5 billion. Similarly, in 2018-2019-, the Local Government's ADP in actual terms was 180% higher than the estimated one. But here, its important to note two things. Firstly, in this table, Local government ADP does not include Distirct ADP, which was shown by the government is 28 billion. Secondly, the amounts are mentioned in PKR, whereas the Local government's development budget had around 77% contribuon from foreign assistance. The devaluation of PKR against USD between 2017 and 2019 was more than 50%. So, the increase in the Local government ADP shown by the government, in actual terms, is due to the devlauation of currency, and had negligble effect on growth or development. This is one example of how numbers are played with to defy the realities on ground.

Meanwhile, under the Khyber Pakhtunkhwa Local Government (Third Amendment) Act, 2017 the devolved offices of C&W Department, had been provincialized. Resultantly, the Budget Estimates 2017-18 under Grant No.14 were increased. Moreover, a sum of Rs. 4,423.783 million were earmarked for the Public Health Engineering (PHE) Department for the financial year 2017-18 against Rs. 267.886 million allocated in the Budget Estimates 2016-17. Under the Khyber Pakhtunkhwa Local Government (Amendment) Act 2017, the devolved offices of PHE Department were also provincialized.

1.6 Allocation and Utilization 2018-2019

For Districts ADP, an amount of Rs. 29345.00 Million was allocated by GoKP for the District Development Program. The allocated amount was to be utilized by the Devolved Tiers of Local Government i.e. Village/Neighborhood Councils, Tehsils and Districts as per the following breakup: i. Provision for VCs/NCs Rs 13100.000 Million ii. Provision for Districts Rs 8122.500 Million iii. Provision for Tehsils. Rs 8122.500 Million The amount was meant for 37 projects out of which 28 were ongoing with allocation of Rs 2611.725 Million and 09 were new with allocation of Rs 320.275 Million.

Development Expenditure by Sector

According to GoKP's white paper on budget, during 2018-19, Rs. 143 Billion was expensed under development spending. There were 28 sectors that underspent their allocation while 7 went over budget in their allocation. Sectors that went hundred percent showed a greater capacity to absorb, while there were other sectors that didn't spend so efficiently. This was typically because project approvals and project implementation capacity tended to be weak. Therefore, the province optimized utilization by reallocating where spending is slow. However, this means that by taking this consideration in the budget process, the government can improve allocation and spend decisions and consequently limit the need for midyear reallocations.

A similar pattern could be seen in the Foreign portfolio, where there was significant capacity across the board to increase spending. This is because there were significantly more committed funds than expensed. This lack of utilization was typically because the foreign funded portfolio had not

been monitored and tracked at a high enough level. The foreign funded portfolio clearly showed the potential to increase utilization by more closely tracking and management of the portfolio. The provincial government intended to do that with increased oversight by identifying and removing bottlenecks and expedite spending.

Another pressing concern for the government was the throw forward. The overall throw forward was over six years, and there are departments with throw forwards higher than eight years. This means that if no new projects were added, it would still have taken the province over six years to complete the existing ADP with the present development budget. It also means that through the last year, spending would have been disbursed between the projects. The situation on the throw forward was unsustainable and hence the provincial effort in the budget 19-20 to rationalize the ADP was essential. This data shows how necessary that rationalization process was.

Sector-wise Allocation & Expense of Development Budget 2018-19

Units: Rs. Mln

| S. No | Department | No. of Projects | Total Cost | Allocation | Actuals | % Expended from Total Allocation |
|-------|---|-----------------|------------|------------|----------|----------------------------------|
| 1 | Special Initiatives | 2 | 480.0 | 422.0 | 1,567.0 | 371% |
| 2 | Local Government | 37 | 52,969.3 | 4,823.0 | 6,368.8 | 132% |
| 3 | Housing | 8 | 3,556.5 | 348.0 | 434.2 | 125% |
| 4 | Higher Education | 65 | 63,166.9 | 4,873.4 | 6,073.6 | 125% |
| 5 | Water | 175 | 116,441.4 | 8,520.8 | 10,139.0 | 119% |
| 6 | Law & Justice | 35 | 16,559.3 | 880.0 | 991.4 | 113% |
| 7 | Roads | 308 | 174,541.3 | 14,623.0 | 16,258.9 | 111% |
| 8 | Drinking Water & Sanitation | 50 | 37,919.8 | 3,427.0 | 3,321.9 | 97% |
| 9 | Forestry | 29 | 11,955.9 | 2,866.0 | 2,713.6 | 95% |
| 10 | Social Welfare | 22 | 1,228.0 | 297.0 | 255.8 | 86% |
| 11 | Industries | 17 | 25,846.0 | 1,638.9 | 1,402.6 | 86% |
| 12 | ST&IT | 14 | 1,807.0 | 393.0 | 333.0 | 85% |
| 13 | Building | 46 | 7,936.6 | 938.0 | 780.1 | 83% |
| 14 | Food | 18 | 2,370.5 | 472.0 | 361.4 | 77% |
| 15 | Sports, Tourism, Archaeology, Culture & Youth Affairs | 67 | 28,608.4 | 2,503.0 | 1,903.0 | 76% |
| 16 | Elementary & Secondary Education | 70 | 112,381.6 | 16,083.2 | 11,780.7 | 73% |
| 17 | Auqaf, Hajj, Religious & Minority Affairs | 20 | 1,637.0 | 400.0 | 280.2 | 70% |

Table 1.4

For Fiscal year 2018-19, as the second Pakistan Tehreek-e-Insaf (PTI) government in Khyber-Pakhtunkhwa prepared to present its first full budget, there were apprehensions about whether they'll be able to fully utilize the funds allocated under its annual development program (ADP), or will they fail again to ensure a surplus budget as it did under Pervez Khattak.

The cascade effect of this was the 2018-19 developmental budget was slashed 14 per cent allocated for ADP for the fiscal year 2019-20. Documents show that the KP government intended to allocate around Rs209 billion for the provincial ADP for the fiscal year 2019-20, up from Rs180 billion allocated in 2018-19.

The documents showed that of the provincial segment of the allocation for ADP, the first PTI provincial government had in 2013-14 allocated Rs.83 billion. Of this, the government released Rs75 billion but it used only Rs66 billion — a gap of Rs9 billion which lapsed.

While the allocations in 2014-15 were increased by Rs17 billion to Rs100 billion, of this, Rs97 billion were released and Rs90 billion were utilised. In the fiscal year 2015-16, allocations were increased 13 per cent to Rs113 billion and the provincial government ended up releasing only Rs108 billion were released but only Rs101 billion were utilised. The trend continued in 2016-17 when Rs125 billion were allocated, up 11 per cent from the previous fiscal year. However, the government released Rs123 billion, but only Rs119 billion were used.

The KP government increased the allocation by a single percentage point and set aside Rs126 billion in the fiscal year 2017-18 for development— the highest sum allocated by the PTI government till that time. But the provincial government released only Rs114 billion, nine billion rupees less than it did in the previous financial year. Of this, Rs108 billion were spent.

As mentioned, allocations were slashed by 14 per cent to Rs108.9 billion in the fiscal year 2018-19, while the government claimed to have released Rs95.6 billion by May 31. Of this, it used Rs76.1 billion with Rs19.5 billion lying unused and are sure to lapse. The fund utilization of the KP government in the outgoing fiscal year was lower than that of the past four years, maintaining its track record of never fully utilizing ADP funds to maintain a 'surplus'.

1.7 Allocation and Utilization 2019-2020

The Provincial Finance Commission recommended horizontal distribution for the three-tiered local governments to meet their expenditure on account of salary, non-salary, grants to local councils and development expenditure. For 39 projects of the Local Government, a total of 7.12 billion was allocated, out of which 3.219 billion was local funded and 3.9 billion was foreign funded. The cost of projects were estimated as 35.17 billion with 22.1 billion estimated for local funding and 13 billion for foreign funding.

Local Government Development Budget dropped to a mere 651.2 million in the ADP 2019-2020 a stark decline of The Khyber Pakhtunkhwa government denied Rs43 billion funds meant for the development activities of local bodies in the outgoing fiscal, violating KP Local Government Act, 2013. In the financial year 2019-20, the share of the local bodies in the development funds was

Rs46 billion fixed by the Provincial Financial Commission (PFC) in view of the local bodies law. However, the provincial government released only Rs3 billion.

Owing to denial of the funds, new developmental schemes couldn't be launched in the three tiers of local government system including district, tehsil and village and neighbourhood councils. Minister of Finance KP termed the reason as “ Local Councils not in place after completion of tenure”.

Table 1.5 shows the gap between Budget Estimates of District ADP and the actual utilization of those between 2016 and 2020.

Table 1.5

| Head | Budget Estimates 2016-17 | Actuals 2016-17 | Budget Estimates 2017-18 | Actuals 2017-18 | Budget Estimates 2018-19 | Revised Estimate 2018-19 | Actuals 2018-19 (April 2019) | Budget Estimates 2019-20 |
|-------------------------|--------------------------|-----------------|--------------------------|-----------------|--------------------------|--------------------------|------------------------------|--------------------------|
| Salary | 112.6 | 108.9 | 121.4 | 121.4 | 140.0 | 130.0 | 105.8 | 159.4 |
| Non Salary | 17.4 | 18.0 | 21.0 | 21.0 | 23.1 | 23.1 | 9.7 | 21.0 |
| Grant to Local Councils | 4.7 | 5.4 | 5.2 | 5.2 | 6.7 | 6.8 | 3.8 | 6.5 |
| District ADP | 33.9 | 33.9 | 28.0 | 10.9 | 29.4 | 29.3 | 17.5 | 46.0 |
| Total | 168.6 | 166.2 | 175.6 | 158.5 | 199.2 | 189.2 | 136.8 | 232.9 |

2. Trend Analysis For The Last Three Fiscal Years (2017-18, 2018-19, 2019-20)

2.1 Mounting “Throw Forward” & Project Completion Period

Under the PTI government, KP has observed a surge in throw-forward liabilities from Rs37 billion at the end of the ANP government in the financial year 2013-14 to Rs469 billion in 2018-19. The project completion period had gone up from one and a half years to six years during the PTI’s tenure. The throw-forward liabilities are the expenses, which cannot be made in the current year and are budgeted to be met in later years based on average allocations. The more the throw forward amount, the farther the goal of allocating appropriate amounts to Local governments and the greater the delay in completing developmental projects in time.



Table 2.1

Development expenditure is perhaps the most critical component of this government’s budget. It is so because the current government was voted in based on an agenda of continued reform for the province. The most glaring anomaly in the provincial development budget was the increasing throw-forward. The figure above shows an overview of the 2018/19 ADP and it is important to note that more than half of the required expense for completion of development programs was parked as throw-forward. The number of years required to fund this amount, based on historical

allocations, was about seven years. This is especially alarming considering none of the other provinces have a throw-forward of more than 3 years.

2.2 Currency Devaluation and Inflation

GoKP has not taken into consideration the effects of country's macroeconomic policies on the actual budget estimation and expenditure. Inflation rate, interest rate and drastic currency devaluation. As shown above by comparing the two, this inability to see things in a bigger picture has been a major problem of the provincial leadership. Even small successes were blown out of proportion while ignoring the overall situation of the socio-economic aspects on ground.

2.3 Development Funds Used for Current Expenditure

The Minister of Finance KP, in his budget speech of 2020-2021 increased the funding of tehsil municipal administrations from Rs9 billion to Rs15 billion. He admitted that allocations had been increased to prevent the use of development funds for current expenditure, which has been a great problem in the way of allocation and completion of developmental schemes in time.

2.4 Provincializing the Local Government Functions

The devolved offices of the C&W Department were provincialized by the Khyber Pakhtunkhwa Local Government (Third Amendment) Act, 2017. As a result, the Budget Estimates 2017-18 under Grant No.14 were raised, but the effective functionality of local governments was compromised.

The PHE Department was given Rs. 4,423.783 million for the fiscal year 2017-18, compared to Rs. 267.886 million in the Budget Estimates 2016-17. The devolved offices of the PHE Department were also provincialized under the Khyber Pakhtunkhwa Local Government (Amendment) Act 2017. This demonstrates a continuing struggle between the province and municipal administrations for the dominant power structure.

2.5 Under Utilization And Diminishing of Development Funds

The financial year 2020-2021, the KP government failed to utilize 90 percent of funds under the District Annual Development Program (ADP) in the first ten months of the current fiscal year. Out of a total allocated fund of Rs44.57 billion, only Rs4.69 billion was actually spent.

The Finance Department only released Rs4.97 billion to tehsils administration on the basis of their population density. Tehsils with higher population were given higher funds. Since the Finance Department did not release Rs44 billion so utilizing it is out of the question completely. The rest of the fund remained unreleased and unutilized.

This is a familiar story in the PTI government in the past seven years. This fiscal year only 10 percent of the total announced district ADP has been utilized. Bureaucracy is blamed for the non-utilization of funds by the government but the reality is most of the time funds are not released by the ministry on purpose. In the district ADP Rs14.28 billion were allocated for the district development projects to be decided by the district administration but neither this fund was released nor utilized.

A concerning trend for the government of Khyber Pakhtunkhwa is the unsustainable growth in current spending, which has resulted in a decrease in development expenditure. The present expense is boosted by a rise in the salary and pension bill that is faster than the increase in total funds available for spending. Current expenditure consumes more than half of the provincial budget and, if allowed uncontrolled, would continue to deplete the province's development fund.

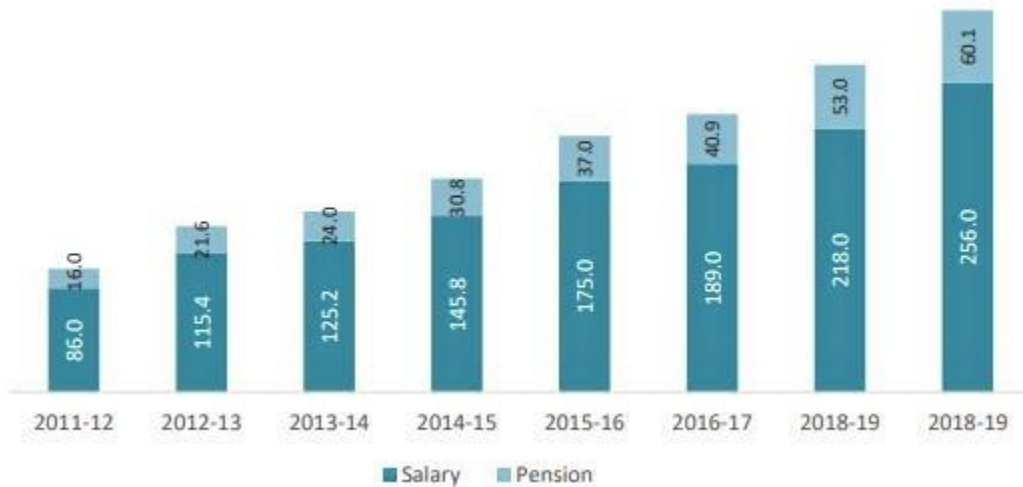


Table 2.2 : Year Wise Growth in Posts, Salary & Pension - Provincial & Districts (Rs. in billion)

The current resource allocation and budgeting processes also inhibit efforts to solidify medium-term frameworks. Budget forecasting is rendered outdated by the absence of sector-wide indicative limitations for the development budget and commitment accounting to establish line department expenditure arrears. Furthermore, medium-term frameworks are constructed without taking into account the sources of volatility in forward projections and actual expenditure. Lessons learned are intended to teach the next set of estimates, but they can act as red lights for managers and policymakers to indicate budget-estimating challenges.

3. Major Issues in Allocation and Utilization of Development Budgets for Local Governments

Before we get to the major hurdles in allocation and utilization of development funds for Local government, certain factors of the national economy must be kept in view. According to the Federal Bureau of Statistics, most indices indicated double digit inflation during the period 2018-2021, compared to low single digit inflation maintained by the Pakistan Muslim League-Nawaz (PML-N) during the period 2015-18. A simple addition of annual inflations across all the three indices shows the PTI's inflation on average was 10 percent per annum or more against less than three percent of the PML-N's. This unprecedented inflation has affected the actual developmental budget across the Nation, KP being no exception. Budget estimates and expenditures become redundant in wake of such high inflation with frequent changes in prices of materials.

3.1 Delay in Local Bodies Election

As for local bodies, the delay in holding local bodies elections portrayed another side of the picture, which showed disinterest of the Provincial Government to hold the local bodies elections on time. They're expected to be held now in November-December 2021.

Interestingly, after completion of the tenure of the elected councils on August 28, 2019, the provincial government immediately delegated the powers of nazims and councils of the three tiers to the bureaucracy by amending the local government law. Powers of district councils were given to respective deputy commissioners (DCs), the powers of tehsil councils to tehsil municipal officer (TMOs) and that of village and neighbourhood council were awarded to the assistant directors (ADs) of local government. After giving the powers of the councils to DCs, TMOs and ADs, they were authorised to utilise the funds for the ongoing development schemes and also launch new projects in the absence of the elected local government representatives.

It must be remembered that Section 219 of the Elections Act, 2017 stated that fresh polls should be held within 120 days after completion of the term of the existing local bodies.

3.2 Disconnect between Provincial and Local Governments

According to the representatives of the last local government, the disconnect between financial, administrative, and political power centers in the local government system is the biggest hurdle in the way of local governments meeting their targets. The three distinct tiers of the local government have been termed as non-partisan. Nevertheless, the political system of the land is such that there is growing polarization between the political parties leading to a severely slow pace of release of funds under the garb of an "anti-corruption" drive. But mostly, the ruling party is found to favor local government representatives who get themselves affiliated to it, highlighting the local MNA or MPA with a board mentioning their names painted in party flags on even a small project of a road or tube well.

3.3 Lack of Coordination Among Three Tiers of Local Government

The KP Local Government Act 2013 laid down the foundation of the new three-tiered Local Government system comprising district, tehsil/town and village/neighbourhood level. A comprehensive regulatory framework has also been formulated and training imparted to ensure

adoption of good practices in planning, budgeting and financial controls by the newly formed Local Governments.

Twenty-three training courses were organized under the District Training Plan capturing three key areas of devolution: decentralized planning, budgeting and Local Government system. A total of 664 district Government staff were trained so far; including 337 District Government officers (8 women) and 287 local Government political representatives (44 women). The training modules were notified as a standard syllabus to be used by the Local Governance School for future training for all the three tiers.

However, lack of institutional coordination and confusing power distribution among the three tiers of local government still caused delays in project start-ups. Similarly, this lack of coordination between provincial and local governments has also resulted in unnecessary delays in projects.

The lack of coordination and professionalism at different levels of government have been observed numerous times by the public. Local officials recounted many instances of this, one being a recent one. SNGPL executed a project of laying down new pipelines for natural gas to homes in Peshawar city in 2021, but miserably failed to coordinate with the local authorities to build the broken streets and roads again in time. Pipelines were laid just 1.5 feet underground, rather than the standard 5 to 6 feet, while broken walkways were left to be made for months on the pretext of laying down the pipelines in the whole vicinity, which lied within 3km radius of the Provincial Assembly. Poor planning and obsolete practices like these make such developmental works a hell for people, and end up being financially inefficient too.

During an interview, a local official claimed that the lack of coordination was frequently caused by the incapacity of different agencies to comprehend each other's duties and responsibilities, as well as a general lack of competence. There is no coordination across public sector agencies [within the same and across various levels of government], but [town administration's] collaboration with local government representatives is comparatively better. We encounter challenges from time to time, but we strive to persuade them and frequently resolve issues with them."

Distinct levels of government have different goals, and the elected persons responsible with managing the many agencies at varied levels of government have different priorities as well.

3.4 Output Based Budget Issues

Another hurdle in the way of efficient release and utilization of funds to local governments is the output based budgeting practiced by the KP government. The key issues with the output-based budgeting are the lack of capacity in the line departments to identify outputs, outcomes, and performance indicators. An even greater issue is with the application of these tools. The budget documents currently prepared are more as a result of compliance of instructions than intended for quality improvements. Also these budget documents are not utilized to their potential during the legislative scrutiny. Lack of application of these documents during legislative scrutiny and by department-level management has stagnated the improvements in the budget-related reforms.

3.5 Budget Surplus Philosophy Prevails Over Developmental Policy

Federal Government's fiscal policy is oriented toward "budget surplus", rather than development and growth. Rising interest rates and tight monetary policy has created hurdles in increasing and releasing enough revenue for local government's efficient functioning. On top of that, a large number of pending and badly needed new schemes lead to thin spread of resources making ADP implementation challenging.

3.6 Policy Implementation Issues

A majority of the sectors lack sector-specific investment strategies. There are cost strategies for the health and education sectors; however, **the implementation is patchy**, as is evident from the gap between commitments for the health sector and actual budget allocated. The infrastructure sector revealed wider gaps. The Communication and Works (C&W) Department, the lead department for infrastructure development, does not have a sector strategy. The GoKP should focus on developing sector strategies and implementing them for informed decision-making and improving the quality of public sector portfolios. The own source revenue management demands immediate attention and comprehensive response. The current 'resource mobilization measures' submitted to the Cabinet of Ministers annually can hardly be termed a strategy but is an ad hoc response to the lag in revenue-collection performance. As a result, provincial own-source revenue has remained relatively low and erratic, resulting in heavy reliance on federal transfers. The development budget is made of residual resources without any link of the capital investment requirement to the revenue mobilization efforts. Formulating a broader fiscal strategy, detailing explicit time-based quantitative fiscal goals and targets along with qualitative analysis and objectives can contribute to revenue enhancement efforts.

3.7 Constant Experimentation with Systems

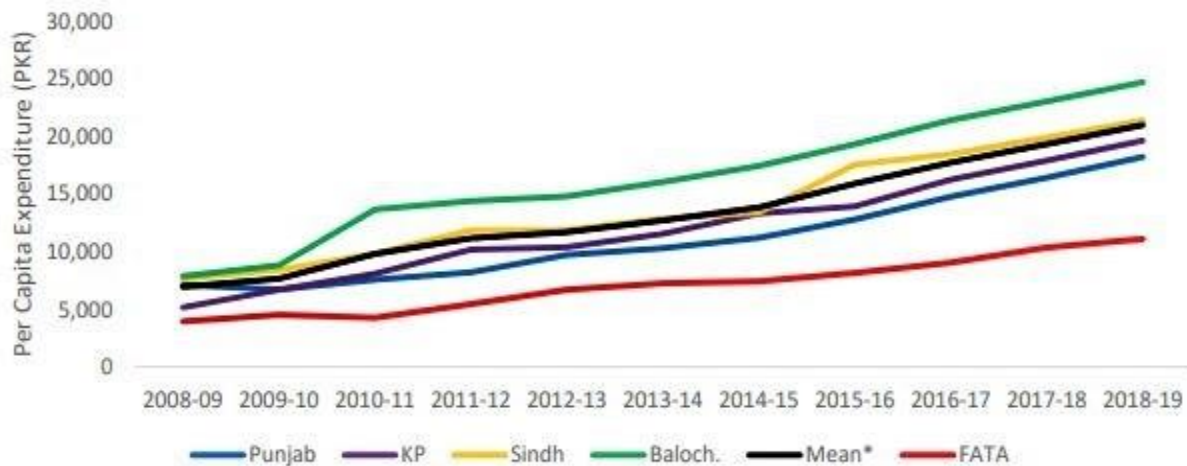
The constant experimentation with systems and procedures undermines policy implementation and its effectiveness. Frequent changes in the procedure for procurement of medicines and equipment, for example, from decentralized then to recentralization, coupled with rolling back of the local government system (2009) and then its reintroduction (2014), and then the hesitation of provincial government to hold local bodies' election on time in (2019), created confusion and undermined the policy implementation. The frequent changes particularly had an impact on the health and education sectors. Primary and secondary health is a local government function and at the core of these experiments, which implied adaptations to the budgeting process for these sectors.

4. Analysis of Merged Areas Budgets Allocation To Local Government

Tribal Districts did not have a Local Government system, which is the fundamental unit for providing municipal services. As a result, people had no representation at the grassroots level and were denied their fundamental right to choose their own development objectives and demands. Due to budget constraints, low levels of staffing, and the absence of statutory authorities, four municipalities in Parachinar, Satta, Miran Shah, and Khar functioned without significant functions. People, particularly in urban and suburban regions, had limited access to clean drinking water and sanitation facilities, which were available in other parts of the province.

In 2017, the 25th Constitutional Amendment changed the history of the former FATA (Federally Administered Tribal Areas) by incorporating it into the Province of Khyber Pakhtunkhwa, hence offering new options for its reform. To address the long-standing difficulties of the local community, and to alleviate the various miseries they have endured as a result of terrorism and counter-terrorism operations over the previous 40 years in particular, a realistic plan for rapid yet sustainable development in the region was required. As shown in the graph below, FATA has always been the country's most undeveloped area.

Table 2.3



Elections for the Provincial Assembly were held for the first time in the history of Tribal Districts. Twenty-five Tehsil Municipal Administrations (TMAs) were formed, and the appropriate personnel were employed. These TMAs, however, lacked the requisite infrastructure, including as human resources, equipment, and machinery, to carry out their administrative and municipal tasks in their territories. The employment and procurement processes were initiated, and the TMAs were operational as quickly as possible. Furthermore, because the preparations for local government elections progressed at a snail's pace, the money could only be distributed to them in accordance with their share of provincial resources once the local government councils were established.

In actuality, the federal government reduced yearly development projects for newly combined regions by 20% for 2018-19, putting former FATA districts at a disadvantage. FATA ADP spending by agency was Rs21.2 billion in 2017-18, whereas it was Rs20.4 billion in 2018-19, a Rs1.2 billion drop. Furthermore, the government set aside Rs24 billion for FATA development in 2017-18, however Rs 4 billion expired due to non-utilization, and the government has not reallocated the money. Furthermore, payment and distribution of funds were slowed as a result of legal and administrative issues that developed as a result of the FATA-KP merger.

The education budget was Rs1.3 billion in 2017-18, but it was lowered to Rs1.2 billion in 2018-19, while the health budget was Rs481.28 million in 2017-18, but it was reduced to Rs419 million in 2018-19. The public health and engineering departments' funds were lowered by Rs881.25 million, while the communication department's funds were slashed by Rs1 billion and livestock and dairy development funds were reduced by Rs49.2 million.

The forest's budget is reduced by Rs134.4 million, local government by Rs159.3 million, and rural development by Rs705.9 million, while irrigation's yearly development program was reduced by more than Rs100 million. The government budgeted Rs24 billion for the former FA in fiscal year 2017-18.

It must be noted that the federal finance division prerequisite for issuing next quarter funds is utilization of previous funds which have not been spent. The first quarter budget was not spent because the first quarter's Rs4.8 billion funds were released in mid-October instead of July-August. This delay over-rolled and caused the second quarter funds to be delayed as well. So the whole annual development cycle was affected.

After the FATA-KP merger, the FATA Development Working Party (FDWP) was still functional, but they had no power to decide about utilization of funds. The provincial development working party PDWP also didn't have the clue to decide the utilization of merged tribal district funds. The red tape hurdle in districts, ex-FATA secretariat and finance division caused delaying the developmental process in the newly merged areas.

4.1 Capacity Challenges

Charged with making essential improvements to services, these young TMAs (formed in December 2019, under the Khyber Pakhtunkhwa Local Government (Amendment) Act) faced massive capacity constraints. While most organizations face some capacity challenges, few had to contend with issues as fundamental as whether the office had electricity or an internet connection, or even a fraction of its intended staff. Furthermore, the absence of local government elections in Khyber Pakhtunkhwa - the previous term ended August 28, 2019, with elections due to have been held within 120 days but didn't take place till date- meant that there are no elected local councils to approve TMAs' spending of the funds allocated to them (approximately PKR 3.6 billion was allocated to Tehsil Local Governments in the Merged Areas in FY2020-21).

To help strengthen the TMAs, UNDP is assisting the government's engagement of Technical Associates (TAs) who provide much-needed additional human resource power. Their work aims at enabling the TMAs to do more with their own resources in the future.

One of the first activities of the Technical Associates was an assessment of the Tehsil Municipal Administrations' institutional capacity, against which future progress on both TMA capacity and service delivery could be measured. And based on the needs identified in the assessment, the Associates helped develop project proposals to support Tehsil Municipal Administrations to access government funding for development projects. Budget preparation and following up on the release of funds was also part of the assistance provided.

TA-provided support can indeed be catalytic. In one Sub-Division, when a new TA joined his post, he found that the TMA was not functioning at all - the assigned officer was absent from his duties. When this was followed up, the government assigned a new staff member – and the TMA is now in operation. Similarly, in TMA Hassan Khel, a full-time Tehsil Municipal Officer was posted by the government after the need for one was raised.

4.2 Tribal Decade Strategy and the Accelerated Implementation Program (AIP)

In the 2019-2020 fiscal year, the Tribal Decade Strategy and the Accelerated Implementation Program (AIP) was put forth by the GoKP for socio-economic transformation of the Merged Areas in a timely and sustainable manner. According to Government sources, sizeable financial resources were committed to the program to ensure that the projects were translated into actions. According to official stats, Year-I of the AIP went well in terms of designing and approval of projects and execution of a large number of schemes, despite many difficulties faced, particularly in the context of Covid-19 pandemic. The approval of 127 schemes and the spending of Rs. 24.00 billion in FY 2019-20 was termed as an encouraging achievement.

Local government ,water and sanitation was allocated Rs. 1.2 billion in 2019-2020, and subsequent fiscal years were projected to increase the amount to Rs.2.7 billion in 2020-2021,as mentioned in the table below.

| Section | Sector | 2019-20 | 2020-21 | 2021-22 | 2022-23 | 2023-24 | 2024-25 | 2025-26 | 2026-27 | 2027-28 | 2028-29 | Total |
|--|--------------------------------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| Building responsive and accountable institutions | Governance | 15,223 | 15,244 | 15,202 | 16,379 | 13,167 | 12,871 | 12,871 | 10,181 | 10,181 | 10,181 | 131,499 |
| | Municipal & Urban Development | 6,315 | 6,580 | 7,780 | 10,600 | 10,000 | 8,000 | 11,500 | 12,000 | 11,000 | 10,000 | 93,775 |
| | State Offices for Services | 5,045 | 5,070 | 7,300 | 8,300 | 3,300 | 4,000 | 4,000 | 4,000 | - | - | 41,015 |
| Enhancing human potential | Education | 26,429 | 27,790 | 28,750 | 25,573 | 25,860 | 21,709 | 21,913 | 22,043 | 22,185 | 22,310 | 244,562 |
| | Health | 13,938 | 13,938 | 13,938 | 13,938 | 13,938 | 13,938 | 13,938 | 13,938 | 13,938 | 13,938 | 139,382 |
| | Water, Sanitation & Local Government | 1,211 | 2,784 | 2,714 | 2,446 | 1,710 | 1,623 | 1,328 | 1,328 | 1,328 | 1,328 | 17,798 |
| | Social Welfare & Social Protection | 4,320 | 4,320 | 4,320 | 4,500 | 4,500 | 3,907 | 3,878 | 3,878 | 3,878 | 3,878 | 41,378 |
| | Gender and Women Development | 4,975 | 4,975 | 4,975 | 4,373 | 4,373 | 4,373 | 2,733 | 2,733 | 2,733 | 2,733 | 38,974 |
| | Sports, Youth and Culture | 3,110 | 4,955 | 4,755 | 3,005 | 2,835 | 2,860 | 2,860 | 2,860 | 2,780 | 2,780 | 32,800 |
| Expanding economic infrastructure | Roads & Connectivity | 4,418 | 8,659 | 8,453 | 6,639 | 13,133 | 12,923 | 3,144 | 4,138 | 8,112 | 5,070 | 74,690 |
| | Rural Electrification & Energy | 4,220 | 5,453 | 4,239 | 7,170 | 9,160 | 6,471 | 3,920 | 3,900 | 3,900 | 2,561 | 50,994 |
| | Irrigation | 9,875 | 10,055 | 10,000 | 9,785 | 9,785 | 9,760 | 9,760 | 9,760 | 9,760 | 9,760 | 98,300 |

In Year-1 of AIP 15 schemes were designed, out of which only two projects worth Rs. 147.14 million were approved. However, due to delay in land acquisition, funds could not be utilized. The share of local government was a meagre 0.7 billion USD for the year 2019-20

Table 2.5

**Share of Merged Areas Local Governments in Current Revenue Expenditure
(Rs. in billions)**

| Head | Budget Estimate 19-20 |
|-------------------------|-----------------------|
| Salary | 24.4 |
| Non-Salary | 2.8 |
| Grant to Local Councils | 0.7 |
| Total | 27.9 |

4.3 Problems in Implementation of Tribal Decade Strategy So Far

The implementation of Tribal Decade Strategy (2020-30), in its maiden year got marred by non-availability of pledged funds. Complications in the merger of government departments, absence of baseline data to launch schemes and problems in land acquisition to construct buildings for government departments also hampered the implementation process.

Tribal Decade Strategy (2020-30), a 10-year development plan, provides guiding principles for developmental initiatives in the erstwhile FATA. The government pledged to provide at least Rs100 billion every year for the next 10 year, reveals a 55-page report “The Beginning of Tribal Development Decade (2020-30)” prepared on the completion of the first year of the program.

In the first financial year 2019-20, after the merger of FATA with Khyber Pakhtunkhwa in light of the 25th Amendment, no visible change could be seen in the affairs of the seven merged districts.

The federal government had pledged Rs72 billion for Annual Development Program (ADP) and Accelerated Implementation Program in the previous financial year out of which only Rs.37 billion was released.

Similarly, the provincial government had pledged Rs11 billion for the development schemes but it could only release Rs1 billion. Initially, a three-year program was framed in the form of Accelerated Implementation Program (AIP) under the Tribal Decade Strategy (TDS), comprising 206 interventions and falling over different sectors, laying the border foundation of development in the region, says the report.

Out of the AIP, the departments were able to approve 127 projects, in the first year, from the relevant forums with an aggregate cost of Rs142 billion. However, during the fiscal 2019-20, an amount of Rs.24 billion was released to the departments, which was spent on the execution of various projects.

Besides, there were lot of complications in the merger of various departments functioning in FATA into the KP departments and the absorption of the employees working there. Merger of the departments and absorption of their employees was a tedious and time-consuming process.

Non-availability of baseline data is also one of the challenges as availability of baseline data is a critical factor in the planning process. The baseline data has been missing for most of the sectors and affects the overall process of planning and designing of projects. The baseline is essential to avoid run of the mill projects and select the appropriate schemes envisioned in TDS and AIP.

Needs assessment is another missing factor essential for designing the most appropriate projects. The departments have spent a lot of time in need assessment with the involvement of different stakeholders. Land accusation in the erstwhile FATA is one of the major challenges faced by the high ups of the government departments. The report states that non-availability of land delayed the pace of development as most of the major projects involve construction of buildings and need availability of land.

Before merger, the government used to acquire land through traditional way under which six per cent of the total amount of the project was paid to the land owners, sources said. However, after merger of FATA with the province, the Land Acquisition Act was extended to the merged areas where land couldn't be acquired easily due to absence of land settlement there.

Many departments surrendered millions of rupees meant for construction of buildings for government offices as there were issues in land acquisition. The outbreak of Covid-19 across the

globe also posed serious challenges to the implementation of AIP as offices were closed for months and planned activities were suspended due to the pandemic.

Closure of field offices and markets that supply construction material and further restrictions on the movement of labourers led to stoppage of work on various ongoing projects. Cumbersome procurement process and unbridled inflation has also been termed one of the issues, which didn't allow the fast-tracked implementation of projects in 2019-20 in the merged areas.

Traditional administrative and legal processes being followed with long tendering procedures, although necessary for ensuring transparency in the use of resources, took a longer time for projects to be executed.

For Fiscal Year 2020-21, a huge amount of Rs100 billion has been set aside for the development of the merged tribal districts, including the annual development program (ADP), donor-funded projects and accelerated implementation plan (AIP). Of the Rs100 billion budget for tribal districts under AIP, Rs36 billion were planned to come from the centre and KP, which were to contribute Rs30 billion and Rs6 billion, respectively.

However, the AIP has Rs34.6 billion 'unfunded allocation' showing contributions from the divisible pool by Punjab, Sindh and Balochistan. It is unlikely to materialise as other provinces are not ready to contribute funds to the development of tribal areas. Until now, the three provinces have not contributed even a single penny to the last three budgets after the merger of Fata with KP.

Of the total development outlay, Rs89.15 billion is foreign funding for development schemes of 18 departments. In the foreign-funded portion of the budget, Rs16.823 billion was grant and Rs72.328 billion loan.

5. RECOMMENDATIONS

- Local Bodies elections must be held in a free and fair manner as soon as possible to uphold the constitutional necessity of devolving power to the grass root level and ensuring speedy completion of pending projects of public facilities.
- The Three-Tier Local bodies system somehow creates a kind of confusion, as the District ADP is mainly held by the Deputy Commissioner. The bureaucratic inertia and red-tapism that has further increased under the present PRI government due to unnecessary fear of NAB, has caused severe damage to the progress of developmental projects in the province.
- Lack of funds at the Provincial level results in diminishing budget for local bodies and the overall developmental projects. Since GoKP is heavily reliant on federal government payments, which are said to be irregular, this results in unexpected funding disbursements for projects. The province should increase its own revenue base with consistent business friendly policies to attract long-term investments in major sectors of economy. The Finance Department should also undertake an annual evaluation of policy implementation to examine the efficacy of existing policies. The evaluation would aid in the integration of cash disbursements into the project's financial strategy.
- Reforms to elevate the efficiency level of the system are always welcome. However, too much experimentation with systems creates confusion. “Policy formulated but its effectiveness not assessed” has become the norm under the present Federal and Provincial governments. Moreover, reforms need to be introduced with important pre-requisites in place, which means high level consensus among all the major parties and endorsement of people is a must. Long-term vision with effective incorporation of lessons learnt from successful local bodies in the country and from around the world can result in a comprehensive, wise, and workable strategy with necessary understanding of man, society and systems.
- Established leaders in national and provincial administrations may be concerned about elected local officials becoming potential power brokers. Any measure that promotes democratic competitiveness is certain to arouse such reservations. However, when candidates for municipal elections are nominated by the parties with representation in the national and provincial assemblies, these issues should be greatly alleviated.
- To demonstrate a credible commitment to successful local democracy, local governments must be protected against selective politically motivated intrusion in their domain by higher levels of government. There is always the possibility that provincial and national politicians would be tempted to use the authority of higher levels of government to undermine local leaders who are perceived as possible political competitors. As a result, it may be necessary to offer some constitutional protection for local governments, as well as independent judicial scrutiny of any acts taken against them.

- Manual data compilation for development budget. Finance Department should put in place a mechanism for generation of final grant (development) data from the system rather than manual data compilation. This measure would help in establishing accurate project execution status and facilitate channeling funds to performing projects. It would also help tracking parked (unutilized) funds in assignment accounts and self-accounting entities, which in turn will help in calculation of exact liabilities and throw-forward. Currently, the calculated throw -forward assumes budget allocations as expenditure whereas the expenditure data is different from the revised budget estimates as well as the releases. Ensuring expenditure related information from GFMS and other data sources (project offices) will help in determining the exact liability position.
- Lack of coordination among the three tiers of local government and between the provincial and local governments can be mitigated by ensuring participation and concrete discussion at PDWP and DDWP regarding the timeframe for site identification and land acquisition with Board of Revenue (or related agency) and the agreed timeframe incorporated in project implementation and financial plan to reflect realistic project duration to guide budget allocation decisions.
- The planning, appraisal, and monitoring of ADP and the projects can consume a great deal of time, effort, and energy. The size of ADP, in terms of the number of schemes, has taken a toll on the aforementioned three functions and influenced the quality of public sector investments. The current size of ADP has led to thinly spread resources stifling the performing projects and adding to the time and costs overruns. The GoKP can improve the quality of planning, appraisal, and monitoring functions by rationalizing the size of ADP and the approval ceilings of the departmental-level screening. The latter with sanctioning authority of PKR 60 million lends a large number of schemes to PDWP. However, of greater importance for GoKP is to make a policy decision that includes only those projects in ADP that are large and complex with intra-provincial externalities. The remaining projects, on the basis of the principle of subsidiarity, may become part of the local government's development portfolio. This measure will accord greater time to policy- 40 level deliberations, reflection on policy and development initiatives implementation, and improving quality of appraisal and monitoring of the public sector development portfolio.
- A revised local-government system that improves Pakistan's federal democracy must involve mainstream political parties and give them a vested interest in promoting local democracy. Most crucially, by including provincial and national parties, local democratic institutions may assist parties in developing a bigger political base of engaged local supporters, whose energies can enhance their party at all levels. A democratic political party's strength must ultimately be determined by the calibre of its candidates. Local governments that are well-designed should serve as a main source of candidates who may rise democratically to higher posts after first demonstrating their capacity to gain popular support.

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