The document was made possible through support provided by the United States Agency for international Development (USAID), under the terms of cooperative agreement number 391-A-00-05-01037-00 and sub-agreement number 36098-02 for PAIMAN.

The Pakistan initiative for Mothers and Newborns (PAIMAN) is a 6-year USAID funded project designed to reduce country’s maternal and neonatal mortality by making sure that women have access to skilled birth attendants during childhood and throughout postpartum period. PAIMAN works at national, provincial and district levels to strengthen the capacity of public and private health care provider and improve health care system. The PAIMAN program is jointly implemented by John Snow Inc (JSI), the Contech International, Greenstar Social Marketing, Johns Hopkins University/CCP, PAVHNA, The Population Council, Save the Children USA.

Published by:
PAIMAN (Pakistan Initiative for Mothers and Newborns)
House 6, Street 5, F-8/3, Islamabad, Pakistan
Chief of Party-PAIMAN
Dr. Nabeela Ali

For inquiries, please contact
Contech International Health Consultants
2-G Model Town, Lahore, Pakistan
Tel: 042-35888798-99
Fax: 042-35845774
Email: contech@brain.net.pk
Web: www.contech.org.pk

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## ACRONYMS

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<th>Acronym</th>
<th>Full Form</th>
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<tbody>
<tr>
<td>ADP</td>
<td>Annual Development Plan</td>
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<td>ABS</td>
<td>Annual Budget Statement</td>
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<td>BHU</td>
<td>Basic Health Unit</td>
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<td>CCB</td>
<td>Citizen Community Boards</td>
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<td>DCO</td>
<td>District Coordinating Officer</td>
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<td>DDOs</td>
<td>Drawing and Disbursing Officers</td>
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<td>DHMT</td>
<td>District Health Management Team</td>
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<td>DHQ</td>
<td>District Head Quarter</td>
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<td>DO</td>
<td>District Officer</td>
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<tr>
<td>DOH</td>
<td>District Officer Health</td>
</tr>
<tr>
<td>EDO</td>
<td>Executive District Officer</td>
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<tr>
<td>F&amp;B</td>
<td>Finance and Budgeting</td>
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<tr>
<td>F&amp;P</td>
<td>Finance and Planning</td>
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<tr>
<td>HMIS</td>
<td>Health Management Information System</td>
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<td>HRM</td>
<td>Human Resource Management</td>
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<td>JSI</td>
<td>John Snow Incorporation</td>
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<td>LG</td>
<td>Local Government</td>
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<td>LGO</td>
<td>Local Government Ordinance</td>
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<td>LHV</td>
<td>Lady Health Visitor</td>
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<td>LHW</td>
<td>Lady Health Worker</td>
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<td>M.S</td>
<td>Medical Superintend</td>
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<td>MCH</td>
<td>Mother and Child Health</td>
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<td>NAM</td>
<td>New Accounting Model</td>
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<td>Abbreviation</td>
<td>Full Form</td>
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<tr>
<td>NFC</td>
<td>National Finance Commission</td>
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<td>NRB</td>
<td>National Reconstruction Bureau</td>
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<td>PAIMAN</td>
<td>Pakistan Initiative for Mothers and Newborns</td>
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<tr>
<td>PFC</td>
<td>Provincial Finance Commission</td>
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<tr>
<td>RHC</td>
<td>Rural Health Centre</td>
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<tr>
<td>THQ</td>
<td>Tehsil/Taluaka Head Quarter</td>
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<tr>
<td>TO</td>
<td>Tehsil Officer</td>
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<tr>
<td>USAID</td>
<td>United States Agency for International Development</td>
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<tr>
<td>ZBB</td>
<td>Zero-Based Budgeting</td>
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# Review of District Financial Flow System and Recommendations

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Executive Summary

The Pakistan Initiative for Mothers and Newborns (PAIMAN) is a five-year project funded by the United States Agency for International Development (USAID). The goal of the PAIMAN project is to reduce maternal, newborn, and child mortality in Pakistan, through viable and demonstrable initiatives in 10 districts of Pakistan. The project is working on capacity building of public and private health care providers and structures within health systems and communities. This strategy is envisaged to contribute to improvement in delivery of services and enhance strengthening linkages in the continuum of health care for women from the home to the hospital. The key partners in the implementation of PAIMAN are the Federal Ministry of Health, Federal Ministry of Population Welfare, Provincial Health Departments, Private Sector and Consortium Partners.

The objectives of this study were to:

- Review the post-devolution financial flow system and tracking the channels the funds have to go through to reach health facilities;
- Review the legislation governing the LG and LG financial mechanism;
- Identify bottlenecks in the current financial system which impedes the delivery of health services in an effective and efficient manner; and
- Make recommendations to improve the current financial flow mechanism.

Under the centralized system of governance, social sectors were poorly planned, administered, and monitored; hence improvement in social indicators was slower than planned. The planning was a top-down approach with hardly any involvement of citizens in planning, implementation or monitoring of social services. The centralized planning and management created a number of governance issues like inappropriate location of facilities, staff absenteeism, short working hours, low quality of services and lack of consumer's satisfaction leading to low productivity and higher unit costs. Many primary healthcare facilities were constructed at locations away from...
Review of District Financial Flow System and Recommendations

communities and hence remained understaffed and under utilized. The low level of funding for social sectors in late 1990s, especially the non-salary budget, led to further deterioration in the quality of social services.

The assessment is based using a mix of quantitative and qualitative data gathered from districts and a selection of Tehsil/Taluaka within these districts, through field visits and using open-ended self administered questionnaires. The districts selected for this assessment were Khanewal, Lasbella and Jaffarabad.

On taking power in 1999 the present government announced a far reaching reform agenda for reconstructing the institutions of the state through the establishment of a democratically elected system of Local Government (LG). Implementation of this new system was initiated on 14th August, 2001.

Fiscal decentralization is the heart of any devolution exercise. Without fiscal decentralization, no authority is devolved. The basic concept involves the transfer of funds to the LG according to their share, the authority and flexibility to expend the funds as per local priorities.

A comprehensive analysis was performed on LG finances. Some issues identified were cross-cutting and require legislative changes whereas others can be tackled by building the capacity of the district managers. The major issues identified were:

- Provincial transfers, as LGs rely heavily on them due to weak tax base;
- The budgets in the districts are still prepared in the traditional manner; least considered are the local requirements of the districts. The district managers skills in budgeting and management are very limited;
- The districts are facing the problem of allocations, releases and reallocations which are not being in time due to political reasons and shortage of staff.
- Some districts are lacking capacity to effectively plan to spend their funds.
Review of District Financial Flow System and Recommendations

- Financial Powers delegation rules are not in line with the LGO 2001, which cause problems in the financial flow system;
- Vertical programs, though have a significant contribution in the health care delivery system at district level but due to lack of autonomy they cause problem for district health managers; and
- An attempt has been made to localize the procurement procedures but it still needs revamping as the process of procurement is extensive and tedious leading to loss of efficiency time and resources.

Keeping this in view a comprehensive framework of recommendations is made. The highlights of which are presented below:

- Introduce the concept of strategic planning for the health sector;
- Increase the capacity of the health sector staff by trainings using simulations and experiential learning techniques based on adult learning methodologies. Furthermore the district should be provided hands on support while planning and budgeting for a couple of years.
- Improve the budgeting process by introducing new budgeting techniques and linking the budget process with the strategic planning. HMIS data should be used while preparing district budgets so as to have needs based budget.
- Financial rules to be re-aligned with the LGO 2001;
- Provide incentive to the LGs for ensuring their active participation in vertical programs; and
- Automation of the budgeting process through development of a district planning and budgeting software to aid the process for evidence based district planning and budgeting.
1. CONTEXT

1.1. About Pakistan Initiative for Mothers and Newborns (PAIMAN)

The Pakistan Initiative for Mothers and Newborns (PAIMAN) is a five year project funded by the United States Agency for International Development (USAID). The goal of the PAIMAN project is to reduce maternal, newborn, and child mortality in Pakistan, through viable and demonstrable initiatives in 10 districts of Pakistan. The project is working on capacity building of public and private health care providers and structures within health systems and communities. This strategy will ensure improvements and supportive linkages in the continuum of health care for women from the home to the hospital. The key partners in the implementation of PAIMAN are the Ministry of Health, the Ministry of Population Welfare, the Provincial Health Departments, the private sector and consortium partners.

**Strategic Objectives**

The project is based on the “*Pathway to Care and Survival*” framework. The five major strategic objectives are as follows:

- Increase awareness and promote positive maternal and neonatal health behaviours
- Increase access to and increase community involvement in maternal and child health services (including essential obstetric care) and ensure services are delivered through health and ancillary health services
- Improve service quality in both the public and private sectors, particularly related to management of obstetrical complication
- Increase capacity of MNH managers and care providers
- Improve management and integration of health services at all levels

The PAIMAN consortium is lead by John Snow Inc. (JSI), a US-based public health organization. JSI is joined by a number of international and local organizations to form a strong, professional team for implementing this project.
PAIMAN is being implemented in 10 districts of Pakistan. These include Rawalpindi, Jhelum, D.G. Khan, Khanewal (Punjab); Sukkur, Dadu (Sindh); Jaffarabad, Lasbella (Balochistan); and Upper Dir, Buner (NWFP).

1.2. Review of District Financial Flow System and Impeding Factors

A financial system is needed to ensure smooth provision of financial resources to the required units. Same is the case that exists with provision of health care services. If the available finances are not adequate or the mechanism of providing finances is not suitable, irrespective of the fact how much investment is made in terms of equipment, infrastructure and building capacity of service providers, the required outputs cannot be achieved.

This study focused on probing the impeding factors in financial mechanism at the district level which affect the provision of health care services.

The focus of this review was on pragmatic issues regarding Local Government (LG) Finances at District and Tehsil/Taluaka level. This assessment was conducted in order to determine the presence or absence, strength and weaknesses of various components of the LG finances. Further to evaluate the degree to which the decentralization is operational in different geographical areas in the health sector and secondly to recommend measures to improve performance.

The objectives of this study were to:

- Review the post devolution financial flow system and tracking the channels the funds have to go through to reach health facilities;
- Review the legislation governing the LG and LG financial mechanism;
- Identify bottlenecks in the current financial system which impedes the delivery of health services in an effective and efficient manner; and
• Make recommendations to improve the current financial flow mechanism.

1.3. Methodology

The assessment was conducted from October 15, 2005 to November 16, 2005 in the districts of Khanewal, Lasbella and Jaffarabad. The exercise was based using a mix of quantitative and qualitative research methods. The data was collected from districts and a selection of Tehsil/Taluaka. Field visits were done and open-ended self administered questionnaires were used for in-depth interviews of selected officials. A comprehensive desk review was also carried before and after field visits.

The following officials were interviewed during the fieldwork.
• District Coordinating Officer (DCO);
• Executive District Officer (EDO) - Health;
• Executive District Officer (EDO) - Finance and Planning (F&P);
• Medical Superintend(M.S) - District Head Quarter Hospital (DHQ);
• Medical Superintend (M.S) - Tehsil/Taluaka Head Quarter Hospital (THQ);
• Senior Medical Officer (S.M.O) - Rural Health Centre (RHC);
• Accountants, EDO(H) office, DHQ, THQ, RHC; and
• District Officer Health (DOH).
2. INTRODUCTION

2.1. About Local Government System

Under the centralized system of governance, social sectors were poorly planned, administered and monitored; hence improvement in social indicators was slower than planned. The planning was a top-down approach with hardly any involvement of beneficiaries in planning, implementation or monitoring of social services. The centralized planning and management created a number of governance issues like inappropriate location of facilities, staff absenteeism, low quality of services and lack of consumer’s satisfaction, leading to low productivity and higher unit costs. Many primary healthcare facilities were constructed at locations away from communities and hence remained understaffed and under utilized. The low level of funding for social sectors in late 1990s, especially the non-salary budget, led to further deterioration in the quality of social services.

On taking power in 1999 the present government announced a far reaching “Management and Organization Reform agenda” for reconstructing the institutions of the state through the establishment of a democratically elected system of LG. The government emphasized that the new system was designed to ensure citizen involvement in planning services and to provide mechanisms for citizen oversight of implementation. This process started in March 2000 with the release of a discussion paper by the National Reconstruction Bureau (NRB). The paper required a series of bold structural changes to be made by 14th August, 2001. The changes included the abolition of the existing three levels of deconcentrated provincial administration (divisions, districts and tehsils) and the creation of a new tier of local governments comprising districts (called city districts in the four provincial capitals), tehsils (city towns in the four city districts) and union administrations, and the replacement of the existing municipal bodies by these new local governments. The
proposals were given shape in August 2000 Local Government Plan. The objectives of Pakistan’s devolution program cannot be extracted from anyone document but can be understood and summed up from various publications of NRB and the Local Government Ordinance (LGO) promulgated so far (see BOX 1).

<table>
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<th>BOX 1</th>
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<tr>
<td><strong>Objectives of Pakistan’s Devolution Program</strong></td>
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<tr>
<td>1. Restructure the bureaucratic set up and decentralize the administrative authority to the district level and below.</td>
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<td>2. Refocus administrative systems to allow public participation in decision-making.</td>
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<td>3. Facilitate monitoring of government functionaries by the monitoring committees of the local councils.</td>
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<td>4. Rationalize administrative structures for improving efficiency.</td>
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<td>5. Introduce performance incentive systems to reward efficient officials.</td>
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<td>6. Ensure functioning of the related offices in an integrated manner to achieve synergistic effect and improve service delivery.</td>
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<td>7. Eliminate delays in decision-making and disposal of business through enhanced administrative and financial authority of district and tehsil level officers.</td>
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<tr>
<td>8. Improve administrative and financial management practices in the district and management controls over operational units.</td>
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<tr>
<td>9. Redress grievances of people against maladministration through the office of <em>zila mohtasib</em> (district ombudsman). The government functionaries will also be eligible to lodge complaints against the unlawful and motivated orders of the elected officials.</td>
</tr>
<tr>
<td>10. Enable the proactive elements of society to participate in community work and development related activities.”</td>
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The new system is designed to bring decision making closer to beneficiaries of public services and ensure citizens' involvement and oversight in planning and implementation. It is also expected that it gives a greater voice to the women, peasants, laborers and the marginalized population groups.

### 2.2. Local Government Finances

Fiscal decentralization is the heart of any devolution exercise. Without fiscal decentralization no authority is devolved. The basic concept involves the transfer of funds to the Local Governments according to their share, the authority and flexibility to expend the funds as per the local priorities. This process ensures transparency in the distribution of funds. In addition it leads to an improvement in Governance, as the LGs
become fully responsible for the judicious and cost effective utilization of the funds. The Fiscal decentralization also makes the LG accountable for their performance especially in relationship to service delivery. Thus adequate Fiscal decentralization is a necessary pre-requisite for the success of the LG System.

Fiscal decentralization alone is not sufficient to ensure success. It must be accompanied with the supporting financial systems and procedures. These include Budgeting and Planning, Expenditure Management, Revenue mobilization, Accounting and Auditing.

Prior to devolution financial system was centralized and had a number of inherent flaws. The development funds were distributed to Provincial Departments according to their requirements. The main problem was the poor linkage between the Development and Non-Development budget. The Development schemes and projects were being undertaken with total disregard for the accompanying recurring costs. The funds earmarked for development could not be spent on Non-development activities. The identification, appraisal, and approval of development projects were centralized, that led to projects having no relationship with the local priorities. The element of community participation was totally missing from the process. The design of projects did not include the viewpoint of the communities. High technology projects were preferred over the simpler initiatives with proven cost effectiveness. The issue of sustainability was overlooked in most cases. The process of spending of funds was comparatively non-transparent. Use of development funds was highly influenced by individuals in power.

Policies and plans cannot be implemented in the absence of adequate financial inputs. The LGs need to formulate plans keeping an optimal balance between resource requirements and financial constraints. Financial inputs have a major impact on the coverage and quality service delivery. Under the current LGO
2001, the financial systems have been developed for maximum effectiveness and have been tailored to meet the requirements of the LG.

**Fiscal Transfers**
The fiscal transfer mechanism (LGO 2001) considers various factors to come up with an equitable distribution of funds. The main factors are population, under-development, fiscal effort, revenue generation capacity, and expenditure requirement. The objectives of fiscal transfers are to provide base-line levels for essential services, encourage own-source revenue efforts, encourage spending in priority areas and promote efficient spending.

The funds, which are transferred to the LGs are deposited in the Account of the District Governments i.e. District Provincial Account. The District Government further distributes these funds to the Tehsil/Town/Taluaka Provincial Accounts. The Union Council funds are transferred into the Local Fund of the respective Union Administrations. The Octroi grant is deposited on monthly basis into the Local fund of the Tehsil/Town/Taluaka Municipal Administration. The Zilla tax is distributed among the
Union Councils of the District in equal amount and is deposited in the Local Fund of the Union Council.

LG Taxation
In addition to the fiscal transfers from the Province LGs have been authorized to levy certain taxes, fees, user charges, etc. The Councils may, levy a tax increase, reduce, suspend, abolish or exempt the levy of a tax for such period as may be specified by the Council. The list of taxes for District, Tehsil/Town/Taluaka and Union levels is provided in the second schedule of the LGO 2001.

LG Budgeting
The Budget is a statement of the estimated receipts and expenditures of the Government for a financial year referred to as the Annual Budget Statement. It is an instrument by which a Local Government expresses its priorities and allocates resources to implement its policies. The detailed functions of the various offices have been included in the "Rules of Business for District Governments" issued by the Provincial Government.

The LG Budgeting involves preparation of budget for the District/City District Government, Tehsil/Town/Taluaka Municipal Administration and Union Administration. The EDO (F&P) in the District Government is responsible for the consolidation of the District Government budget. The Tehsil Officer (TO) Finance is responsible for the Tehsil/Town Budget. At the Union level the Union Nazim prepares the budget with the assistance of the Union administration.
Figure 2

5Ds of New Local Govt. System

DEVOLUTION OF POLITICAL POWER
- Three tiers of elected leadership having its own vision, mission and goals

DECENTRALIZATION OF ADMINISTRATIVE AUTHORITY
- More operational autonomy to the District level departments

DISTRIBUTION OF RESOURCES TO THE DISTRICTS
- Power to raise tax
- Fiscal transfer from higher tiers of Govt.
  to lower tiers.

DE-CONCENTRATION OF MANAGEMENT FUNCTIONS
- Focused approach
- Meritocracy
- Performance-based appraisal system
- Specialization vs. Generalization
- Recognition and rewards

DIFFUSION OF THE POWER AUTHORITY NEXUS
- Monitoring by citizens
- Elected representatives
- Civil society's involvement in development work
- Effective checks and balances
3. SITUATIONAL ANALYSIS

This analysis is based on methodology defined above.

3.1. Provincial Transfers

The fiscal transfers from the provinces to LGs are made through the PFC mechanism\(^1\), as LGs own revenue base is very weak. At present the incentives for raising own revenue base is very low, e.g. user charges collected\(^2\) for health services are appropriated to provincial accounts. The PFC mechanism reinforces the imbalance between salary and non-salary expenditure. The largest current components of the PFC tend to be negotiated on the basis of staff establishment size. Thus the larger the establishment size in a LG, the larger will be the PFC allocation. It also undermines local autonomy in resource allocation. For districts, the current/development is effectively established by the provincial government through allocations from PFC award.

\[\text{PFC Award} \rightarrow \text{One Line Item Transfer to District} \rightarrow \text{District} \]

At present much of the allocations are being made on the following basis:
- The inherited budget structure (i.e. pre-devolution)
- Least involving the sector

\([\text{Health Sector} \rightarrow \text{Education Sector} \rightarrow \text{Other Sectors}]\)

---

\(^1\) The mechanism is already defined under section 2.2 of this document.
\(^2\) Only exception is Sindh where In-patient and Out-patient fees have been abolished.
3.2. **Budgeting Process**

The budget process as detailed in the Budget Rules 2003 should ideally start with review and stakeholder’s consultation and end up with communication of grant (see BOX 2). It can be analysed from the budget cycle (BOX 2) that the whole process is very detailed and comprehensive. This process should result in preparation of a comprehensive budget for the district which is well consulted.

Usually the budget starts with issue of a budget call letter\(^3\).

In reality this letter contains none of the elements detailed in footnote 3. The letter only contains instructions to start preparing the budget estimates of the next year. No vision or priority areas by for the district are communicated to the concerned in the budget call letter to keep in view while preparing the budget.

This results in resource allocation process lacking direction. In some cases the letter was sent in the financial year for which the budget was being made (see BOX 3). A better version of this was available in Sukkur, where the call letter was issued by the Sindh Government; it still was not complete in form of contents but was a much better version than available in other districts. District Khanewal did not have such a document\(^4\). The process of review and consultation for budget preparation was missing in all the

\(^3\) The budget call letter informs the departments of timings of the key events in the planning and budgeting process and deadlines for submission to of inputs, informs the stakeholders on any new elements in budgeting process, gives indicative sector ceilings and indicative and indicative planning figures on the basis of resource projections, draft recurrent and development draft budgets, provides minimum sector recurrent and development grant allocations to departments. A vision statement by Nazim should also be attached.

\(^4\) The accountant at DHQ hospital in a District told the fact that the call letter was issued in the first year of devolution and than in the current year.
districts visited except Jaffarabad where just a single consultation was made.\(^5\)

Budgeting therefore tends to be input focused and incremental. As mentioned earlier if the district has to gain access to a wider pool of budgetary allocation, it has to plan its budget very efficiently. Budgeting exercise in the districts was found to be performed in a professionally inadequate manner. Very few of the people involved in budgeting are aware of the Budget Rules, 2003, in some cases the word budget call letter sound alien to them. The budgeting exercise in the districts is simply an activity of taking the past budget and increasing it with a certain percentage (see BOX 4). In some cases budgeting was an hour’s job.

The LGs have limited capacity in terms of planning. EDO - Health is less involved in the budget preparation activity and in some cases they simply just receive their budget directly from the EDO (F&P) office (see BOX 5). It is most likely that the budget prepared in this fashion would be least reflecting the actual required funding for health sector in the district. The reason for this approach to budget preparation was limited capacity at the district level. After the end of a project, its annual recurring expenditure should be included in the Annual Budget Statement (ABS) in order to make it sustainable after the completion of the project. A major lapse in planning was noted in this regard, where the annual recurring expenditure for ADP was ignored or not ensured to be included in the ABS which made the investment non-sustainable. Infact

\(^5\) The accountant at EDO - Health office in a District visited, complained the fact that the final budget did not reflect the consultations and it was EDO (F&P)’s own version.
only few people in the district were aware of the requirements of the Budget Rules, 2003.

The budget is compiled at the EDO - Health office, it is then forwarded to EDO (F&P) to integrate it with the overall district budget, at that stage the budget cuts are applied to make sure that it does not exceed the funds transferred through PFC. The salary part of the budget is approved without any changes, the portion that is left is the non-salary budget. The cuts in the non-salary budget are mostly applied without consultation with the EDO - Health and usually affected areas are repair & maintenance followed by procurement of medicines. For cuts in non-salary budget if relevant managers are consulted the process can be more efficient and appropriate.

LG budgets do not reflect the funding from vertical programs and other development schemes being implemented in the district, that further prevents reflection of comprehensive picture of district health budget and undermines the planning process by the LG staff. Currently the health sector budgets are largely reflecting allocations inherited from the pre-devolution period. As discussed earlier the delays in procurement process prevent the budget to be implemented as planned.

One of the major constraints in the budgeting system of the district visited was lack of professional accountants leading to budget failures.

3.3. Allocation, Releases, Spending and Re-allocations

Once the budget is approved the allocation is made. Another area of concern is the release of these funds by the provincial government to the district and then from district transfer to health units. It sometimes takes too long to release the budget. Multiple factors are involved in this delay. Due to the elections of new LG, the releases for the current financial year i.e. 2005-2006 were still to be made at the time when study visits were made\(^6\).

\(^6\) The field visits were made during 15\(^{th}\) October to 16\(^{th}\) November, 2005.
Review of District Financial Flow System and Recommendations

Only the amounts of the salary component and utility bills in some cases were being released. Delay in the release of non-salary budget raises deep concern, by passing of the almost mid of the year the non-salary budget has still to be released, it deters the ability of the health units to deliver services in efficient and effective manner. Lack of co-ordination and interdepartmental interaction amongst the managerial staff was also apparent. In some cases it was also observed that EDO (F&P) due to the fact that he was directly dealing with the releases, exercised undue powers and created problems for the health unit managers\(^7\) (see BOX 6). It was also observed that in some cases the releases were made almost at the end of the year.

Once the budget is allocated and released, the next issue reviewed was the health expenditure pattern. In some districts the utilization has been a problem due to the fact that the managers were not able to plan the operational budget and implement activities or the activities were delayed due to other reasons (e.g. late release (for which the possible reasons have been discussed, procurement delay caused by the rate contracting system, a result of faulty planning or a combination of all these factors.)

\(^7\) This was the case in a District where District Nazim, DCO and the EDO (F&P) have formed a strong team within the district, this was very strongly felt and complained by the health sector staff.
Budget Rules 2003; allow the departments to reallocate the amounts from one head to another\(^8\) if the budget is available in other heads. During the visits it was highlighted, that in some cases the EDO (F&P) exercised undue powers and delayed the re-allocation process without any justified reasons (see BOX 7).

### 3.4. Financial Powers

The financial rules and powers have not been re-aligned with decentralization system since devolution, which is creating problems for the managers. EDO - Health\(^9\) and EDO (F&P) are still category II\(^10\) officers. Many senior staff does not have Category I power. DCOs have the category I powers.

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\(^8\) Detailed procedure is annexed as Annexure - A

\(^9\) Exception is Punjab where all EDOs are category II Officers except EDO - Health who is category I officer.

\(^10\) Category I financial powers means that the officers have no limits on their authority to incur liabilities on behalf of the government. Category II and III have decreasing limits.
power; still they have to turn to the provincial governments for sanction, particularly in the case of durable goods (see BOX 8). This impairs the execution of the district budget; the amounts that have been approved by the authorities have to be re-approved. The provinces sometimes take unreasonably longer time to execute. As a result, getting the required approvals from the province opens the process to political interferences and influences as responsibility framework expands to different tiers, less meaningful information is derived while analysing actual expenditures. This has resulted in limiting the sanction power of the EDOs. All aforementioned factors perpetuate to delayed release and purchase of essential inputs for service delivery.

Another example of this situation is that not all the officers in charge at the health departments have been declared as Drawing and Disbursing Officers (DDOs)\textsuperscript{11}. In cases where they have been declared DDOs, their powers are those of category II or category III officers, a status that limits their powers of budget execution.

3.5. Health Priority Area

To secure a good share of budgetary allocation in the health sector in a district following two factors play an important role:

- Health as priority of district government especially for nazim;
- Comprehensive needs based budget preparation and presentation by district health team lead by EDO-Health

In the devolution scenario Health sector has to compete with other sectors for budgetary allocations. It was observed that in most of the districts there are no clearly spelled out priority areas by the district government.

3.6. Vertical Programs

Many federal, provincial and donor funded programs in the health sector (e.g. the Lady Health Worker (LHW) Program) are under the direct control of the federal or provincial governments and the resources are also provided by them. These programs

\textsuperscript{11} In Balochistan the DDO powers only rest till the M.S. DHQ hospital and in Sindh this only goes till the M.S. THQ hospital.
significantly contribute to the health sector. Often the EDO - Health is not involved in the management of vertical programs, resources for these tend to be allocated and managed separately from the LG’s own processes. The mechanism and less involvement of LG in planning these programs tend to be one of the constraints on district and TMA autonomy in preparing the development budget, with often huge tranches of funds channeled through vertical programs limiting the districts own Annual Development Plan (ADP). Vertical programs represent attempts by higher tiers of government to influence the policy and behaviour of lower levels of governments by direct intervention. In some cases district governments have to put more resources from their own budgets. Despite of heavy funding there is a lack of ownership of the vertical programs at the district level so being overlooked by the district managers.

3.7. Human Resource Management (HRM) Function

There is no second opinion that HRM is drastically lacking at the district level. Reasons are multi-dimensional but most important is incomplete control of staffing decision at the district level. Besides other factors the major highlight is that they completely lack autonomy in staffing decision. They have incomplete control over their staff and important functions like creation of posts, hiring and firing of staff, their posting and transfers and career development. One of the reasons highlighted of late release of funds within the district was shortage of staff (see BOX 2). The salary portion of the non-

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12 A District Officer Health (DOH) during the filed visit complained about the management of vertical programs and stressed the need to redesign these programs, a same complained was launched by the EDO - Health, who said that they were not properly compensated for the services performed.

13 The only exception is N.W.F.P where DCO in coordination with EDO - Health are authorized to hire, promote and fire health centre staff (excluding doctors).
development budget in some cases is over 50% and in some cases it is over 70% (see figure 2). This concludes the fact that districts cannot control 70% of their budgetary allocations and are only left with 30% budget to plan with. It has a multiplier effect when cuts are applied to the budget presented by EDO - Health. This further limits the district capacity to reallocate the resources or change the composition of the workforce to adapt to local requirements.

**Figure 6**

![Graph showing the percentage distribution of salary and non-salary budget in Khanewal over different years. The graph indicates a gradual trend with 2001-02 having 54% for non-salary, 46% for salary, and subsequent years showing a slight increase in non-salary and decrease in salary.]

### 3.8. Procurement Procedures

The procurement of medicines and purchase of medical equipment have been devolved to the districts, and purchase committees headed by the DCO have been formed. The committees are responsible for technical scrutiny, standardization and purchase of medicines, capital goods and medical equipment. For Balochistan, NWFP and Punjab, a provincial committee performs prequalification, and a system of rate contract is in place. This system is still to be implemented in Sindh. Where procurement is fully devolved in Punjab, the conclusions from different discussions were that public medical facilities are now better-stocked than pre-devolution scenario. Though they are well

<table>
<thead>
<tr>
<th>Box 10</th>
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</thead>
<tbody>
<tr>
<td><strong>Procurement</strong></td>
</tr>
<tr>
<td>S.M.O of a RHC complained about not being involved in finalizing the medicine list. He told that medicines purchased are on the basis of low pricing; sometimes the potency of the medicine is ignored due to lower price.</td>
</tr>
</tbody>
</table>
stocked (not in all cases) the problem still lies, the staff has little or no say in the allocation of medical supply budget and this results in units running out of medicine which they need and receiving medicine which they do not require (see BOX 5).

The problem is coupled with delays in procurement\textsuperscript{14}. This delay is the most frustrating part in service delivery. It was noted that on average it took almost three to four months to settle the rate contract procedure. All these factors undermine the performance of the service delivery units for reasons that are outside their control. The supplies at the service delivery units is irregular and erratic.

\footnotesize{\textsuperscript{14} It is worth mentioning here that these funds are already approved by the council.}
4. CONCLUSION AND RECOMMENDATIONS

Following conclusion have been drawn based on the situational analysis described under section 3.

4.1. Weaknesses of the Current Financial Flow System

- Under the devolution system it is recommend that financial allocations to the district, should be made on the basis of planning and priority need, but PFC mechanism is following the size of staff establishment on logical basis for fiscal transfer to the district.

- Strategic visions and priority requirement are not being presented by most of the district Nazim in the study districts.

- The intersectoral and intrasectoral budgeting process being practiced are the same as in the pre devolution period and it is generally incremental in nature.

- There is lack of capacity at district level in planning and budgeting. There is an acute shortage of human resources and skills for preparation of activity budget or ZBB.

- Local taxes, user charges can not be retained by the district. Therefore there is no incentive for the district to revise them or increase the revenue base.

- Non salary sanctioned budgets are not released in time and cannot be effectively utilized in the given fiscal year.

- Financial powers of district DDOs are Inadequate.

- There is a delay in the re-appropriation process from one head to another head.

- Some district managers are not utilizing there financial powers and some of them are misusing the powers.

- The authority and involvement of district EDO - Health in vertical programme is inadequate, leading to lack of ownership of these programs at the district level.

4.2. Strengths of the Financial Flow System under Devolution

- Devolution provides fiscal autonomy over the financial awards transferred to them through PFC.

- The district can prioritize the resource utilization according to community needs and demands.

- Some equity in resource distribution is maintained through PFC Awards at some district having low revenue generation capacity as compared to others but they can receive equal
Review of District Financial Flow System and Recommendations

grants e.g. there is opportunity of shifting of resources from economically sound districts to poor ones..

The recommendations detailed below have been formed in view of the assessment made earlier under section 3.

4.3. Strategic Planning
Local government should prepare their own strategic plans within the context of overall provincial policies and health sector specific strategies. This exercise should be performed by the District Health Management Teams (DHMTs). These plans should clearly identify the objectives, interventions and cost estimates for achieving them. This exercise should be clearly linked with the budgeting process. The priorities identified in these plans should subsequently form the basis for budget preparation.

Figure 7: Strategic Planning

<table>
<thead>
<tr>
<th>External</th>
<th>Internal Factors</th>
<th>Policy Constraints</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Strategic Planning</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Medium Term Objectives 0-3 Years</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Operational Plans</td>
<td></td>
</tr>
</tbody>
</table>

4.4. Improve Budgeting Process
The budgeting process needs to be improved so as to promote effective resource allocation in the health sector. The budget ceilings should be communicated in advance to the health units so as they can plan their budgets keeping in view the resources available to them and set their priority areas according to their local needs.
The methodology used for budgeting should be totally replaced with a newer version. Performance targets should be augmented in the budget. It is worth mentioning here that the concept of Zero Based Budgeting (ZBB)\textsuperscript{15} should be introduced. Implementation of such a technique will be easier if strategic plans already exist. Strategic planning coupled with ZBB can help:

- Achieve acceptable performances
- Enhance capacity of the district people
- Create maximum freedom with constraints
- Provide a framework for perpetual review and revision

If the budgets are properly planned and implemented, it would further help in monitoring and control. Quarterly budget comparison should also be prepared in order to monitor budgets effectively. Evidence based decision making through HMIS data can be very helpful while planning for budgets and even while preparing strategic plans.

The real essence of budget call letter needs to be spelled out clearly and steps are needed to ensure that the budget call letter is prepared in accordance with the Budget Rules 2003.

The budgeting process should be clearly linked with the strategic and operational plans. Before forwarding the budget document for approval, it should be comprehensively reviewed by the DHMT.

\textbf{4.5. Capacity Building and Financial Management}

As examined earlier most of the districts lack management and planning capacity. A number of steps need to be taken to improve the situation.

A comprehensive plan needs to be prepared for capacity building of the district staff at different levels which should include

\textsuperscript{15} ZBB is a budgeting technique which requires budgets to be created from scratch every time and than each item of expenditure needs to be justified in its entirety.
strategic planning, Budget Rules 2003, forecasting and budgeting techniques under the scenario of devolved budgeting.

LG managers should be provided with managerial training. This should be package of short courses followed with quick refreshers and on job support in preparing budgets and plans.

Software linked with performance targets and the strategic plan should be developed in order to fully assist the managers at health facilities to prepare budgets. A utility should also be developed allowing the budgets prepared at different centres to be consolidated. The software should be designed keeping in view the New Accounting Model (NAM) and for generating comparison reports.

A comprehensive trainings package needs to be imparted to the managers comprising of:

- Preparation of strategic plans
  - For DHMTs only
- Preparation of budgets according to the provincial budget rules. Experiential learning and simulation based approach should be adopted while designing such trainings.
  - For EDO (F&P), EDO - Health, M.S. DHQ, M.S. THQ, S.M.O RHC and their respective accounting staff.
  - Different level of trainings should be designed for different cadres.
    - A comprehensive package to budgeting
    - Essentials for budgeting
- Training on the use of purpose built software

For initial years complete backup support in preparing budgets should be provided at the facility level so as to ensure that learning gaps are covered and a hand on refresher training is provided in form of short follow up courses.
4.6. Financial Rules
There is an immediate need to revise the financial delegation powers to bring them inline with the devolution requirements, so that bottlenecks created due to mismatch of the LGO and delegation of financial powers can be removed\textsuperscript{16}. This would further help in timely achieving the district budget targets.

4.7. Financial Management of Vertical Programs
At the very first step the federal and provincial departments should provide financial information to the districts regarding the vertical programs. At initial level some incentives should be introduced to enable LGs to participate in the process and contribute to the success of the program.

4.8. Procurement Procedures
There is a need to probe that why finalizing procurement takes such a long time. The other thing to be addressed is taking inputs from the health units while procuring medicine etc. The process needs to be revamped and the factor of lowest price should be coupled with a minimum level of quality standard. The rectification of unnecessary delays will help the districts in effective managing and implementing their budget and moreover result in better service delivery. This process can be further aided with the use of Health Management Information System (HMIS) data, while procuring drugs and making decisions.

\textsuperscript{16} The process has already started in Punjab.
## Objectives of UK Government LG Financing Reforms

1. fund all local governments adequately  
2. encourage continuous improvement in service quality and efficiency  
3. provide a reasonable degree of predictability and stability in financing  
4. balance funding between delivery of national targets and priorities with real financial freedom for local government  
5. be fair to those who pay for local government services  
6. promote clarity in accountability for financial decisions  
7. be intelligible and transparent to stakeholders  
8. make partnerships between local governments easier  
9. ensure consultation with taxpayers

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FUNCTION OF OFFICERS RELATING TO BUDGET

Officers
- Head of Offices
- Finance & Budget Officer
- Collecting Officers
- Drawing & Disbursement Officer
- Planning Officer

Head of Offices
- District Government
- Tehsil Municipal Administration

Tehsil Municipal Officer
(Tehsil Municipal Office)

District Coordination Officer
(Zila Nazim Office)

Naib Zila Nazim
(Zila Council Secretariat)

Executive District Officers

Naib Tehsil Nazim
(Tehsil Council Secretariat)

Tehsil Officers

Finance & Budget Officer
- EDO
  Finance & Planning
- Tehsil Officer
  Finance
Functions of Head of Offices

- Responsible for all matters relating to the budget of the offices under his control;
- Ensuring observation of all relevant rules and regulation and strict financial control;
- Ensuring that the total expenditure is kept within the limits of authorized appropriation;
- Ensuring that the funds allotted are spent on the activities for which the money was provided;
- Ensuring that adequate provisions exist for systematic internal checks to prevent and detect errors and irregularities in the financial proceedings of his subordinate offices;
- Ensuring that internal controls are effectively applied;
- Ensuring the proper maintenance of office and other accounts;
- Ensuring that no such information / books / documents to which the Auditor General of Pakistan has a statutory right of access may be withheld;
- Ensuring the facilitation of the auditors and explaining any instance of excess or financial irregularity that pointed out in audit scrutiny or otherwise;
- Coordinate with the Finance and Budget Officer.
Functions of Finance & Budget Officer

- Issue the budget call letter after approval from Nazim that includes the
  - Budget guidelines
  - Date wise Budget Calendar
  - Instructions for preparing the budget
  - Forms to be used in the preparation of budget

- Provide figures of available resources for formulation of Budget;

- Examination and scrutiny of the Budget proposals and new Expenditures;

- Compilation and consolidation of the Budget;

- Communications of Grants to Drawing & Disbursing officers;

- Monitoring of the Budget;

- Examination and scrutiny of proposals for Re-Appropriation and Supplementary Grants;

- Provide financial information to the Council relating to local government;

- Submit reports on budgetary performance;

- Monitor the Receipts and Expenditures of the local government; and

- Provide such other supervision and administration in connection with any forgoing aspects of the budgetary process.
Functions of Collecting Officer

- Preparation of the estimates of the receipts under his jurisdiction;
- Responsible for all matters relating to estimation, realization & deposits of receipts;
- Coordinate with the concerned higher level officials.

Functions of Drawing and Disbursing Officer

- Preparation of the estimates of expenditures for the offices under his jurisdiction;
- Incurring of expenditures as per rules;
- Coordination with the concerned higher level officials; and
- Monitor his budget

Functions of Planning Officer

- Overall Planning of development works of the local government;
- Monitoring of the development projects; and
- Consolidate the Annual Development Programme.
**Budget Call Letter**

### Stakeholders

- Council
- Elected Representative
- Citizen Community Board
- District Mushawarat Committee
- General Public
- Private Sector
- Non Govt. Organization
- Women Organization
- Community Based Organization

### Contents of Budget Call Letter

- Budget Calendar
- Budget Guidelines
- Forms
- Instructions regarding Preparation of budget

### Identification of Priorities by the Council

- District Functions
  - Local Government Council (Nazim)
  - Tehsil / Union Council (Zila Nazim)
- Tehsil Functions
  - Zila / Union Council (Tehsil Nazim)
- Union Functions
  - Zila / Tehsil Council (Union Nazim)
Consolidation of Data Regarding Preparation of Budget

- Stakeholders
- Zila Nazim
- Tehsil Nazim
- Union Nazim

Finance & Budget Officer

Drafts the budget call letter

NAZIM

Approval

Finance & Budget Officer

Budget Call Letter
Classification of Projects
Guidelines to Citizen Community Board
Budget Calendar

Collection Officer
Drawing & Disbursing Officer
Head of Offices

Finance & Budget Officer
(Submission of budget)
ESTIMATES OF RECEIPTS

Finance & Budget Officer
- Budget Call Letter
- Receipt Forms BDR – 1 to 4
- Instructions

Collecting Officer
- Revenue Base Review (BDR-3)
- Receipt Forms BDR – 1 to 4
- Receipt Form BDR- 5 Along with Explanatory Notes

Head of Offices
- Scrutinize & Consolidate the Estimates
- Explanatory Notes about difference between Revised (C.Year) & Budget (C.Year) Estimates
- Revised (C.Year) & Budget (N.Year) Estimates

Finance & Budget Officer

Budget & Development Committee

COUNCIL (Approval)
ESTIMATES OF CURRENT EXPENDITURE

Head of Offices → Instructions / Guidelines / Directions

Drawing & Disbursing Officer → Preparation of Estimates of Expenditures (Form BDC- 1 to 7)

Head of Offices → Consolidate

Finance & Budget Officer → Consolidate

Budget & Development Committee → Finalize

COUNCIL → Approval
Statement of New Expenditure (Current)

- New Expenditures
- New current Expenditure Proposals
- Instruction regarding New Expenditure

New Expenditure

- Recurring Costs of the Development Projects to be completed in Next Financial Year
- Expenditures relating to New Current Activities

New Current Expenditure Proposals for Next Financial Year

- Drawing & Disbursing Officer
  - Proposals involving New Current Exp with their Estimates on Forms BDC 1 to 7
  - Explanatory Note on Form BDC - 8
  - Detail of Recurring Expenditure of the Development Projects to be completed during the Financial Year

Head of Offices

Submission of Estimates along with Current Budget

- By Drawing & Disbursing Officer
- To Head of Offices
**DEVELOPMENT BUDGET & ANNUAL DEVELOPMENT PROGRAMME**

### Annual Development Program

- Development Projects
- Citizen Community Board Projects

### Classification

- Sector
- Function
- Geographical Location
- **New Development Projects**
- **On going Development Projects**

### Source of Funding

- Total Net Receipt
- 25% of C.C.B Projects
- Government Grants
- Total Receipts - Current Exp - Ongoing Exp - Liabilities

### Phasing of Annual Development Programme

- Within Financial Year
- Two Financial Years (Rules Part XVII)
- Multiyear Planning
- Operation Cost of Completed Programme
- Maintenance Cost of Completed Programme
APPROVAL OF ANNUAL DEVELOPMENT PLAN

PROCEDURE

1. Stakeholders
   - Information / Suggestions

2. Head of Offices
   - Compile & Forward

3. Planning Officer
   - Consolidation / Working Paper

4. Budget & A/C Committee
   - Approval

5. Finance & Budget Officer
   - Incorporated into Budget Document

6. COUNCIL
   - Approval

7. Development & Planning Officer
   - Circulated

8. Concerned Head of Offices
   - Execution
COMPLAINTS & SUGGESTIONS

- General Public
- Monitoring Committee
- Officials

Planning Officer

Finance & Budget Officer
Budget & Development Committee
COUNCIL

DEVELOPMENT PROJECT COMPLETION REPORT

Head of Offices

Submission of Project Handing over Report

Finance & Budget Officer
Budget & Development Committee
COUNCIL

Post Completion Evaluation Report

Planning Officer
Head of Offices (Concerned)
COUNCIL
INTEGRATION OF DEVELOPMENT & CURRENT BUDGET

Budget & Development Committee

- Prepare
- Current Budget of Local govt.
- Consolidate
- Development Budget of Local govt.

Functions of Budget & Development Committee

- Approval of all development projects submitted to them by the Planning Officer;
- Approval of all development projects for inclusion in the Annual Development Programme;
- Monitoring progress of development projects;
- Ensure the transfer of development projects on completion from the Development to Current Budget;
- Review post completion evaluation reports; and
- Issue directives for removal of hurdles in the execution of development projects, wherever needs.
Functions of Budget & Development Committee (Current Budget)

- Review and Approval of the Current Expenditure;
- Review and Approval of the Statement of New Expenditure (SNE) for the inclusion in the Current Budget;
- Monitoring the Current Budget during the Financial Year;
- Issue directives for removal of hurdles in the execution of the Current Budget;
- Ensure that the recurring costs of completed development projects are included in the Current Budget;
- Ensure that funds are available for recurring costs on completion of development projects.
Composition of the District Budget & Development Committee

- Zila Nazim: Chairman
- District Coordinator Officer: Member / Acting Chairman
- Executive District Officer (F & P): Member / Secretary
- Executive District Officers: Members

Composition of the Tehsil Budget & Development Committee

- Tehsil Nazim: Chairman
- Tehsil Municipal Officer: Member / Acting Chairman
- Tehsil Officer (Finance): Member / Secretary
- Tehsil Officers: Members
MEETING OF THE BUDGET & DEVELOPMENT COMMITTEE

Budget & Development Committee

- Shall hold monthly meeting for review and monitor the budget of the current financial year.
- Shall hold such meetings as may be required for the finalization of the budget for the next financial year.

TRANSFER OF RECURRING LIABILITIES OF DEVELOPMENT PROJECTS TO CURRENT BUDGET

Head of Offices  Development & Planning Officer  Budget & Development Committee

Shall ensure that

- Detail of the recurring expenditure of each development project expected to be completed in the next financial year is communicated to the Finance & Budget Officer.
- The recurring liability is included in the current budget and Statement of New Expenditure for the next financial year.
In order to increase the fiscal space, the local government shall -

Identify new sources of revenue;

Detect and stop leakages of revenues from sources under their administrative control or supervision;

Review and, if required, adjust user charges, fee and rates etc.

Review establishment costs;

Restructure activities to maximize efficiency and effectiveness;

Procure timely information from the Govt. regarding expected amount of local govt. share so that expenditure may be adjusted accordingly; and

Encourage local contributions in development efforts by effective utilization of funds through the Citizen Community Boards.

The Development Programme shall be formulated within the fiscal space.

Unspent balance from the 25% funds reserved in the current budget for Citizen Community Boards shall be added to the fresh allocation for Citizen Community Boards in the next year.
EXPENDITURE MANAGEMENT

RESPONSIBILITIES

- Local Government
- Govt. Functionaries
- Drawing & Disbursing Officer
- District Govt. Administration
- Tehsil Municipal Administration

LOCAL GOVERNMENT RESPONSIBILITIES

Local Government Responsibilities

- Implementation of Budget
- Modification of Budget
- No delay in payment
- Expansion of authorized budget allocation
- No contracts without authority
- Manage the resources

Spend Public Money Through

Sanction

Appropriation of Funds
**LOCAL GOVERNMENT FUNCTIONARIES RESPONSIBILITIES**

**Local Government**

- Nazim shall decide the Reduction in Budget by convening a meeting of the Budget & Development Committee, if the budget reduction is necessitated by lower than expected receipts.

- Each local government shall submit a monthly report to the respective Council relating to the expenditure incurred during the month by the local government.

- The monthly financial reports shall include the BM Forms 1 to 13

**Head of Offices**

- Shall Control and Manage the Expenditures from the Grants

- Shall present the Supplementary Budget to the Council, prior to use the additional funds, in case Receipts exceeded or Additional Grant / Fund

- Shall review the expenditure position and take such measures as may be required to check the trend of any excessive expenditure.
Maintain the Commitments Appropriation Register and the Actual disbursement Register. Also monitor the appropriation relating to Establishment.

Indicate complete Accounts Classification regarding proposed expenditure and the balance available in the detailed object head, when a bill is prepared.

Maintain other Registers as may be required to Manage, Control and Monitor the budget.

Immediately correct the Accounts and send the same information to the Accounts Officer, in the event he receives confirmation from Head of Offices or any other source that a particular item of expenditure has been incorrectly classified.

Shall not on his own authority, authorize any payment in excess of the funds placed at his disposal.

Head of Offices shall be informed monthly, by the Drawing & Disbursing Officer about:

- The Actual Spending from the Grant at his or his subordinate’s disposal
- The extent of commitments that have been made but not paid against such Grants
- The extent of expenditure to be incurred during the remaining period of the financial year
**DISTRICT GOVT. & TEHSIL MUNICIPAL ADMINISTRATION RESPONSIBILITIES**

### Reconciliation of Expenditure

- The respective Account Officer shall provide a schedule showing the numbers, dates, and amounts of vouchers paid during previous month, during the first week of each month. The copy of each schedule shall be supplied to the concerned DDO.

- The DDO shall compare such schedule with the statement prepared by him and reconcile expenditure with Accounts Officer for the previous month by 10th of each month.

- The respective Head of Offices, DDO and the Accounts Officer shall be jointly responsible for reconciling any differences and for correcting misclassification or any other errors.

- In case the Head of Offices do not provide the reconciled statement of the previous month to the Finance & Budget Officer by the 20th of following month, No bills may be passed by the Accounts Officer for the defaulting DDOs.

### Monthly Expenditure Statement

- The DDO shall provide a reconciled Statement of Expenditures of the previous month not later than the 13th of the following month, to the relevant Head of Offices in Form BM-1.

- The Head of Offices shall consolidate the statement if they have one or more subordinate Drawing & Disbursing Officers.

- The Head of Offices shall forward the consolidated statement of expenditure of the previous month to the Finance & Budget Officer by the 16th of following month.
Steps to be Taken Immediately in case of Excess Expenditures

In the event that a Grant is likely to be exceeded, the Head of Offices shall take immediate steps to prevent the excess expenditures by -

- Re-appropriation of Funds;
- Strict control over the Affected Grant;

If funds cannot be provided through Re-appropriation then an application for Supplementary Grant shall be submitted and got approved from the Council before the additional expenditure is incurred.

Distribution and Communication of Supplementary Grant

COUNCIL (Approval)  
Finance & Budget Officer (Intimation)

Head of Offices

- Communicate the Revise Targets for Receipts
- Communicate the Break-up of the Grant
- Distribute the Supplementary Grant

The Collecting Officer

Drawing & Disbursing Officer

Accounts Officer
The Principal Accounting Officer shall be responsible for resolving the Audit paras.

**District Coordinating Officer**
(District/City District Govt.)

**Tehsil Municipal Officer**
(Tehsil Municipal Administration)

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**Accounts Committee of the Council**

Monitor the Budget during the financial year.

Specially focus on the reconciliation of expenditures.

Review the monthly financial reports including the accounts report submitted by the Accounts Officer

The Head of Offices shall be responsible for issues relating to expenditure to the Accounts Committee of the Council.
**Re-appropriation**

Re-appropriation means the transfer of saving in a unit of appropriation to meet excess expenditures anticipated under another unit of appropriation.

The Officials shall re-appropriate in accordance with the re-appropriation powers delegated by the respective Council to them.

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**Procedure for Re-appropriation**

- **COUNCIL**
  - Delegates Powers

- **OFFICER**
  - Competent to sanction a Re-appropriation

- **Head of Offices**

- **Accounts Officer**
  - Receive a copy of Re-appropriation sanction

- **Finance & Budget Officer**

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**Preparation of Re-appropriation (Single Grant)**

- **Different D D O s**
  - Head of Offices

- **Single D D O**
  - Process

---
Preparation of Re-appropriation (Two Different Grants)

Preparation

Finance & Budget Officer  Process

If the Re-Appropriation is beyond the limit

Head of Offices  Request for Re-Appropriation

Finance & Budget Officer

Budget & Development Committee  APPROVAL

COUNCIL

Supplementary Grants

Head of Offices  Submit a Proposal along with the explanatory note, in case no re-appropriation available

Finance & Budget Officer  Consolidated in form of Supplementary Budget Statement

Budget & Development Committee  APPROVAL
LINKAGE WITH THE GOVERNMENT & FISCAL TRANSFERS

Local Government Fund

Distribution Of Funds
- PFC Award Notified by the Governor
  - By Provincial Government
    - To Local Govt.

Communication Of Share
- Preliminary Figures in March
  - Final Figures in June
    - By Provincial Finance Dept.
      - To Local Govt.

Transfer Of Share
- Disbursement of Local govt. Share on Monthly Basis
  - By Provincial Finance Dept.
    - To Local Govt.

Submission Of Reports
- Monthly Reconcile A/C Report
  - By (TMA) A/C Officer
    - To DAO
      - To Government

LINKAGE WITH THE GOVERNMENT & FISCAL TRANSFERS
BM FORMS 1 TO 13

- **BM - 1**: Monthly Statement of Current Expenditures
- **BM - 2**: Monthly Reconciliation of Current Expenditures
- **BM - 3**: Monthly Statement of Receipts
- **BM - 4**: Monthly Reconciliation of Receipts
- **BM - 5**: Monthly Progress Report of Development Program
- **BM - 6**: Monthly Reconciliation of Development Expenditure
- **BM - 7**: Monthly Report of Operationalization of Projects
- **BM - 8**: Service Delivery Targets
- **BM - 9**: Service Delivery Facilities Status
- **BM - 10**: Establishment Status by Designation
- **BM - 11**: Monthly statement of Re-appropriations of Funds
- **BM - 12**: Statement of Supplementary Grants
- **BM - 13**: Statement of Excess and Surrenders


4. Budget Rules 2003, National Reconstruction Bureau


6. Fiscal transfer rules, Government of Sindh, Finance and Co-operation Department, 2004


10. Local Government Ordinance 2001, National Reconstruction Bureau


16. Punjab PFC Grant System, (FY 05-06 to FY 07-08) Finance Department Government of Punjab, 2005


19. Shane Jhonson, Beyond budgeting, Student Accountant, Association of Chartered Certified Accountants, March 2001

20. Situation Analysis, Punjab Devolved Social Services Sector Development Programme, Asian Development Bank, Pakistan May, 2004

List of Persons Interviewed

1. Dr. Jamal-ud-Din Jamali, Executive District Officer (Health), Jaffarabad (Balochistan).
2. Mr. Muhammad Sulhey, Office Superintend/ Accounts Assistant, EDO (health) office, Jaffarabad (Balochistan).
3. Dr. Qudrat-Ullah Jamali, District Coordinator, PAIMAN, Jaffarabad (Balochistan).
4. Dr. Abdul Rasheed Jamali, M.S, DHQ Hospital, Dera Allah Yar, Jaffarabad (Balochistan).
5. Dr. Social Qamar, M.S, THQ, Usta Muhammad, Jaffarabad (Balochistan)
6. Dr. Noor, Medical Officer, RHC, Rojhan Jamali, Jaffarabad (Balochistan)
7. Dr. Karim Buksh, Executive District Officer (Health), Sukkur (Sindh).
8. Mr. Abdul Razzaque, Accounts Assistant, EDO (health), office, Sukkur (Sindh)
9. Dr. Munir Ahmad Mangrio, Dy. District Officer (Health), Sukkur (Sindh).
10. Mr. Ashfaque Musaivi, Executive District Officer (F&P), Sukkur (Sindh)
11. Dr. Noor Ahmad Shiekh, M.S. THQ, Rohri, Sukkur (Sindh)
12. Mr. Saifullah Bhutto, Accounts clerk, THQ, Rohri, Sukkur (Sindh)
13. Dr. Imtiaz Ali Mughal, Civil Surgeon, DHQ, Sukkur, (Sindh)
14. Mr. Abdul Hamid, Accounts Assistant, DHQ, Sukkur (Sindh)
15. Dr. Muhammad Tariq Gillani, EDO (health), Khanewal (Punjab)
16. Mr. Haji Khizar Hyat, Accountant, EDO (health) office and DHQ, Khanewal, (Punjab)
17. Mr. Amir Saleemi, EDO (F&P), Khanewal, (Punjab)
18. Mr. Muhammad Khan Kichi, DCO, Khanewal (Punjab)
19. Dr. Mushtaq, M.S. THQ, Mian Channo, Khanewal (Punjab)
20. Dr. Farooq Umer, S.M.O, RHC, Kacha Khu, Khanewal (Punjab)
21. Mr. Shahid Javed, Dty. Secretary Budget, Health Department, Secretariat, (Punjab)
CA # 391-A-00-05-01037-00 project is funded by the United States Agency for International Development and implemented by JSI Research & Training Institute, Inc. in conjunction with Aga Khan University, Contech International, Greeenstar Social Marketing, Johns Hopkins University/CCP, PAVHNA, The Population Council, Save the Children USA