RESEARCH REPORT

Pro-poor Budget Allocations in Local Government System

(2005-06)

SOUTH ASIA PARTNERSHIP-PAKISTAN

PRO-POOR BUDGET ALLOCATIONS IN LOCAL GOVERNMENT SYSTEM
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Preface

Budgets are very much critical for the development process. They are not only means of collecting, allocating and managing financial resources, but also essential instruments for molding the future of nations. Unfortunately, budget is not taken seriously in our country. If we make budget while keeping in view the needs of the majority of the population, sufficient development can be achieved. *Who* makes budget decisions and *how* they are made, determines *what* the outcomes will be. Inclusive and transparent budgeting can underpin and consolidate democratic process and good governance in ways that transform society in positive ways.

When Local Government system was introduced in Pakistan, it was being hoped that there would be reasonable development at grass root level. It was the right spirit of the Local Government system either. But traditional feudalism, tribal system and politics of *Biratheri* have made this system totally ineffective. Rather it has strengthened these evils. One interesting thing about LGS is, we mostly talk about devolution of powers at grass root level but we do not talk about the devolution of resources.

Resource allocation through budget making at district level is a political as well as a technical process. The politics of budget making is determined essentially by the locus of power within the elected and administrative body. The political influences of various interest groups determine how resources are generally allocated. However, there is another, technical aspect of devolution. This comprises how the budget is actually made and how it is implemented.

This research study may be helpful for LG elected representatives in making budget pro-poor so that they may bring the poor to the political agenda. Local Governments may consider this research study to involve people in budget making process as well. LGS is the only structure which directly interacts with people. I hope it will prove good for the development experts, CSOs and people of this country as well. I appreciate Mr. Ali Salman, a young and brilliant economist, who has prepared the report of this research study diligently.

Mohammad Tahseen
Executive Director

Finding it out…

Definitions

Citizens Community Board (CCB)

CCB is a registered body of citizens, who volunteer to form it to undertake projects of public importance. The Local Government Ordinance gives considerable power to CCB by allocating 25% of each district budget for CCBs alone. The management in CCB has to be non-political and non-commercial and elected officials are not allowed to be a member of CCB.

Correlation

A statistical tool to measure relationship or association between two variables. It can be between -1 to +1, whereas -1 indicates perfect inverse relationship (addition of one point in one variable results in reduction of one point in the other), + 1 indicates a perfect positive relationship and 0 indicates no relationship at all. For comparison of Ranks, we have used Spearman's Rank Correlation and for percentages, we have used Pearson's Correlation.

Efficiency

Efficiency is defined as output/input, and is generally expressed as a percentage. We have defined efficiency as development expenditures/total salary budget for a given district to have a measure of human efficiency.

Development Allocation

Any budgetary allocation reserved for direct spending on development programmes such as building of a school.

Non Development Allocation

Any current charges meant to maintain an existing service or office by way of paying salaries or paying rental costs etc.

Standard Deviation

Standard Deviation of a data set represents the deviation of each number from the mean of the given data set, also called Dispersion. A low standard deviation denotes consistency and a high standard deviation denotes extreme values. Standard deviation is expressed as a percentage, and therefore can be a positive number between '0' and '100'.

RCC/RCB

Used in construction, it refers to the quality of roofs of the houses. RCC stands for Reinforced Concrete and Cement and RCB stands for Reinforced Concrete and Brick.

Process of Local Finance

The local government allocates budget in two main heads: non-development and development. According to National Reconstruction Bureau, non-development expenditure includes charged expenditures, establishment charges, liabilities and other recurring expenses. ‘The development budget amount is the amount left after budgeting for the recurring costs and liabilities.’ The district governments usually maintain the non development budgets in Salary and Non Salary heads, where Salary refers to expenditures incurred on staff and other expenditures like rents, utilities are accounted for in Non Salary budgets.

Stepping In…
Introduction

It is well understood that budgets are central to the development process. They are not only tools for collecting, allocating, and managing financial resources, but also powerful instruments for shaping the future of nations in ways that advance or retard social and political progress. *Who* makes budget decisions and *how* they are made determines *what* the outcomes will be. Inclusive and transparent budgeting can underpin and consolidate democratic processes and good governance in ways that transform society in positive ways.

Resource allocation through budget making at district level is both a political and technical process. The politics of budget making is determined essentially by the locus of power within the elected and administrative body. The political influences of various interest groups determine how resources are generally allocated. However, there is another, technical aspect of devolution. This comprises how the budget is actually made and how it is implemented. In this realm, the issue of capacity of district government comes at the forefront.

Next comes the even more complicated aspect of relationship between resource allocation and poverty alleviation. It leads to ask whether we can have an effective pro poor resource allocation or not? As discussed in preceding chapters, there is no established link between resource allocation under devolution and poverty reduction. It does not mean that no such link can be there or cannot be established. However, the data constraints at the district level pose a serious challenge to such analytical efforts.

In the absence of a clear link between resource allocation and poverty, we have chosen a more realistic way to rank the districts on the basis of pro poor resource allocation. Essentially, our data consisted of budgetary allocations made under non-development and development heads. Then, we designed an index and selected twelve variables from the available data set. The details of construction of this index and chosen variables are given in the chapter on Research Design. This report is essentially based on secondary sources of data relying on the District Census reports (1998) and Budgetary Documents (Current Expenditures and Annual Development Plan) for 2005-06.

It is important to emphasize that resource allocation is one part of the budget: the other part is off course resource generation. This is about collection of revenue and sources of revenue for district governments. In the absence of Octroi charges, the district has to primarily rely on the provincial transfers. The

provincial government subsequently transfers funds to the local government in accordance with the Provincial Finance Commission.

The process of fiscal decentralization has experienced greater bottlenecks owing to capacity constraints of local governments as well as dispositional characteristics of the polity. Therefore fiscal decentralization is probably the most important precondition for a successful devolution. This involves both resource transfer from provincial to local level as well as the capacity of local governments to generate revenues and spend them judiciously. The main objective of fiscal decentralization is to facilitate service delivery for the public through a bottom up and participatory budget making process. Various assessment studies have been conducted with political, administrative and gender perspectives but pro poor lens is still missing. Certainly, it is not easy to single out pro poor budget tracking indicators from a plethora of allocations made each year.

This exercise is an assessment study aims at finding a framework, with clear indicators, to gauge the pro poor budgetary elements in local finance at district government level. This framework would then feed into policy review of devolution plan with pro poor perspective. Thus the outcome of this study would provide substantial agenda for an advocacy campaign aimed at making the local government budget pro poor, effectively. By indexing, the advocacy campaign can be built by comparing performance of various districts on the basis of a benchmark or an index.
This would also provide an objective tool for monitoring and evaluation of local government budgets with a pro poor perspective.

Looking around…

Literature Review

The literature on devolution and its impact assessment for development is vast and abundant. Broadly speaking, devolution has been thoroughly reviewed in various studies from political, administrative and developmental perspectives. Political analyses have focused on the inclusion of civil society, poor and marginalized segments in decision making process. Administrative analyses have reviewed the impact of devolution on transfers of central authority to grass root levels and the capacity of local governments to take charge. Lastly, developmental perspectives have analyzed the impact of devolution on socio-economic development, poverty reduction and efficiency of service delivery. As the main objective of present study concerns resource allocation for the poor, the relevant material has been reviewed with relatively more focus on the inclusion of the poor in decision making process and resource allocation for the poor.

For an understanding of pro-poor resource allocation, it is first important to understand poverty itself. Poverty is complex and viewed as an outcome of the interaction of economic, social, legal and political processes mediated through a range of institutions (Ismail & Rizvi 2000). In essence, therefore, there are four ingredients in the relationship between governance and poverty: one, *democracy*, two, *the rule of law*, three, *bureaucratic performance*, and four, *pro-poor institutions* (Ibid).

Democracies, more often than not, fail to deliver on pro-poor programmes. Bardhan (1997), Bardhan and Mookharjee (1999) and Easterley (1999) state that the poor performance of democratic institutions in this respect may be due to the capture and manipulation by the elites and the middle-classes (Ismail & Rizvi 2000). Pakistan's local governance is not much different. Here too, most of elected representatives at local level are actually trained and nurtured by the already existing political elite. In fact, as the new system places considerably higher administrative and financial powers in the hands of District Nazim, many parliamentarians have opted them to shift themselves to local government instead of national level legislative bodies. Local government experiment, in the end, have definitely helped bringing new faces, but how many of these new faces actually represent a new, positive attitude is a question mark.

The authors of an important study find that an unambiguous link between decentralization and poverty reduction cannot be established (Jutting et 'al 2004). They are of the view that decentralization could actually worsen the development level in an environment of weak institutions and political conflicts. If the central

state is not fulfilling its functions, one is reminded here of Pakistan, than mere transfer of power does not help a great deal.

In terms of administrative decentralization, as suggested by Manor (1999), there ought to be certain pre-conditions to make a successful transition towards devolution.

1. Significant powers and responsibilities for local service delivery should be devolved to representative local authorities in line with their capacities (political decentralization);

2. Sufficient resources, through a combination of local taxes and grants from higher level governments, must be provided to enable local governments to fulfill their responsibilities (fiscal decentralization); and

3. Proper channels for accountability are needed to encourage strong accountability between bureaucrats and elected representatives, and between elected representatives and their electorate (institutional decentralization).

Probably the most comprehensive analysis on Pakistan's experience of devolution has been the one conducted by DFID Pakistan. According to this report, some of political objectives associated with devolution have been achieved, evident in the case of citizens' monitoring committees. Certain other objectives, such as improved service delivery, have yet to be materialized. The DFID also reports that central government financing patterns in several key areas of service delivery actually undermines the local government initiative. Probably, one explanation is the fact that for the heavy part of its budget, local government has to rely on provincial and federal transfers instead of being able to generate its own money.

The idea that good governance is linked with poverty reduction runs through the technical and political objectives of devolution. The many recent poverty assessments have highlighted the vulnerability of the poor to predatory and dysfunctional government service-delivery agencies responsible for education, health, land registration and taxation, policing and the courts ("Participatory Poverty Assessment" 2003; Asian Development Bank 2002; CIET 2003; World Bank 2002).

The devolution experiment in Pakistan has laid great stress on the community development and it has been systemized in the form of 'Citizens Community Board (CCBs). As per Local Government Ordinance, each district and tehsil government is bound to allocate 25% of its budget for the community initiated projects. Under this law, a 25 member committee, which cannot include elected

politicians and serving government employees, can initiate any project by pooling in 20% of the project budget while the remaining 80% is contributed by the government. Although it is a great idea, most of the budget allocated under this head has remained heavily under utilized. In fact, there is some empirical cross-country evidence denying the effectiveness of community organization at targeting the poor due to feudal and elite dominance. The same approach is also criticized for being slow and complex process (Mansuri and Rao, 2004 quoted in Khan 2006).

Underpinning the overall political strategy were other, technical, objectives, the most prominent being the promise to improve service delivery, social services in particular. It was argued that local governments, appropriately empowered, staffed and resourced, would deliver better on primary health, education and municipal services like water and sanitation. A second service delivery objective was to improve the way laws about property and labor rights, and economic activities, were determined and enforced. Accordingly, local governments were given responsibilities to regulate and administer laws on land, labor, natural resources, NGOs and commercial enterprises. The third and perhaps distinctive feature of Pakistan's devolution was the ambition to deliver access to justice (GoP 2003).

The Poverty Reduction Strategy Paper (PRSP) of Government of Pakistan process rests on the principle that improved governance is essential for economic growth and poverty alleviation and holds that "addressing this governance component of the poverty reduction strategy requires a major transformation of governance structures and systems, as well as of political and organizational culture, especially at the local level."

"Improved access to justice is an absolutely necessary complement to devolution that is directly linked to poverty reduction" (Government of Pakistan 2003). It means that pro poor budget must not rely only on provision of infrastructure related services but must also include a guarantee of justice at an affordable cost for all its citizens. This is something which cannot be measured just by looking at the money, which the government would spend on police reforms or court structures, but can only be measured by directly asking the citizens about the quality of service.

A possible mechanism to reach out to the poor is through NGOs and CBOs or other grass root organizations. Previously Social Action Programmes (SAP I & II) have engaged NGOs for service delivery projects at local level and now this function is being performed by Pakistan Poverty Alleviation Fund and National Rural Support Organization. The critics of this participatory approach to development argue that this requires strong support from the government and

donor agencies and in absence of continued support from external agencies, the service delivery projects die out (Khan 2006).

It is important to debate what makes a budget pro poor. We argue that a budget is pro poor if its methodology and contents are both pro poor. Therefore inclusion, transparency and participation of the poor in the budget making process become essential. The second important characteristic is obviously the contents. Any budget would consist of non development and development components. In our view, the non development budget is not necessarily against poor, as majority of the local government employees are low ranking officials, often drawing very low salaries and thus salaries for such staff in a way constitute pro poor measures. Similarly, complete development component of the budget may not be pro poor. It depends on whether the money is being spent on pro poor projects.

Several attempts have been made to rank districts on the basis of social and economic development. As generally these rankings have been done nationwide and on a different set of indicators, there remains a room of preparation of new indices. Generally, the idea of benchmarking has been missing from these indices, something on which current report is based upon. For example, Social and Policy Development Centre issued 'Social and Economic Development Ranking of Districts in Pakistan' in 1998. It provides a spatial context for ranking of districts on the basis of their current economic and social development status. Another study by Haroon Jamal et'al (2002) from the same institute also ranks the districts on the basis of their economic and social development status. In our knowledge, no index so far takes into account the resource allocation factor. Our research not only considers current status, but also provides a perspective on relative performance of each district. Therefore links can be established between the actual status and efforts of district governments to upgrade their status.

Theoretically, devolution can be very helpful in pro poor resource allocation. However, as argued earlier, the relationship is not an established one. The very process of decentralization does not automatically guarantee pro poor resource allocation. It ultimately depends on *how* and *what* of the budget i.e. how the budget has been made, and what does it contain. In settings where the local power structure is unequal, such as in feudal or tribal societies, or where the concentration of economic power is skewed, local government institutions are liable to be influenced by strong elitists lobbies (Ismail & Rizvi 2000). Effectively implemented it has the potential to improve immediate development outcomes, improve cost-effectiveness of both implementation and delivery, and be the catalyst for broader institutional reforms which benefit and empower the poor.

Mapping it out…

Research Design

The purpose of the research is to critically examine the budgets of district governments after devolution to estimate pro poor resource allocation. It is worth mentioning that as such no direct measures are given in most of the district government budgets to alleviate poverty. Poverty reduction, therefore, is taken as a reduction in out of pocket expenditures by the relatively poor segments caused largely by creation of public facilities such as schools and health centers. This is based on input instead of output due to data constraints, whereas input refers to budgetary allocations, and output refers to the impact of these expenditures on the poor.

Research Objectives

- To determine key variables and quantitative indicators directly benefiting poor segments of the population.
- To prepare a 'pro-poor index' consisting of benchmarked variables corresponding to the overall share of development expenditure and to the relative importance of each variable in helping poor.

Assumptions

1. Pro poor resource allocation has been analyzed on the basis of certain budgetary heads. We assume that the budgetary heads included in our study benefit the poor; however our research does not use any measure to discriminate on the basis of actual users. For example, we assume that a school set up by the municipal government is more likely to be utilized by poor people but we cannot exclude non poor from this.

2. SPDC 1998 maintains that input based approach for ranking of districts is more operational in terms of planning instead of output based approach, for which data may not be available district wise. Input would mean number of schools, teachers etc. whereas output would mean number of graduate in total labour force (SPDC 1998).

Limitations

- ✓ The districts included in the study are mostly relatively poor and backward districts and out of initially planned 20 districts, 4 districts were dropped due to bad quality or non availability of data.
- ✓ Only those variables and indicators are taken into account, which have direct benefit for the poor according to literature on decentralization.

- ✓ A time series is not considered due to limited scope of the study. Instead, a specific year i.e. 2005-06 is chosen as a bench mark year.
- ✓ There are several poverty reduction measures taken by the provincial and federal government, such as food subsidies or price subsidies. As current research focuses on the district government, any poverty reduction measures, such as income transfers, taken up by provincial or federal governments are not considered.
- ✓ In certain districts, non-development budget is not segregated into salary and non-salary budgets. In such cases, complete non-development budget is considered.
- ✓ As often there is a gap between budgetary allocations and actual expenditures, for the sake of consistency and simplicity, this research focuses only on budgetary allocations reflecting the priorities of respective districts instead of administrative and financial efficiency.

Research Question

How districts are ranked on a constructed scale or index consisting of budgetary variables perceived as pro poor measures or supportive in social development.

Data and Research Methodology

Research is largely based on the district census reports, budget documents and Annual Development Plans documents received from the district governments.

A review of District Census reports (1998) gives a perspective on relative status of each district in terms of social development. A study by SPDC conducted on social and economic development at districts in 1998 introduced a concept of hypothetical district, with ideal resource allocation for poverty alleviation. All other districts have been ranked by measuring their 'Euclidean' distances from the hypothetical district.[1] Thus, a hypothetical benchmark was introduced, and then the actual districts were compared with that 'ideal' type. We chose to benchmark our sample districts with an ideal district. However, instead of constructing a hypothetical district, we have selected twelve quantifiable variables, and then compared each of our sample districts on them. Thus, for each variable, we got a best district and a worst district, whereby best means the district having greatest percentage of resource allocation for that variable and worst means the lowest non-zero budgetary allocation for same variable.

The outcome of quantitative review is a new ranking of the sample districts based upon pro poor resource allocation. The ranking is based on a 'pro poor index'[2],

[1] See for example, SPDC research 'Social and Economic Development' (1998) conducted by Dr. Aisha Ghaus-Pasha and others.

[2] I am grateful to Dr. Simrit Kaur of University of Delhi for valuable insights.

which is developed to adequately reflect the standing of each district on the criteria of pro poor resource allocation. This index is applicable as such to all other districts, and thus can be used for a nation wide ranking of districts.

Pro Poor Index:
Score of a District in a given variable *i* = $((V_i-V_{min})/(V_{max}-V_{min}))*100$

V_i = The percentage of a given district in a given budgetary variable for example education.

V_{min} = The percentage of a district with minimum proportionate allocation in that variable.

V_{max} = The percentage of a district with maximum proportionate allocation in that variable.

The construction of the index ensures that each district is benchmarked with the highest and the lowest ranking district. If a district 'a' is the lowest in a budgetary variable 'x' then the index construction penalizes the lowest scorer by assigning a zero to that district for that particular variable. Similarly, if a district 'b' has spent nothing at all on a specific variable 'y' then the penalty is even worse: it assigns a negative score to that district.

The principle is very simple: greater budgetary proportion a district allocates for the pro poor variables, higher is its score on the index.

Index comprises 11 variables, 5 each for development and non-development and one for overall development. We believe that no single variable can be given more importance on another; therefore no weights have been assigned. Thus the index effectively constructs a simple average. The maximum score a district can obtain on a given variable is 100; making the index a 1100 points index.

The variables included in our analysis are as follows:

No.	Name	Description
1	Development	Development as %age of total budget
2	Labour	Development as %age of total salaries
3	Education Non Development	Education as %age of non development budget
4	Education Development	Education as %age of development budget
5	Health Non Development	Health as %age of non development budget

6	Health Development	Health as %age of development budget
7	Agriculture Development	Agriculture as %age of development budget
8	Agriculture Non Development	Agriculture as %age of non development budget
9	Social Welfare (Development)	Social Welfare, Community Development, Income Transfer, as %age of development budget
10	Social Welfare (Non Development)	Social Welfare, Community Development, Income Transfer, as %age of non development budget
11	Water and Sanitation (Non Development)	Water and Sanitation as %age of non development budget
12	Water and Sanitation (Development)	Water and Sanitation as %age of development budget

An index of 1100 points is constructed and each of above variables is given an equal weight on that index. The selection of Education, Health, Agriculture, Social Welfare and Water and Sanitation is supported by the vast literature on decentralization and poverty, which tends to focus on these variables along with water and sanitation and housing stock and housing quality. The equal weight is chosen because, first: each of the variables has a significant contribution towards poverty alleviation; second: each is equally important for the poor and marginalized segment; and third: the diversity across the districts in terms of resource allocation is adequately covered. Each district is also ranked on an efficiency criterion: efficiency being defined as the percentage of development budget in total budget.

The absence of Citizens Community Board (CCB) budget may be noticed here. Although CCB represents a good medium of community participation, in a budget, we can only allocate the money for CCB which is not necessarily used. For example, in a highly developed district like Lahore, hardly 10% of CCB funds are being used by the citizens.

It may be clarified that no claim is being made here to link the allocation or even the expenditures with poverty reduction. We argue on the lines of the studies conducted earlier by various experts which have taken input approach i.e. budgetary allocations instead of output i.e. the consequence of allocations (Pasha 1998). Ideally, a study of pro poor resource allocation should consider the actual impacts of budgets on the poor. But same is not possible at district level due to data constraints and also limited scope of the study. One can rely, to an extent, on the household survey conducted each year by the Government of

Pakistan, but it remains a sample base survey. Enlarging the scope of the study would also mean that a time series will have to be built instead of considering a single time like the present study. This again is due to limited scope of the study.

As somewhat very limited base line, we have relied on the census figures from 1998, for which extensive data is available from the government. Theoretically, once the status of each district is transformed into a percentage, our original index can be used to rank the districts on the level of development achieved. The question arises as to what indicators are selected to match the same indicators as used in our index. Fortunately, the census provides us a broad menu base, and we have been able to relate to 80% of our chosen variables with some census variables. For example, we have used Education as a variable in the pro poor index. Now to ascertain the status of development of a particular district in education, we have relied on firstly, enrolment ratio, and secondly, on the education level achieved. Similarly for each of the variable we have picked two indicators, for which data is easily available. The only exception is in the case of social welfare variables, for which we could not a uniform set of data for all districts. Dropping this, we have instead included housing data available in the census.

DEVELOPMENT STATUS INDEX

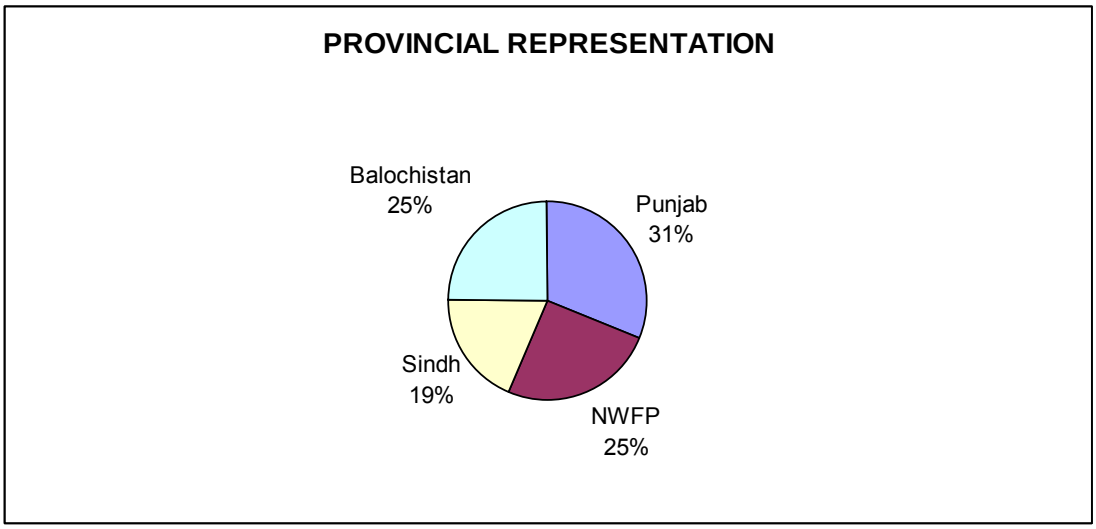
	Description of Variable	Indicator
1	EDUCATION	i. Enrolment Ratio: Percentage of students in population aged 5 to 24
		ii. Percentage of population with at least a matriculation
2	HEATH	iii. Number of health facilities per thousand
		iv. Immunization: Percentage of population under age 10 vaccinated
3	AGRICULTURE	v. Average Yield (Tonnes/Acre) as a percentage of rural population
		vi. Per Capita Availability of livestock in rural population
4	HOUSING	vii. Percentage of houses with a RCC/RCB or Cement/Iron Roof. viii. Percentage of owned housing units
5	WATER & SANITATION	ix. Percentage of houses with access to piped water
		x. Percentage of population with access to separate latrine

The index formula given above is applied to indicators above resulting in a new ranking of districts basing on the variables chosen. This gives us a base line to

begin with and more importantly to see whether there is any link between the social development status (as measured by the rank) of a district with its resource allocation strategy (as also measured by a rank). As both ranks are based on similar scoring techniques, we will compute Spearman Rank's (Rho) correlation to see this linkage.

Sampling

The initial sample consisted of 20 districts, which is 20% of total districts in Pakistan taking five districts from each province. In pre-dominant cases, all these districts are relatively backward and poor, which correspond to the project of the sponsor of this research. Due to gross inconsistencies in financial reporting and missing data, we had to restrict ourselves to 16 districts. The representation of provinces is skewed towards Punjab, which is more out of the compulsion of data constraints rather than a choice. The sample is divided into Punjab (5 districts), NWFP (4 districts), Sindh (3 districts) and Balochistan (4 districts).



This skewness has been adjusted while analyzing provincial share in the rankings by overweighting Sindh six percent and under weighting Punjab by the same percentage. Thus in this case, the provincial share in the rankings is uniform.

Procedures

For the purpose of quantitative research, the budget documents obtained from the district governments are used as primary source of information. A table will be developed first to compile the data corresponding to selected variables. There are instances, where data against certain variables may not be of uniform nature. In such cases, these variables would be dropped, and either a proxy variable will be used, or the data be altogether ignored. Where ever found essential, average

figures have been used as proxy figures. This replacement does not exceed 10% of total data points.

Data Processing and Analysis

Standard editing and coding procedures is applied. Simple tabulation and cross-tabulations is also applied at different stages to analyze the data. The data collection has been far from smooth and we faced several problems during collection. These pertain to inconsistencies in financial reporting format, bureaucratic hurdles in getting the financial reports and reporting problems. A rather detailed description of these problems is given in the Data Analysis.

Looking for Trees!

Data Analysis

Quantitative data analysis is largely based on the review of budgetary documents and annual development plans of the districts. The outcome of quantitative review is a new ranking of the sample districts based upon pro poor resource allocation. The ranking is based on a 'pro poor index'[3], which is developed to adequately reflect the standing of each district on the criteria of pro poor resource allocation. This index is applicable as such to all other districts, and thus can be used for a nation wide ranking of districts.

Pro Poor Index:
Score of a District in a variable *i* = $((V_i-V_{min})/(V_{max}-V_{min}))*100$

PROBLEMS

Budget preparation is a complex task and needs rigour and consistency. Particularly, when it comes to preparation of an index, then quality and consistency in data and reporting format becomes critically important. Although devolution system has received support from several donors for precisely budget preparation and financial management, a lot is still to be done.

We have been handed over budgetary documents of 20 districts comprising Annual Development Plan and Current Expenditures for 2005-06. These districts were chosen from all the four provinces by selecting 5 districts from each. According to our observation, the preparation of district budget varies from district to district. This implied that to single out requisite variables needed detail scrutiny of each document and many times, we needed to read the same document over and over again to find the needle in the haystack.

As a matter of fact, the poor quality of reporting is also a reflection on the capacity of existing staff at district level. It should be emphasized here that since our research is essentially based on secondary sources, we were not in the position to comment on the process of budget making itself. From anecdotal evidence, it seems that mostly budget making is based on previous year effort and changes are made to reflect latest developments. Although there is nothing wrong per se to remain consistent in a format over years, it becomes problematic under the talk of heavily mandated district governments.

Pertaining to data analysis, we encountered with following problems:

[3] I am grateful to Dr. Simrit Kaur of University of Delhi for valuable insights for this index.

Inconsistencies in financial reporting:
Although the provincial governments have specified departments to ensure consistency across all the districts in terms of financial reporting, not every district keenly follows the same. Some districts, for example, have chosen to report separately salary and non salary expenditures, whereas many districts chosen to lump the two together.

Delay in collection of data:
District governments are supposed to keep the current budgets accessible to the public at all times in the interest of public accountability. However, we had a hard time in gaining access to the relevant data despite the presence and support of SAP-PK secretariat and their respective offices in other regions. This caused considerable delay in collection of data.

Lack of availability of relevant documents:
Many districts were prompt in supplying the documents only to be found irrelevant later upon inspection. Many districts sent their annual progress report, containing speeches of their Nazim with barely mentioning the fiscal developments of the district.

RESULTS

The main finding of this section is the ranking of districts, as presented below. The column with Total Score mentions the total score each district obtained out of a maximum score of 1100. The percentage column mentions the same fact in terms of percentage score. The last column gives the rank. In the interest of ranking, these tables are sorted, in descending order, with respect to the total score. As the more is better, the ranks indicate the relevant position of each district on the index. Total budget includes both development and non development allocations whereas Development budget includes only development expenditures.

Total Budget

District	Total score Max=1100	% age	Rank
Zhob	515	**47%**	**1**
Mastung	500	**45%**	**2**
Badin	462	**42%**	**3**
Lower Dir	449	**41%**	**4**
Dadu	409	**37%**	**5**
Mardan	405	**37%**	**6**
Kech	401	**36%**	**7**
Gwadar	385	**35%**	**8**
Mianwali	373	**34%**	**9**
Sanghar	363	**33%**	**10**
Lodhran	361	**33%**	**11**
Faisalabad	356	**32%**	**12**
Toba Tek Singh	333	**30%**	**13**
Sahiwal	332	**30%**	**14**
D.I. Khan	325	**30%**	**15**
Charsadda	317	**29%**	**16**

Development Budget

District	Total Score Max=600	% age	Rank
Lower Dir	336	56%	**1**
Kech	281	47%	**2**
Zhob	269	45%	**3**
D.I. Khan	252	42%	**4**
Charsadda	247	41%	**5**
Badin	220	37%	**6**
Mastung	198	33%	**7**
Mardan	186	31%	**8**
Dadu	186	31%	**9**
Mianwali	162	27%	**10**
Faisalabad	145	24%	**11**
Gwadar	135	23%	**12**
Toba Tek Singh	134	22%	**13**
Lodhran	134	22%	**14**
Sanghar	126	21%	**15**
Sahiwal	111	19%	**16**

Table 1: Summary Ranking

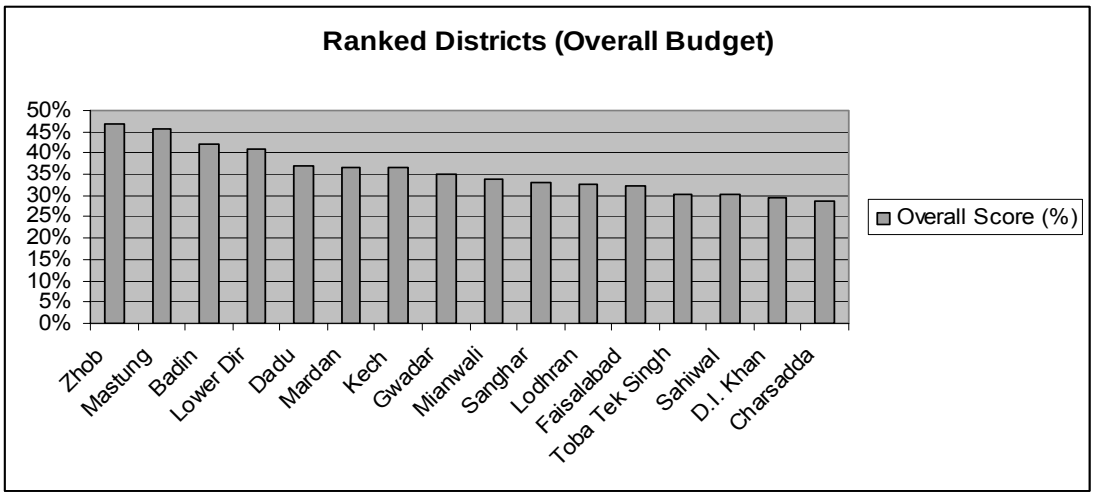


FIGURE 1.0: RANKED DISTRICTS ACCORDING TO TOTAL BUDGET

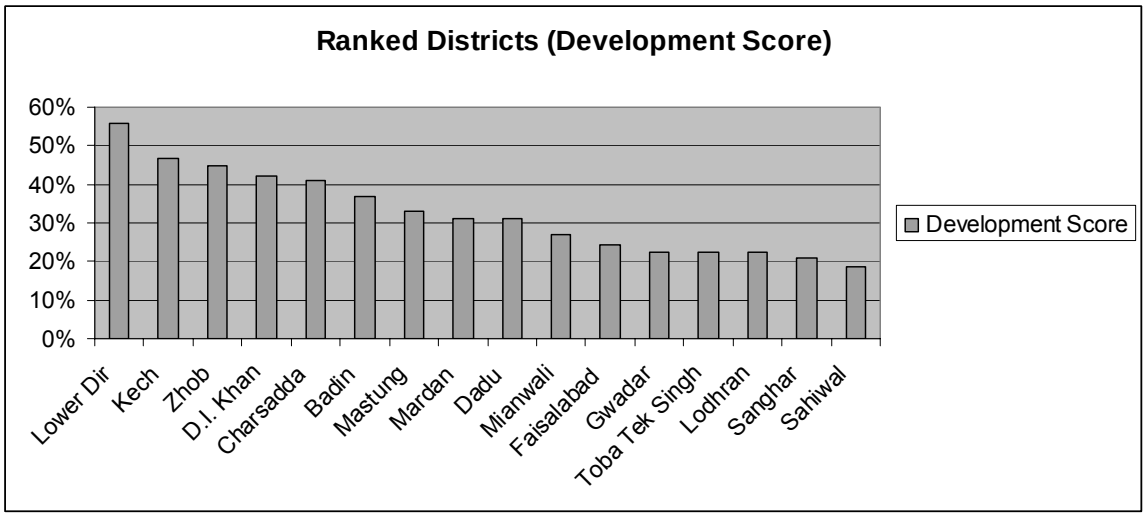


FIGURE 2.0: RANKED DISTRICTS ACCORDING TO DEVELOPMENT BUDGET

Alphabetical District Comparison

District	Combined Score	Development Score
	%age	%age
Badin	42%	37%
Charsadda	29%	41%
D.I. Khan	30%	42%
Dadu	37%	31%
Faisalabad	32%	24%
Gwadar	35%	23%
Kech	36%	47%
Lodhran	33%	22%
Lower Dir	41%	56%
Mardan	37%	31%
Mastung	45%	33%
Mianwali	34%	27%
Sahiwal	30%	19%
Sanghar	33%	21%
Toba Tek Singh	30%	22%
Zhob	47%	45%

Table 2: Alphabetically Arranged Districts with their Scores

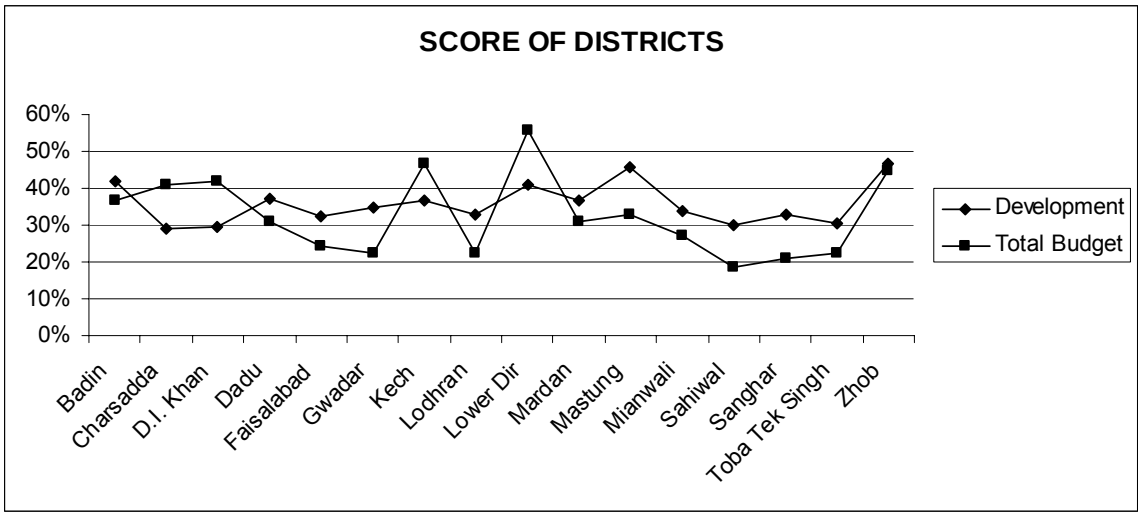


FIGURE 3.0: ALPHABETICALLY ARRANGED DISTRICTS AND THEIR SCORE ON DEVELOPMENT AND OVERALL INDEX

Standard Deviation:

Standard Deviation has been computed for each district basing on their scores in each of the 12 selected variables. We assume that standard deviation as a statistical measure can be used to understand to what extent resources are allocated uniformly. A low standard deviation would reflect somewhat uniform resource allocation and a high standard deviation represents prioritization of certain heads over others.

Standard Deviation		
Districts	**(%age)**	**Rank**
Lodhran	26.40	1
Toba Tek Singh	26.43	2
Mardan	27.19	3
Sahiwal	27.42	4
Mianwali	29.02	5
Faisalabad	29.24	6
D.I. Khan	29.29	7
Sanghar	29.83	8
Kech	30.21	9
Charsadda	30.33	10
Lower Dir	32.28	11
Badin	32.76	12
Gwadar	32.95	13
Dadu	33.29	14
Mastung	33.91	15
Zhob	36.74	16

Table 3.0: STANDARD DEVIATION

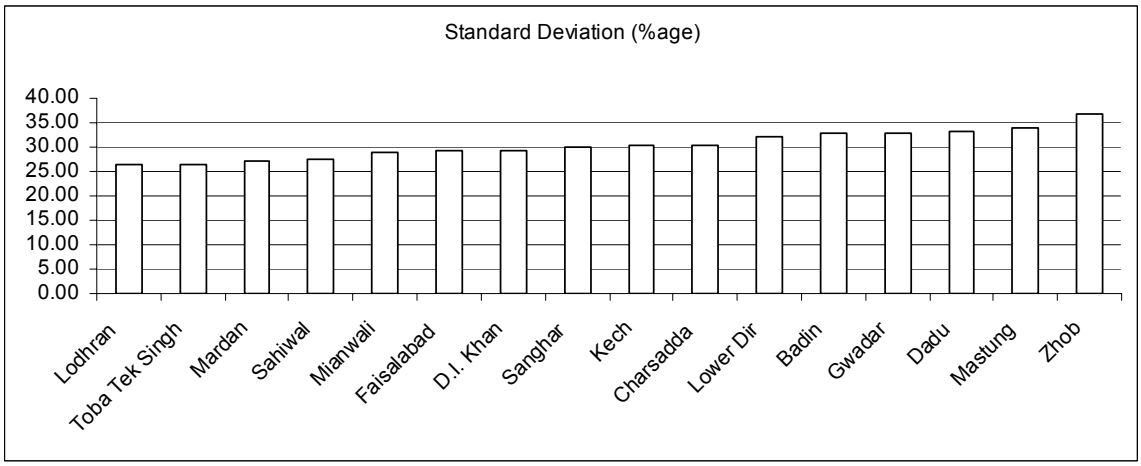


FIGURE 3.0: STANDARD DEVIATION

Variables	Standard Deviation
Education/Dev	10%
Education/Non Dev	25%
Health/ Dev	11%
Health/ Non Dev	5%
Agriculture/Dev	9%
Agriculture/Non Dev	2%
Soc Welfare/Dev	5%
Social Welfare/Non-Dev	3%
Water & San./Dev	8%
Water & San./ Non Dev	3%

Table 4.0: Standard Deviation Across Variables

Correlation between Development and Non-Development

We computed Correlation between Development and Non-Development allocations (%ages) for all chosen indicators across all districts. The purpose was to see if there is any difference across different budgetary heads. The results are shown in Table 3.0 below.

Development & Non-Development	
Education	-11%
Health	-56%
Agriculture	67%
Social Welfare	61%
Water & Sanitation	18%

Table 5.0: Correlation Coefficient Across All Districts

Provincial Distribution

Distribution of districts in upper half of the ranking and lower half of the ranking is shown to reflect if there any provincial disparities according to our data set. This should be read with the precaution that the data set is slightly skewed towards Punjab and slightly against Sindh. That is why the row wise entries do not add up to 100% in these two cases.

	Total Budget	**Total Budget**	**Development Budget**	**Development Budget**
	% share in upper half	% share in lower half	% share in upper half	% share in lower half
SINDH	25	12.5	12.5	25
NWFP	25	25	50	0
PUNJAB	0	62.5	0	62.5
BALOCHISTAN	50	0	37.5	12.5
TOTAL	~ 100%	~ 100%	~ 100%	~ 100%

Table 6: Distribution of Provincial Share across Ranking

Development Status

This section presents the findings from comparison of sampled districts on the basis of their development status, as gauged by our index. The figures are based on the 1998 census and are taken from the district census reports. Although 1998 is not a very convincing as a benchmark year of development status, this is the latest year for which census data is available. We hope to upgrade the same after census reports of 2008 are published.

INDICATOR		Highest	Lowest
EDUCATION			
1. Enrolment Ratio: percentage of students in population aged 5 to 24	%age	**Toba Tek Singh**	**Zhob**
2. Percentage of population with at least a matriculation	%age	**Kech**	**Zhob**
HEALTH			
1. Number of health facilities per thousand	Number	**Mastung**	**Toba Tek Singh**
2. Immunization: Percentage of population under age 10 vaccinated	%age	**Sahiwal**	**Badin**
AGRICULTURE			
1. Per Capita Average yield per acre for rural population (all crops)	Kg/hectar	**Gwadar**	**Toba Tek Singh**
2. Per Capita Availability of livestock in rural population	Number	**Zhob**	**Lodhran**
HOUSING			
1. Percentage of houses with a RCC/RCB or Cement/Iron Roof.	%age	**Sahiwal**	**Gwadar**
2. Percentage of owned housing units	%age	**Kech**	**Mardan**
WATER AND SANITATION			
1. Percentage of houses with access to piped water	%age	**Kech**	**Charsadda**
2. Percentage of population with access to separate latrine	%age	**Charsadda**	**Zhob**

Table 7: Development Status

Rank	Districts	Score Max:10	% age
1	Gwadar	4.87	48.65%
2	Kech	4.78	47.75%
3	Toba Tek Singh	4.47	44.69%
4	Faisalabad	4.42	44.16%
5	Mastung	4.24	42.39%
6	Mianwali	4.02	40.24%
7	Dadu	3.87	38.71%
8	Sahiwal	3.82	38.22%
9	Charsadda	3.66	36.61%
10	Mardan	3.52	35.19%
11	Zhob	3.29	32.90%
12	D.I. Khan	2.91	29.07%
13	Sanghar	2.85	28.54%
14	Lower Dir	2.64	26.43%

15	Lodhran	2.60	26.01%
16	Badin	2.21	22.12%

Table 8: Ranking of Districts on Development Status

Provincial Share in Development Status

	% share in upper half	% share in lower half
SINDH	18	31
NWFP	0	50
PUNJAB	44	6.5
BALOCHISTAN	37.5	12.5
TOTAL	~ 100%	~ 100%

Table 9: Distribution of Provincial Share across Ranking

Relationship between Development Ranks and Development Status

After presenting results from our key ranking of resource allocation for the poor and the development status, we explore whether there is any relationship between the two. For this purpose, both Correlation and graphical methods are used.

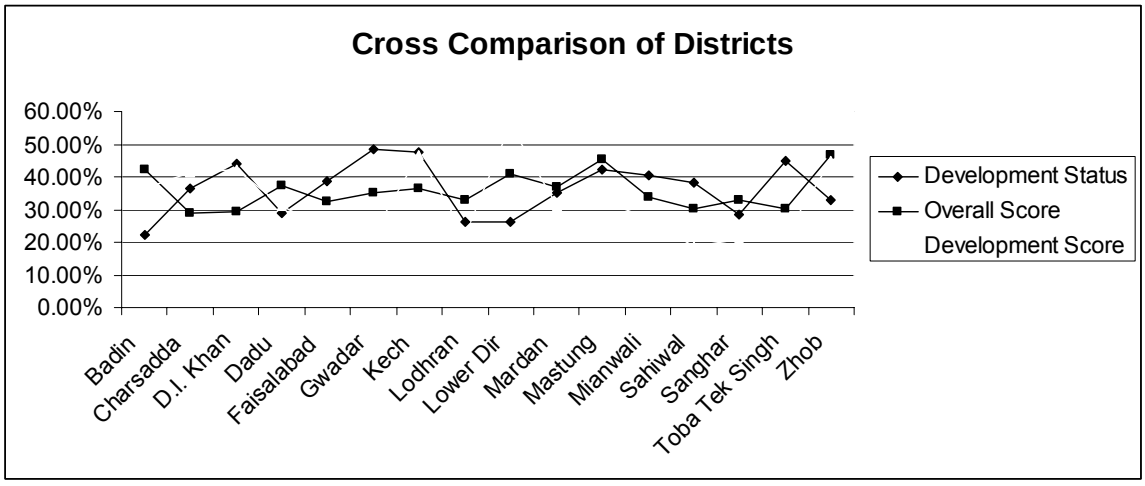


FIGURE 4.0: CROSS COMPARISON OF DISTRICTS

Correlations

		Development Budget Score (%age)	Non Development Score (%age)
Development Budget Score (%age)	Pearson Correlation	1.000	-.571*
	Sig. (2-tailed)	.	.021
	N	16	16
Non Development Score (%age)	Pearson Correlation	-.571*	1.000
	Sig. (2-tailed)	.021	.
	N	16	16

*. Correlation is significant at the 0.05 level (2-tailed).

TABLE 10: RELATIONSHIP BETWEEN DEVELOPMENT AND NON DEVELOPMENT

Correlations

		Total Budget Score (%age)	Standard Deviation (%age)	Development Budget Score (%age)
Total Budget Score (%age)	Pearson Correlation	1.000	.780**	.470
	Sig. (2-tailed)	.	.000	.066
	N	16	16	16
Standard Deviation (%age)	Pearson Correlation	.780**	1.000	.500*
	Sig. (2-tailed)	.000	.	.049
	N	16	16	16
Development Budget Score (%age)	Pearson Correlation	.470	.500*	1.000
	Sig. (2-tailed)	.066	.049	.
	N	16	16	16

**. Correlation is significant at the 0.01 level (2-tailed).

*. Correlation is significant at the 0.05 level (2-tailed).

TABLE 11: RELATIONSHIP BETWEEN STANDARD DEVIATION, DEVELOPMENT AND TOTAL BUDGET

KEY FINDINGS

1. Most of following findings are based on observed correlation, Spearman for ranks and Pearson for absolute numbers. However, no claim is made here to establish any cause and effect relationship. There is a common fallacy in Economics to establish cause and effect relationship on the basis of correlation counts. Being sensitive to that, we have chosen to avoid that, and would only report in terms of an association and not necessarily a cause and effect relationship.

2. Pearson Correlation between non-development budgets and development budgets is negative and significant at -0.50 for the sample districts. It suggests that there is an inverse relationship between the non-development and development budgets. It does depict a trend: an additional rupee spent on non-development denotes a reduction of at least 50 paisa from the development budget. Alternatively,

"The relationship between non-development expenditures and development expenditures is inverse."

3. Pearson Correlation between Development Budget Score and Development Status Score is negative i.e. -0.12, which is insignificant. One can however conclude that overall resource allocation strategy does not correspond with the development status of a district.

"A significant portion of increased budgetary allocations is actually being spent on administrative heads and not on development heads."

4. From Table 6 above, which provides information on provincial share in overall and development rankings, multiple findings are observed:

a. The share of Balochistan in upper half of total budgets is 50% and its share in lower half is 0%. Its share in the upper half of development budget is 37.5% and its share in lower half is 12.5%. This peculiarity makes Balochistan the most consistent province in terms of its position in various rankings. It is worth noting that all the four districts in Balochistan occupy positions in top half of overall rankings. It shows that Balochistan is receiving high priority from the federal government.

b. In terms of total budgets, Sindh captures 25% in upper half and 12.5% in lower half. In case of development budget, the share of Sindh in the upper half is 12.5%, whereas its share in lower half is 25%. The shares of Sindh in these rankings completely reverse. It implies that the high overall ranking of Sindh is actually due to non-development expenditures.

c. The share of NWFP in upper half of total expenditures is 25%, whereas its share in the lower half is also 25%. The share of NWFP with respect to development budget in upper half is 50% and its share in lower half is 0%. NWFP does extremely well, therefore, in development related expenditures.

d. The most amazing case is that of Punjab. The share of Punjab in upper half of total budgets is 0% and its share in lower half is 62.5%. Punjab's share in upper half of developmental expenditures is 0%; whereas its share in lower half is 62.5%. Therefore Punjab, surprisingly follows similar trajectory both in case of total budgets and development budgets.

5. On comparison of top three districts in Development Index, no single budgetary variable appears to stand out. For example, Badin owes its top position to its allocation for Education and Social Development; Zhob owes its second position to Agriculture, and D.I. Khan owes its third position to Health. It implies that priorities in each district vary to a great degree, which is also an argument in favour of having local government systems. The whole rationale of devolution is that federal or even provincial

Prioritization in resource allocation plays an important role in effective pro poor resource allocation.

6. Standard deviation across budgetary variables reflects the degree of uniformity or prioritization in budgeting. A higher standard deviation would mean that certain variables have been given relatively more importance than others, or prioritization has been carried out. Thus we observe that the Pearson Correlation between total budgetary score and standard deviation is positive and significant i.e. 78.8% while that between standard deviation score and development score is also significant at 50%. It implies that greater standard deviation does a district favour in getting it a higher position on both rank.

7. Contrary to expectations, Punjab does not appear in top three positions in the development index despite having a greater probability due to a skewed sample base. In fact the first district from Punjab, Faisalabad, occupies 7th position on the development index.

8. From the Development Status results, it appears that almost 85% of people actually own housing units. This may be recalled that this is from a sample of relatively poor districts across Pakistan. Therefore the ownership is likely to improve in relatively richer districts. However the ownership is contrasted with the quality of the housing stock. It is represented by the percentage of houses with either a RCC/RCB or a cement/iron roof. This is only 17%. It suggests that although majority of people do own their houses, their quality is dismal.

9. In terms of development status highest and lowest rankings, Balochistan emerges prominent. Kech clutches highest positions in three indicators (Education attainment level, ownership of houses and access to piped drinking water) and Zhob captures lowest positions in three indicators (Enrolment ratio, Education attainment level and facility of separate latrine).

10. As Table 3 showed above, most variables indicated an inverse relationship between development and non-development expenditures. The significant exception observed was in the agriculture sector, which indicated a significant positive correlation of 70%. It means that across all the districts, the agriculture budget is the most effectively utilized budgetary head. Similarly, Social Welfare departments across also exhibited an effective utilization of resources, where correlation is 61%.

11. According to Table 3, Education proves to be the least effective budgetary tool in terms of development output. It means that a vast majority of funds allocated for education are actually being spent on keeping administrative staff.

12. In the overall index:
    a. Zhob owes its top position to its expenditures on Education, Agriculture and Water and Sanitation.
    b. Mastung owes its second position due to its expenditure on Education, which is 55% of its budget.
    c. The third position of Badin is primarily due to its extra ordinary development budget, which is 43%.

13. In the development index:
    a. Lower Dir gets top position due to its high share of development budget (54%) and its expenditure on the health (38%).
    b. Kech gets second position due to its allocation for education (32%)
    c. Zhob gets third position due to its extra ordinary allocation for agriculture which is 40%.

14. Faisalabad is marked with an extra ordinary 76% of its non development budget allocated for education, whereas it allocates just 3% of its development budget for education. It shows the gross anomaly between development and non-development expenditures in education.

15. On the average, education machinery proves to be the most costly for all districts, capturing as high as 51% of all non-development budget on the average.

16. In non-development budget overall, social welfare and agriculture gets least importance by capturing 3% budget each.

17. If we were to prioritize the development allocations for all districts, then it follows that resources are being spent in the following order: Education (14%), Health (13%), Water and Sanitation (11%), Social Welfare (10%), and Agriculture (10%). This prioritization is obviously limited to our sampled indicators and cannot be termed exhaustive.

Districts, overall, spent resources according to following priority list: Education, Health, Water and Sanitation, Social Welfare, and Agriculture.

18. It follows from our results in Table 4 that the resource allocation through out the districts is quite uniformly spread as indicated by low values of standard deviation across budgetary heads. This is relatively high in Education which is also the main component of most of the budgets.

19. In search for the forest, towards the end, we wondered if there is anything common between top three rankers: Lower Dir, Mastung and Zhob. This time the idea was to look beyond budgetary documents and get a feeling of the life in general in these districts. We came up with a rather ugly answer: the common point in these three districts is Talibanization! These are the districts, which have become hotbed of Talibanization in recent years despite all hefty development spending.

Not missing the forest!

Conclusions

Resource allocation through budget making at district level is both a political and technical process. The politics of budget making is determined essentially by the locus of power within the elected and administrative body. The political influences of various interest groups determine how resources are generally allocated. However, there is another, technical aspect of devolution. This comprises how the budget is actually made and how it is implemented. In this realm, the issue of capacity of district government comes at the forefront.

The choice between spending on non-development or on development is always a political decision. If the district government wants to utilize district officials to further a political agenda, then it makes sense for it to spend more on items like office facilities, benefits for employees etc. Although most district officials also happen to be in lower income group, such budgetary tools are often misused to make political gains and promote nepotism. On the other hand, if the district government wants to get political support from the voters and masses at large, it would give priority to development spending, and would focus on heads such as clean drinking water and better paved streets etc.

The process of provincial transfers to the district governments should be informed by the relevant status of each district on development scale as well as its pro poor strategies. This is exactly what this report accomplishes. It ranks the districts on the basis of both their status and allocations. Thus a model of relationship between overall development status and resource allocation has been built.

This model is far from perfect but it has provided necessary components for a relationship between social development and budgetary allocations. The most important question policy makers should be confronted with is: how effectively their allocation strategy is based on an understanding of district socio-economic development. As a major finding of this study suggests, the link between development status and development budget is inverse. Ideally, a greater developmental budget should lead to an enhancement in the development status of a district. What is emerging from our data is a very strange phenomenon, whereby an increase in developmental spending is having an opposite effect.

Summing it up:

*The process of provincial transfers to the district governments should be informed by the relevant status of each district on development scale as well as its pro poor strategies.

*Whatever we are spending additionally on a district even in the name of development is being actually siphoned off by burgeoning non developmental, administrative infrastructures.

*From the relatively backward districts, it seems that the policy makers are convinced somehow that Balochistan and NWFP should be given priority over Sindh and Punjab.

*There exists wide political vacuum in development planning and execution. Development alone cannot bring peace if not supported by a genuine political process.

*The budget makers have mostly relied, financially, on provincial transfers, and politically, on select groups within the local polity. This has effectively sidelined real beneficiaries from development.

It has several meanings. Foremost, this implies that whatever we are spending additionally on a district even in the name of development is being actually siphoned off by burgeoning non developmental, administrative infrastructures. In addition, it means that we are effectively enhancing the size of bureaucracy at a local level, which is not being translated into an improvement in the service delivery for the masses.

The issue of provincial shares in the ranking is also considerable. According to an earlier ranking on the basis of socio-economic development of districts (SPDC 1998), Punjab captured the top position and Balochistan the last. However, our ranking reports a different picture. Punjab comes first but it is followed by Balochistan, and then Sindh and NWFP. The differences in the rank for the lower half exist because of different samples. SPDC collected information on all the 100 districts, whereas we have worked on relatively poor 16 districts. It means that amongst the relatively poor districts, Balochistan fares much better than the rest of the districts.

The provincial distribution is ranking of resource allocation is even more revealing. Earlier indices such as one quoted above have taken the position that Punjab and Sindh have been given priority over NFWP and Balochistan when it comes to development planning. However in our different sample set of relatively

poor districts, a completely opposite picture emerges. Here Balochistan and NWFP takes the lead while Sindh and Punjab follow, with Punjab actually coming at the last.

It has a significant political implication. Of all the talks of high priority to smaller provinces, something is happening on the ground as well. From the relatively backward districts, it seems that the policy makers are convinced somehow that Balochistan and NWFP should be given priority over Sindh and Punjab. This is indeed a welcome trend.

Our findings have unearthed a strange relationship between prioritization and position on the rank. Prioritization has paid off to top ranking districts. However, comparison across districts for all indicators has revealed that overall there is a tendency to distribute the pie more equally. It is exactly a mirror reflection of national planning where budgetary allocations are actually driven by politics: make every one happy by giving away a little to every one! We have seen that it does not work at Planning Commission where a history exists of pending projects, escalating costs and continuously increasing payments. It will surely not work in the case of districts as well. The economics of a project has to take precedence over politics of a project.

Housing stock information is quite revealing and contrary to common perception. According to our report, almost 85% of people live in ‘owned’ houses. However, while claims to the title of the land may always be dubious, the poor quality of their housing infrastructure is obvious. This is reflected by the fact that hardly 17% of houses have a reliable roof top. This also shows the abject poverty, in which majority of people cannot build a reliable structure to live. It also depicts that such houses do not constitute a bankable asset, which could be mortgaged to finance home renovation or starting a business. Probably, it is related with the title of ownership, which is mostly incredible and therefore not trusted by the banks.

As mentioned earlier, the top three rankers in development index share the ugly creeping of Talibanization. It implies that development has not done the magic of keeping people content and peaceful. This has been the main plight of present regime for its mega projects particularly in Balochistan. But it seems that people do not appreciate the idea of development being imposed on them. It also means that there exists wide political vacuum in development planning and execution. Development alone cannot bring peace if not supported by a genuine political process.

Over the years, devolution plan has certainly resulted in huge flow of resources to districts. It remains to be seen how far these resources have been effective in

bringing about a qualitative change in social indicators. The above study is not exhaustive in nature though it throws ample light on the nature of relationships between resource allocation and development status at large. It has shown that the resource allocation strategies are generally blind from development status of the districts. It has also shown that an increased budgetary allocation has mostly resulted in upsurge of non-development expenditures. We believe that such a situation has risen because of a non-participatory budget making process, which is an essential feature of pro poor budgeting. The budget makers have mostly relied, financially, on provincial transfers, and politically, on selected groups within the local polity. This has effectively sidelined real beneficiaries from development.

Showing the way ahead…

Recommendations

The biggest problem in constructing an index, as argued earlier, is obtaining quality and consistent data. Consistency is needed in the pattern of reporting and format of reporting. If one district reports education budget in a different way from another district, researcher will have to do extra effort to dig out relevant piece of data and in the process, may compromise on the data quality itself.

Similarly, consistency is required in language of budget. Admitted that English is not our own language, we understand English to be the official language, therefore for the sake of consistency, all district governments should report in English. An Urdu version should be prepared to inform the masses at large.

Normally, each district publishes Current Expenditure (Salary and Non Salary) and Annual Development Plan in separate volumes. This exercise is appreciable, however many districts have chosen to publish it in a single volume. Therefore consistency is also needed in the format of budget presentation.

Regarding presentation of budget data, most of the districts have done well by presenting summaries of all heads for expenditures and development. However some districts have just reported in details without providing a summary. This makes the job more difficult, but not just for researcher, but more importantly, for the approving authority as well.

In many budgets, separate details have been provided for Salary and Non salary budgets, however many district governments have opted to present a consolidated figure for non-development expenditures. It has forced us to rely on some proxy indicators at certain places.

The budgetary documents have been sent over several months, causing unwarranted delays in data consolidation and classification. In some extreme cases, this has meant that index based calculations had to be revisited to incorporate late arriving budget documents.

Summing it up:

*Quality data is a pre-requisite for any meaningful report and analysis.

*Consistency is needed in the language, pattern of reporting and format of reporting.

*All districts should maintain salary and non salary components of non-development expenditures.

*An Urdu version of each budget should be prepared to inform the public at large.

*Cost-benefit analysis in terms of socio-economic development for all budgetary proposals must be undertaken and projects with staggering costs but minimal benefits should be shelved.

*Representatives from the poor and marginalized groups should be present in the budget making process.

*Professional capacity of district officials should be enhanced by training them on budget and data analysis and policy formulation.

*Precise and up to date data should be generated at district level to identify correct development interventions.

We had chosen the year 2005-06 for our analysis; however, some districts sent us their Current Expenditure statement for one year and Development Plans for another year. As our index is built on both non-development and development expenditures, such districts had to be kept out from the final ranking just due to lack of data. These include: Haripur, Larkana, Nawabshah and Kalat. In particular, districts governments in Sindh province were found to be less responsive in this regards.

Economics of a project has to take precedence over politics of a project. For this, the district government, whether administration or elected officials must chose to fund projects for which maximum social gain can be made for a given budget. For this to happen, cost-benefit analysis for all budgetary proposals must be undertaken and projects with staggering costs but minimal benefits should be shelved. Here cost and benefits should be understood both in terms of social development and economic constraints.

The professional capacity of district officials to perform such tasks has often been questioned. Although several donor agencies have supported many projects for training and capacity building for precisely budget making, a lot more needs to be done. The district governments now seem to have acquired the capacity to enter the data according to prescribed format, but they should also learn how to

interpret the numbers and make informed decision based on the socio-economic status of their districts.

It is extremely important to develop insights and knowledge base on the socio-economic status of a district before resource allocation. Currently, this link is rather weak and effective pro poor resource allocation cannot be made without understanding the problems of the poor in details. In this regards, the Census exercise scheduled in 2008 is extremely important as it would help us gauge the real impact of resource allocation on the socio-economic development status of a district.

An effective and politically correct mechanism to make pro poor budget is to include the poor in budget making process, not just symbolically, but structurally. Actual inclusion of the poor and the marginalized-peasants, women and labour-would transform the budget making exercise from a top-bottom initiative to a bottom-up exercise. Currently, the budget making exercise is influenced by powerful political groups, who would dole out money to politically motivated projects.

It is important to strengthen the agencies that are close to the poor not only to engage in the budget process as a tool for achieving equity and fairness in the allocation and use of public resources but also to contribute to better and efficient use of public resources in general. But concentrating on democratic institutions such as Parliament and civil society alone will not be adequate. It is important that government officials appreciate the importance of open and participatory budget processes in enhancing budget performance. It is, therefore, equally important to engage public officials in dialogue about the importance of transparency, participation and accountability in budget performance and to encourage debate about underlying budget policies. A few well-informed and organized civil society groups that work on budgets can mobilize the rest of the citizenry to do this successfully.

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