

# **Financial Constraints and its Implications for Service**

## **Delivery in Swat**



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## CERTIFICATE

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## **Abstract**

This study aimed to identify the financial constraints faced by district government and its implications for service delivery in Swat. This study aimed to identify the major challenges faced by local government in attainment of funds and the impact of these problems on the implementation of ongoing projects and local community. The target area of this study was district Swat and the targeted respondents were interviewed by using semi-structured interviews. A total of 20 interviews were conducted face to face from targeted respondents using key informant interview. Qualitative research strategy was used and research design for this study was descriptive. The main findings of the study was that the district government of Swat is facing financial constraints in terms of delay of funds up to two to three month from provincial government, gap between approved and released funds is also significant. Thus, the gap in the release of funds has resulted in delay and failure in implementation of several mega projects in Swat such as Jirga Hall, Darulaman etc. The district government of Swat has no sources of revenue generation because Swat is declared as a tax-free zone, while only few taxes are collected at tehsil level. Local government with these financial constraints and hurdles in revenue generation are unable to deliver basic services and the local people have to bear the consequences in the form of various problems.

**Key words:** District Government, Financial Constraints, Project implementation, Revenue generation, Service delivery.

# CHAPTER 1

## INTRODUCTION

### 1.1 Introduction

This study aimed to identify the financial constraints faced by district government and its implications for service delivery in Swat. This study aimed to identify the major challenges faced by local government in attainment of funds and the impact of these problems on the implementation of ongoing projects and on the lives local community. The locale for this study was District Swat located in Khyber Pakhtunkhwa. This study will help us to know about the major financial constraints faced by local government such as deduction and delay in funds transfer from local government, limitations in own sources of revenue generation. Moreover, we will get to know about the implication of delay in service delivery and project implementation on local level.

This chapter include a brief introduction of the topic, statement of the problem, research objectives and questions, explanation of key concept, significance of the research and organization of the research.

### 1.2 Local Government

Pakistan is a democratic federal republic which constitutes three tiers of government (central, provincial and local government). Local government is the third and lowest tier of government, as the lowest tier the local government can address the local problem very effectively. The local representatives are fully aware of the local and cultural problems and can best formulate effective strategies for local development and better living standard of the people.



The Constitution of Pakistan (Article 140-A & Article 37) makes it obligatory for the Federal and Provincial authorities to devolve political, administrative and financial responsibility to the Local Governments (Riaz, 2019).

Local governments are the key stone of democracy and the main instrument for local development policy. Local government basically enables the decentralization of power and authority and devolution of functions to local level. Local government mainly deals with local affairs but unfortunately are not independent in Pakistan instead there is a perception that these are controlled by the central or provincial government (Haque, 2012). The responsibilities devolved to local government at grassroots level include delivery of basic services such as water supply and sanitation, housing, electricity, paving street etc. The responsibilities decentralized to district government require the system to be financially viable and sustainable in order to deliver quality services to local areas and empower the community in a true sense (Anjum, 2001).

### **1.3 Khyber Pakhtunkhwa Local Government Act 2013**

The Khyber Pakhtunkhwa government passed the local government Act in 2013, in accordance with the 18<sup>th</sup> amendment of the constitution of Pakistan. In comparison with LGO 2001, the new Local Government Act 2013 seems to have failed to transfer sufficient functions and powers to local government because the provincial government has the authority to eliminate or suspend the heads of an elected local government. The Finance Department and Finance Minister of province have the responsibility to manage the functioning of local government funds. The establishment of Provincial Finance Commissions (PFC) was mandated by the LG Act 2013. The local councils are expected to receive the allocations through the respective Provincial Finance Commission awards and have limited powers to impose taxes or excise regulatory functions. Nevertheless, the KP local Governments Act 2013 have empowered the

Village and Neighborhood Councils to supervise all local government functionaries including revenue officials in their jurisdiction (Khan, 2014).

#### **1.4 District Government**

The district government is a single integrated local government known as district government which include Zila Nazim and District administration. The new system District government have the devolved responsibilities of social services, major elements of economic and community services. The district offices and sub-offices at tehsil level part of the provincial government departments are decentralized to local government and are responsible to Zila Nazim. In addition, the system of check and balance have also been introduced (Anjum, 2011).

#### **1.5 Revenue Base of Local Government**

The revenue base of local government refers to the means through which revenue is generated by the local government. The financial strengths of local government is estimated by the level of economic resources local government possess. The local government with strong revenue base will generate more revenue and in result local government will be able to provide the quality basic services effectively (Ritonga, 2014). The local government own sources of revenue generation is below 0.1%. The local governments do not have the authority to levy taxes and are restricted to generate revenue from own sources because of the centralized national tax structure and the powers are constitutionally granted to federal government to collect most productive and broad based taxes and the remaining taxes come under jurisdiction of provincial government while only few sources are left to local government to generate revenue from them. The local governments with low taxation powers are financially dependent on provincial government and are unable to deliver quality services to local level (Kardar, 2006). More ever, the district government of Swat has no revenue base due to exemption of

district Swat from taxes, therefore Swat is declared as a tax free zone because an accord was signed during merging of Swat and Dir states with Pakistan (Jan, 2017).

## **1.6 Funds Disbursement**

Disbursement of funds is the release or transfer of funds from one entity to another entity such as the release of funds from provincial government to local government in compliance with rules and procedure made in the legislation (Keng'ara, 2014). The local government of Khyber Pakhtunkhwa is facing two major issues which include delay in timely release of funds and lack of fund utilization capacity. The budget was released to local government in three installments, first release was made on the very first day of fiscal year, 2nd with a delay of three months and the third with a delay of two months. Another major issue in local government development budget was lacking fund utilization capacity in district government (Khan, 2017).

Local governments have different responsibilities and functions to carry out and without proper financial resources and financial management it is impossible for local government to achieve. Financial management is the utilization of financial resources effectively and efficiently because it is very necessary for local government to deliver quality services and successfully executes projects. The availability of sufficient funds enables the local government to deliver quality services and achieve the goals set for community development (Coker and Adams, 2016).

## **1.7 Statement of the Problem**

Local governments play a major role in delivery of basic services to local community. The local governments also face some challenges in delivery of these services which creates constraints in the process of development. One of the major issues faced by local governments are the availability of funds and spending for the municipal needs. Another major challenge is the delay in transfer and disbursement of funds from local government authorities, which

results in delay of delivering basic services to local community. Moreover, management of these funds by district government is also a major challenge for local government. These problems and challenges directly affect the delivery of basic services to local people and negatively affect their lives, and also decrease the trust of local people on local government authorities, that's why early address of these problems is very important to help the local governments in achieving their goals. The main purpose of this study is to assess the financial capabilities and issues related to fund disbursement to district governments in district Swat. This study assessed on-the-ground consequences of such delays on public projects like cost overrun, time overrun and issues like delay in service provision. This study will help the district governments in achieving their goals through address of these problems and will also help the local community to access the basic services of their lives.

### **1.8 Objectives of the Study**

- 1) To identify the major challenges faced by district governments in attainment of funds.
- 2) To identify the impact of fund disbursement mechanism on the implementation of ongoing local development projects.

### **1.9 Research Questions**

**Q1:** What are the major challenges faced by district governments in attainment of funds?

**Q2:** How funds disbursement mechanism affects the lives of local community?

The research objectives and research questions of this study are given below in narrative form. The Khyber Pakhtunkhwa Local government Act 2013 was passed in accordance with the 18<sup>th</sup> amendment of the Constitution of Pakistan. The Local government is considered is the third tier of government and play a significant role in the development of a country. The local government in Pakistan is not prospering and are unable to deliver the devolved function

effectively. There is a dire need to look into the act to identify its pros and cons and the problems faced by local government in KPK. Local governments are key stone of democracy and main instrument for local development policy and it is impossible to achieve local development without inputs from local government, that's why it is essential to address the problems faced by local government to enable smooth delivery of basic services to local level. The main objectives of the study was to identify the major challenges and problems faced by district government in attainment of funds. This study will also identify the delay in implementation of ongoing local development projects and the implication of delay on local community. The main research questions of this study was to find out that what are the main challenges faced by district government of Swat in attainment of funds, and what are the effects of funds disbursement mechanism on the implementation of ongoing local development projects and on the lives of local people.

These problems and challenges directly affect the delivery of basic services to local people and negatively affect their lives and standard of living, and also decrease the trust of local people on local government authorities, that's why early address of these problems is very important to help the local governments in achieving their goals.

### **1.10 Significance of the Study**

The study is of greater importance for policy makers because local government face problems in obtaining and disbursing funds in timely manner. This study identifies the mechanism through which the funds are disbursed to district governments. This study focuses on the major problems faced by the local government of Swat in attainment of funds. It has also identified the impact of delay in funds disbursement from provincial government on the provision of public services in district Swat. This study will help the policy makers to know the major challenges which hinders the delivery of basic services to local community.

## **1.11 Organization of the Thesis**

This study identified the main financial constraints faced by local government and its implication for service delivery at local level. The thesis consist of five chapters.

**Chapter 1** describes an outline of the contents of the thesis. This chapter include an introduction to topic, key terms, problem statement, objectives and research questions, significance of the study and organization of the thesis.

**Chapter 2** is compromise of the literate reviewed for this study internationally and insights from Pakistan.

**Chapter 3** discusses research methodology used for this study. This chapter discusses the research strategy, research design, sampling technique and sample size, units of data collection, methods of data collection, locale for this study and conceptual framework and a brief about the concepts.

**Chapter 4** is based on the finding and discussion conducted through data collection. This chapter also include the main themes generated in this study.

**Chapter 5** and last chapter of this study discusses conclusion of this study and policy recommendations.

## **CHAPTER 2**

### **2.1 Literature Review**

This chapter include the literature reviewed for this study. The review of literature is divided into two section, the first section consist of literature reviewed globally and the second section consist of literature reviewed within Pakistan. Literature review is very important for conducting every research. The literature review helps the researcher to identify the gap within that literature that the researcher wants to address and provide supporting proof for the current study. The literature review helps the researcher to know about theoretical frameworks used in previous research that can be improved to form new conceptual framework for the research.

### **2.2 International Evidence**

According to Paulais (2009), the financial and economic crisis in the United State of America badly affected the investment financing systems and local governments all over the world. The crisis had created extremely difficult situation and constraints for local governments in term of revenue generation, expenditures etc. Local governments were facing financial constraints due to decline in revenue generation and increase in expenditures of local governments. The crisis also increased the expenditures of the local governments due to decline in economic activities, unemployment and increase in community social welfare needs, which declined the delivery of basic services to community. The difficulty in getting loans and increase in cost of money also affected the financial capacities of local governments.

The financial condition of local government can be defined as the financial capability of local government to fulfil their assigned functions, deal with uncertain situation (Natural Disasters) and execute its financial rights effectively and efficiently. Local government with good financial conditions are able to deliver the public services effectively and can assures

sustainability of delivering quality services to local community. The local government play a major role in delivering basic services such as health, education and infrastructure to local community. The local government with lack of financial resources are unable to deliver public services and fulfill their obligations, which affect the local community and negatively affect the economy. The local government faces many hurdles in achieving the national objectives such as unavailability of resources, including human, financial, equipment and time resources (Ritonga, 2014).

In Nigeria the federal structure and dominancy of central state restricted the ability of local governments to fully functionalize its financial resources and decreased the sources of funds for local government. Local government require sufficient funds and revenue generation sources for effectively delivering services and sustainable development in community, but due to decrease in the sources of funds and revenue generation, the local government in Nigeria is unable to deliver the services to local community. The Nigerian government is facing annual deficits and have lack of sufficient funds for meaningful growth and sustainable project development due to which the local government in Nigeria have performed below the expectations, which were supposed to play a significant role in national development. Local government deliver their constitutionally assigned functions and responsibilities much better when there are sufficient funds available for these functions with proper finance management. However, the experience has shown that poor finance management and lack of funds has become the bane for local government poor performance (Coker and Adams, 2016).

According to Martinez & Smoke (2011), local government finance is different across regions and within regions and also share some common challenges. In Europe, North America, and some parts of East Asia and the pacific (Korea, Japan, Australia, New Zealand) the local government finance is prospering because the local government is autonomous. In regions like Middle East and Western Asia the local government finance still remain at an early stage



because they have limited autonomy and are controlled by higher level governments. The local government share some common problems across and within regions which include limited autonomy and control of central governments, unfunded mandates, traditional local revenue generation and tax collection methods and uneven distribution of transferred and own resources between national and local governments.

In most countries of the world the lower tiers of governments face the financial problems and lack of sufficient financial capacity. Local government do not have the additional powers to levy taxes and have no freedom to determine local charges and local sources of revenue. The higher tiers of government mostly gather tax income and have surplus revenue while the lower tiers of government have less sources of revenue due to which they face financial distress. To overcome the financial distress there is a need of fiscal transfer between different tiers of government, tax sharing and devolution of tax power (Dollery, 2009).

Local government in every country has the responsibility to provide and deliver basic services to local level in effective and timely manner. Constraints in service delivery is always a result of financial weaknesses, lack of good governance and institutional capacity. The inability of some municipalities to provide municipal services is linked with lack of proper infrastructure and financial weakness. In South Africa the local government is completing its fourth phase of local government development, but the local government still faces many challenges in delivering basic services to the local people. The challenges faced by local government of South Africa include slow budget and economic growth, funds unavailability, urbanization, increasing population growth and increasing demand for municipal services. In South Africa increasing vicious circle of poverty, health problems and lack of basic services to the local community are the impacts of such challenges faced by local government (Byl, 2014).

Fiscal decentralization framework include a complex whole system with other interrelated component and some of them are politically feasible and easy to implement. A more general problem exists in implementing the local finance systems is that some of the components are partially designed and partially implemented. The deficiency in one of the components of local finance system effect the ability of overall system to function effectively because of interdependencies involved. Local government with lack of clarity in functional assignment and problems with intergovernmental transfer system and implementation can affect the capacity of local government to ensure financial needs, local service delivery, revenue generation and local borrowing. In some regions the problem of incomplete decentralization tends to be more significant because it is difficult for local government to finance assigned functions with few revenue sources. In African Countries the severe revenue expenditure gaps exists because there is less decentralization of revenue than expenditures. In Kenya the district government is also facing problems with clarity of assigned functions resulting in delay of quality services to local people. The central or provincial government should implement the local finance system completely to avoid financial problems and ensure steady and quality services to the local community (Vazquez, 2011).

According to Ame, Chaya and John (2013), in Tanzania the role of local government is not much effective in delivering basic services to local people because the local government is facing financial constraints. The main reason behind the financial problems of local government include insufficient and delay of funds transfer, increase in community needs and expenditures and lack of accountability. The financial problems of local government in Tanzania resulted in failure of delivering basic services to local community and delay in completion of development projects in the area. The welfare of the society which is priority of local governments but unfortunately it failed to provide because of financial constraints. The

local government require sufficient funds and resources to fulfill its responsibilities in the community otherwise it jeopardizes the welfare of the society.

The problem of poor service delivery is one of the most acute challenge faced by many countries throughout the world. In developing countries where providing basic services to fast growing population is considered as a key challenge which need to be addressed quickly. In Malaysia rapid urbanization and industrialization in the area and increase education among the masses about their rights has created a major challenge for local government to provide better services to local people. In Nepal the local government failed to deliver public services to the level they have targeted through planned development efforts. Thus, the problem of service delivery is not unique to Kijiado town in Kenya but are faced by many local governments in the world especially in developing countries. The delivery of basic services has a direct impact on the quality of the lives of local people in a given community. The main causes which resulted in poor delivery of basic services include limited manpower and adequate financial resources, political manipulation and interference, lack of transparency and accountability and limited and insecure revenue base. The local government needs to address such problems in their areas and solve it on immediate basis, because delivery of basic services is closely attached to the quality of life and living standard of people (Makanyeza, Kwandayi & Ikobe, 2013).

The performance of local government is always assessed with the capability of achieving goals and objectives set for local government. The efficiency of local government is always affected by the delay in grants provided by upper tiers of government. The difficulty in getting and spending funds is the two most pressing problems faced by local governments. The Hungarian local governments have to go through several requirements to spend the state development funds such as preparing detailed funds, make good contract, complete tenders, obtaining permission etc. The Hungarian local governments have to fulfil all the requirements otherwise they are not entitled to receive the state development funds. The local governments become

successful in achieving goals when they obtain 70% of their grants, while those local governments getting one quarter were unable to achieve the goals, and every fifth local government failed to complete the requirements set for using state grants (Gabor, 2001).

The local authorities throughout the world play a major role in the delivery of basic public services but they also have some challenges in delivering their devolved functions. The increasing urbanization, impacts of natural disasters and global financial and economic crisis has also created many challenges for local authorities to deliver their services effectively. The fundamental problem faced by local governments in developing countries is the widening gap between financial resources available and municipal spending needs. The rapid growth of urban population have increased the demand for public services, infrastructure and its maintenance which increased the fiscal gap. Moreover, the local authorities are financially dependent on central government and with less revenue generated from property and service charges. The most lucrative taxes such as income tax, sales tax and business taxes are collected by central government, these taxes are potentially suitable to support the local authorities financially but unfortunately these are controlled by central government. Local authorities require financial capacity and autonomy to deliver public services in effective manner (Weliwita & Howell, 2015).

The local government of Poland is facing several serious problems even the sector of public finance has been decentralized in Poland, but still the local government is struggling to overcome these problems. The local government have very little financial autonomy in Poland and there is no means of revenue generation, in addition the deficit is permanent feature of their budget. Thus, the local government lack financial capacity to cover their expenditure, that's why they have rely on public debt to finance their investments and deliver their functions accordingly. The amount of public debt taken by local government is expanding and local

governments have reached to the maximum level of debt permitted under law, due to low level of financial autonomy and no means of revenue generation (Uryszek, 2013).

Around the globe, including Nigeria, the local government is considered as main instrument for the transformation of rural areas and for providing the basic social and economic services to the local people. The local government is expected to play active role in the overall national development because they are administering at grass root level and are very close to the local people at rural, urban or town areas and can have positive impact on the daily life of people. In Nigeria, the 1976 local government reforms had clearly devolved the functions and ensuring provision of sufficient human and financial resources. The dearth of financial resources had always been a major handicaps for local government that affect the smooth delivery of basic services in the area. The dearth of financial resources especially in term of revenue had always been one of the major problem local government face which negatively affect the revenue profile of local government councils. Previously local government mostly relied on revenue generated internally, but that was not enough to support the needs of local government and affected the pace of development especially in rural areas. The higher level of governments (State and federal) do not devolve those functions which yield high return of revenue, more ever as per constitution the local council will receive 10% of total revenue generated by state government but in most cases the local council had received only small fraction and some of them have received nothing at all. The funds of local government are always maintained by state government as per constitution, but the state government before remitting the funds to local council make some deductions such as counterpart funding of projects and income tax by local government employees etc. Another problem local government face is the boycott of people from paying taxes with the slogan “no service no pay”. The people refuse to pay taxes with the reason that local government are not providing the basic services to the area, and are only seen in the area when they want to collect taxes. The control of state government over the

local government budget is also one of the problem which create constraints for local government revenue mobilization capacity. The budget of local government required many levels of approval to be passed from the hand of state government and even after approval of the budget further restrictions are imposed by the state government, which clearly shows the financial autonomy and capability of local government (Uhunmwangho & Aibieyi, 2013).

In South Africa after twenty years of democracy the service delivery at local areas remains one of the biggest problems for local government. In South Africa the development has been made in the key sectors of the economy such as health and education sector, but unfortunately the biggest challenge still local government face is the quality and efficient delivery of basic services to local people such as water, sanitation, housing and electricity. The corrupt practices and slow pace of service delivery in municipalities, the number of violent protests has been increased in the recent years. The key challenge local government face in provision of basic services is due to lack of human resource, municipalities lack people with technical skills required for quality and efficient delivery of basic services. Lack of accountability and transparency and widespread corruption in the area also hamper the delivery of such services. In addition, lack of awareness among local people about their rights, slow and tedious process of local municipalities and most importantly the municipalities across South Africa are either bankrupt or on the edge of bankruptcy which affects the ability of municipalities in rendering quality services to local areas. After the recent elections and twenty years of democracy, the elected representatives need to work hard for better life of all (Mdlongwa, 2014).

The local governments in discharging their assigned functions requires the power to generate revenue and the revenue generation power should match the expenditure assignment as well. The federal and state government of Nigeria provide the statutory allocation to local government with few internal sources to derive revenue from such as taxes and fees, etc. Thus the revenue and expenditures transferred must support the public revenue profile of local

government. In Nigeria the local government revenue generation require restructuring in order to give enough powers to local government and sharing of major tax bases with other level of government should be allowed to enable adequate funds for development independently. So, for local governments to deliver basic quality services and act as agent for local development, their share of public sector expenditures and federal allocation should be substantially increased (Adedokun, 2004).

In Papua New Guinea (PNG), the efforts to improve the poor service delivery by decentralizing the functions to provincial and district level government has been affected due to mismatch between the devolved functions and flow of funds allocated for these functions. The local government face many challenges which affected the performance of local government to deliver services in quality manner. One of the major problem local government in PNG face is the slow and late transfer of funds from the national government. The release of funds from the treasury to provincial and district government were inconsistent and were transferred too slowly or very late to be used for development works. The local government require reliability and on time transfer of funds from national government in order to improve the quality of services delivered to local areas (Duncan & Banga, 2018).

### **2.3 Insights from Pakistan**

Local government in Pakistan play an important role in delivering basic services to the local level. Since independence of Pakistan, the federal and provincial government of Pakistan has failed to deliver quality services in timely manner to local level. The local government in Pakistan is facing financial problems due to limited funds and less sources of revenue generation. The most productive taxes are collected by the federal government such as taxes on imports, production or excise duties and sales tax while local government have very little and less productive sources to generate revenue from them. The local government in Pakistan

has very limited power and autonomy to functionalize its responsibilities despite of “Sixth Constitutional Amendments” and related legislation which empowers the local government in Pakistan. Local governments with these problems and financial constraints fail to deliver the quality services to local community, creates hurdles in the process of development and directly affects the lives of local people dependent on local government institutions (Kardar 2006).

The local government of Khyber Pakhtunkhwa is facing two major issues which include delay in timely release of funds and lack of fund utilization capacity. The KP Local Government Act 2013 projected that through Provincial Financial Commission, 30 percent of provincial financial budget would be distributed among 25 districts. The budget was released to local government in three installments, first release was made on the very first day of fiscal year, 2nd with a delay of three months and the third with a delay of two months. Another major issue in local government development budget was lacking fund utilization capacity in district government. Most of the districts in Khyber Pakhtunkhwa perform well in socio-economic indicators including Peshawar, Swat, Nowshera, Mardan, Mansehra and Kohat but they also showed poor performance in fund utilization as compare to the district of Shangla which perform low on most socio-economic indicators but has the highest rate of fund utilization. Moreover, only 7 out of 25 districts have made expenditure in education sector while 6 districts have made certain expenditure in health sector. The data show that only 9 percent of development budget utilization is allocated toward education sector and 4 percent for health against the planned 20 percent for education and 10 percent for health according to Planning and Development Guidelines for Local Government. The local politician has utilized a total of 56 percent fund on water supply, sanitation, roads and ignored the key sectors of education and health. The district government with delay in fund release and lack of capacity of fund utilization has a number of political, operational and technical issues which limited the ability of district government to utilize the development fund (Khan, 2017).



Decentralizing the responsibilities of service provision to local government is because local government are located near to the citizens. The local and district government would provide the services very effectively and efficiently because they can better determine the needs and priorities of local people. In the case of Pakistan, the service delivery to local community has suffered especially in health, education, water supply and sanitation and all these services were devolved to local government. However, the decline and delay in service provision is caused by political interference, lack of resources, insufficient and miss management of funds, corruption and lack of trained staff. Although the services provided to local people were not of good quality and up to the citizens' needs. The bulk of funds have been miss-utilized by the districts and tehsils and were invested on those schemes which have little impact on the quality of life of local people. Local government are restricted to spend funds on existing facilities and are required to invest in new infrastructure. The financial resources are always not transferred on time to TMA's and are invested on the political will in rural areas which decrease the quality of services in rural areas (Arif et al., 2010).

Sargodha is the 11th largest city of Pakistan and the largest district in financial terms but the district government of Sargodha was totally dependent on the financial assistance of provincial government. The budget 2011-12 was a tax-free budget and no new taxes were imposed by district government with slight increase in expenditure and development funds. The public fund which is the responsibility of Finance and Planning Department, unfortunately was missing from this budget. The district government of Sargodha was provided limited number of subjects where they can generate revenue. The major sources of revenue generation are collected by federal or provincial government which include income tax, sales tax and property taxes, that's why they have not achieved the optimal target of revenue generation. In addition to this the salaries were increased by the government which increased the salary expenditures by 16%, and the district government were directed by the Finance department to cover the salary

expenditures by decreasing the non-salary expenditures. Thus, decrease in non-salary expenditures also affected the development works of district government and future development initiatives were dictated by the provincial government. The financial constraints of district government increased their financial dependency on provincial government and threatened the autonomy of district government (Budget Analysis of District Sarghoda, 2012).

Local governments are the only possible way to ensure a more effective and efficient public service delivery mechanism, but it cannot be achieved without proper fund distribution and proper expenditure and revenue assignment. In Pakistan Sindh contribute one third of the national gross domestic product and is the highest revenue collecting province but most of the revenue is collected by federal government. In Sindh the post devolution distribution of expenditure between provincial and local government, about 85 percent of the provincial social services are devolved to district level and 90 percent of the devolved expenditures are salary expenditure. These two-contrasting distribution from provincial government to local government have very serious implications on delivering social services. The local government only have 10 percent of revenue in hand while 90 percent are salary expenditures, with only 10 percent of revenue in hands it is impossible to improve the quality of social services and any shortfall in the revenue to local government in the future can have larger effect on delivering social services to local level. The estimated expenditure of district government are Rs. 25.9 billion and estimated fiscal transfers are Rs. 26 billion, the additionally provided amount is 137 million which is insufficient to improve the social service delivery mechanism and remove district government rigidities. The delivery of social services cannot be improved and ensured unless the distribution is changed, and adequate service reform are initiated (Sabir and Ahmed, 2003).

The new local government system named Basic Democracies System (BDS) was introduced by General Ayub Khan under the framework of “Basic Democracies Act 1959”. There were

many structural deficiencies in Basic Democracies System which affected the performance of local democracies. The Basic Democracies System were under the bureaucratic control and the government used bureaucratic authority to stop the political struggle at local level. The system revealed that bureaucracy and colonial rule were been eliminated but in reality the government established authoritarian rule with the support of bureaucracy and allowed bureaucracy to exercise their power. Since the government restricted the local participation to be part of decision making, and they were awarded little funds for significant check of public affairs. The local council were heavily dependent on government both in term of grants and local finance management due to limited capability of local councils to raise revenue. The local councils with limited powers to generate revenue affected their potential to increase their financial capability and local autonomy (Khan and Khan, 2015).

The political government in Pakistan had failed to deliver basic services at local government level due unstable democratic system in Pakistan. The failure of service delivery at local government level is caused by political rivalries, democratic instability and frequent changes of political government because every political government when came into power abandon the policies made by previous government and instead of looking into burning issues and public problems, they are focusing on serving their own interest. The local government election in Pakistan have increase the influence of bureaucracy and political leaders rather than resolving the problems of local people (Haq and Akbar, 2015).

The local government in Pakistan have lack of autonomy in decision making, budgeting and financial management. The local government is financially dependent on upper tiers of government such as provincial government because the funds and resources flow from upper tiers of government to local government. The local government should be provided sufficient funds and resources and the autonomy to use them effectively, and should be provided adequate

information on local planning, budgeting and financial management to enhance their capabilities and skill to perform well in delivering social services (Ahmed, 2012).

The capability of local government can be improved in delivering basic services to local level, when the devolved responsibilities are accompanied by adequate powers and financial resources. In Pakistan the local government has limited autonomy to exercise power due to which the delivery of basic services is negatively affected. The political leaders and bureaucrats think that they will lose the power and dominancy and the incentives they enjoy while being in power, that's why they feel reluctant to devolve power to local level (Ali, 2006)

A study of District Mardan in Khyber Pakhtunkhwa show that there has been no increase in the health and educational facilities and people are facing difficulties in getting health and educational facilities. The inability of local representatives in providing and establishing health and educational facilities are mainly due to lack of adequate funds and financial support from higher level government. However, improvement in some basic services such as water and sanitation and infrastructure had been occurred in the area, but improvement in health and educational facilities are very important and needs to be improved quickly but it require proper financial support from the provincial government.

The local government is always been created under laws simultaneously legislated in each province. The provinces can put down the basic legal framework for the creation and functioning of local government bodies. The revenue powers are distributed among federal and provincial government by the constitution of Pakistan, and then provincial government decentralize some of their power to local government. Since 1959, local government systems in Pakistan has not assigned proper revenue powers to local government. The first local government system in Pakistan was created by a military government named as "Basic Democracies System" which assigned few expenditure subject to local government but the

revenue raising power assigned were very little. The second local government system was again created under the military government in 1979 “Local Government Ordinance 1979”. The system created separate local bodies for rural and urban areas under provincial control. The revenue raising power assigned were again very weak and the assigned functions were not different from local government system of 1959. In 2001, new local government system “Devolution Plan” was created by the military government, there was mismatch between devolved functions and financial means available to local government. In local government system 2001, the provincial government assigned very little revenue raising powers to local government, indeed Tehsil Municipal Authorities (TMA’s) were given more taxation powers than district government (Bahl & Cyan, 2009).

The highly centralized structure of Pakistan restricted the tax base of local government to raise revenue. The most productive taxes including buoyant taxes, income tax, sales tax, import duties and excise duty are under the control of federal government and hold the exclusive power of collecting all taxes. The provincial government also hold some powers in collecting taxes of motor vehicle tax, agriculture income tax, land revenue tax and property related transactions, and registration fees. The revenue generating sources remained to local government was very little which made the local government financially weak (Vera & Kim, 2003).

The major sources of funding for community development projects include the funds released by provincial government and somehow local revenue as well. Most of the elected representatives were not satisfied with the allocation of funds, as the funds allocated to local level were not on equality basis but on the basis of favoritism. Meanwhile, at local level the district nazim also allocate funds on the basis of their political alliance or to their own constituencies. In addition, the funds are not released in due time by provincial government for planned projects and schemes. The approved funds for development projects are not released

completely due to which local government is unable to completely execute the development projects approved for the area (Ali, 2006).

The current government of Pakistan had plans to introduce a city government model under the “Punjab Local Government Act 2019” where all interrelated matters of urban city will be the responsibility of elected Mayor. In Pakistan the local development in villages and small town are controlled by bureaucrats, members of the provincial assemblies (MPAs) and members of the National Assemblies (MNAs) and authority is totally in their hands and they don’t want to give it up. The Punjab Local Act 2013 were not been implemented properly as it failed to devolve financial resources from provincial government to local government. The local government were financially dependent on provincial government and bureaucracy and had little money to dispose-off their services, while the new local act 2019, is strongly committed to devolve the fiscal and administrative power to the local level. The act also stated that for first two years the transfer of 26 percent of province’s general revenue earnings and no less than 28 per cent of the same in subsequent years will be provided to local government, this commitment has brought significant improvement in comparison with the previous act of 2013 that left the local government dependent on provincial government. Thus, local government can operate more than before as the revenue generation powers are devolved to local level and funding based incentives are provided to generate more revenue and deliver quality and better services to local areas (Ali, 2019).

As discussed in the literature reviewed internationally and insights from Pakistan, the local government in every country has the responsibility to deliver services to local people in timely manner. The responsibilities devolved to local government are not accompanied by sufficient financial resources which creates problems for local government to provide services to community in effective manner. The local government throughout the world especially in least developed countries face financial constraints due to which they perform below the

expectation. The financial problems faced by local governments throughout the world and especially in developing countries are budget constraints, delay in funds transfer from higher level of government, few sources of revenue generation, corruption and accountability which directly affect the delivery of basic and municipal services to local people and affect their daily life.

## **CHAPTER 3**

### **RESEARCH METHODOLOGY**

#### **3.1 Research Strategy**

In order to achieve the desired objectives, the qualitative research strategy was used. The qualitative research strategy was used because qualitative research strategy provided variety of opportunities in identifying a problem. The qualitative research method is very useful because it can help us to better understand the behaviors and perception. It provide us a clear understanding of our problem or topic. With the help of qualitative research strategy a lot of information has been gathered from very small number of respondents due to its flexible and open ended structure which allowed the respondents to clearly explain life experiences.

Qualitative Research Strategy is a subjective and systematic approach to explore, highlight and explain the experiences of daily life and to attach meaning to them. Qualitative research is an interpretive and naturalistic approach in which the researcher through observation, interpretation of people perception about different situations can explore the behavior, life experiences and different perception (Khan, 2014).

#### **3.2 Research Design**

Research design for this study was descriptive. Descriptive research design was selected because it provide a unique means of data collection in the form of studying life experiences. The descriptive research deign require particular form of data collection which involve observing and describing the behavior of the subject under study.

Descriptive research presents a picture of the specific details of a situation, social setting or relationship. Descriptive research study possesses a well-defined issue or question and an

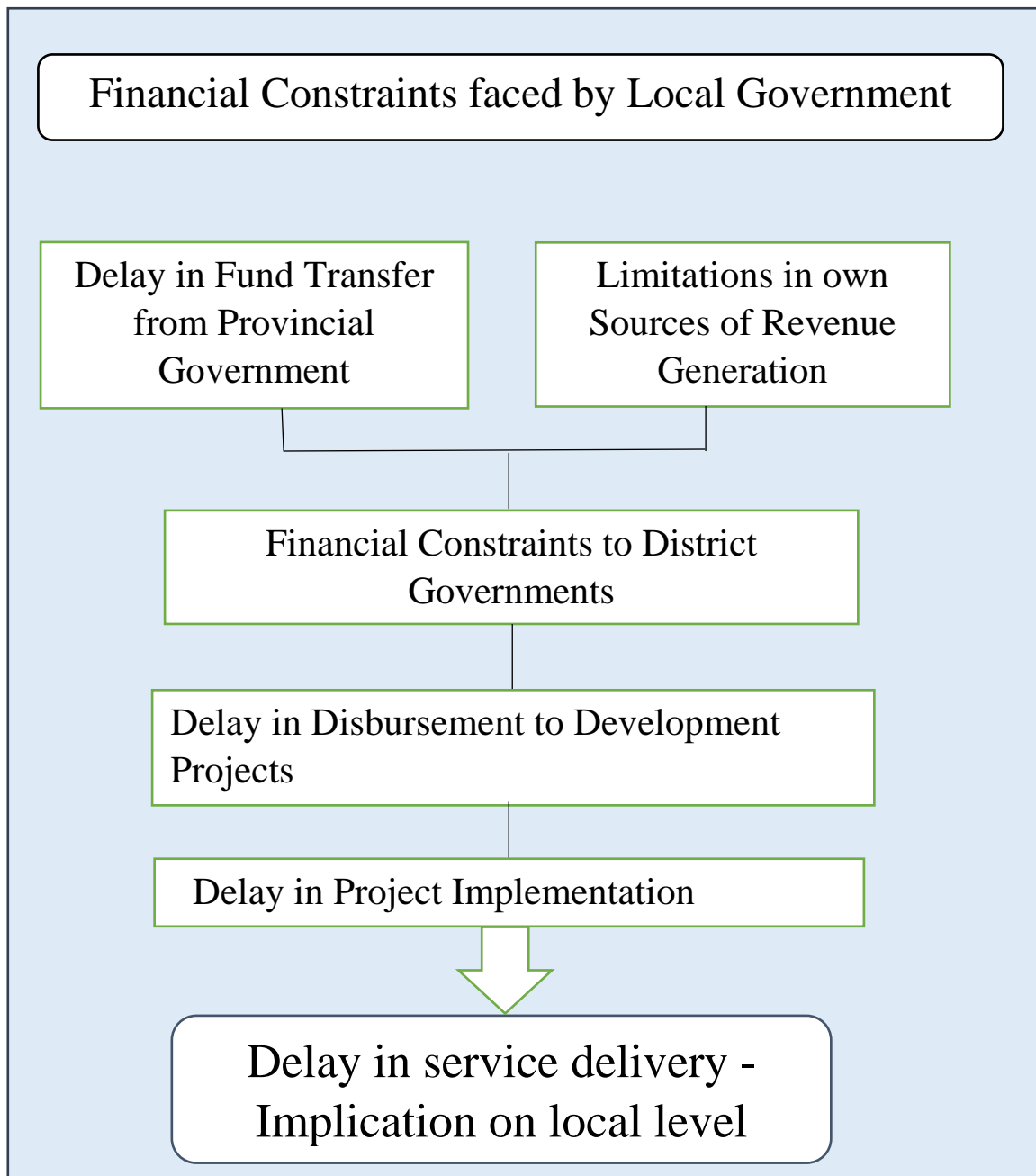


outline of several steps to answer questions such as who, when, where, and how (Neuman, 2004).

### 3.3 Conceptual Framework

The conceptual framework was formulated by reviewing the literature relevant to this study.

The following concept has been formulated for the study:



The conceptual framework is elaborated as follows:

### **3.4 Delay in Funds Transfer**

According to Ame, Chaya and John (2013), the local government faces financial constraints in term of insufficient local revenue sources and delay in fund transfer from upper tiers of government which adversely affected the delivery of basic services to local areas. The lack of funds and financial management resulted in poor performance of local government to dispose-off its responsibilities effectively (Vazquez, 2011). In addition, the funds are not released in due time by provincial government for planned projects and schemes. The approved funds for development projects are not released completely due to which local government is unable to completely execute the development projects approved for the area (Ali, 2006).

One of the major problem local government in Papua New Guinea (PNG) face is the slow and late transfer of funds from national government. The release of funds from the treasury to provincial and district government were inconsistent and were transferred too slowly or very late to be used for development works. The local government require reliability and on time transfer of funds from national government in order to improve the quality of services delivered to local areas (Duncan & Banga, 2018).

The delay in funds provision and providing inadequate funds has increased the problems of local government in many countries. Local government with lack of financial support from upper tiers and no revenue sources are unable to execute development projects, deliver quality services and solve the problems of local areas. The concept has been developed through reviewing literature from different articles in order to get the desire results aimed to be identified in this study.

### **3.5 Limitations in Own Sources of Revenue Generation**

The local government face financial problems because of vertical imbalances as the higher tiers of government mostly gather tax income and have surplus revenue while the lower tiers of government have not much sources of revenue generation (Dollery, 2009). The local government only have 10 percent of revenue in their hands which is not enough to support local government financially and improve the delivery of basic services to local people (Sabir and Ahmed, 2003). The local government own sources of revenue generation is below 0.1%. The local governments do not have the authority to levy taxes due to centralized tax structure, and the most productive taxes are collected by federal government and the remaining taxes by provincial government (Kardar, 2006).

The local government throughout the world do not have the authority to raise revenue and are financially instable and dependent on higher level of government. The taxes are mostly collected by higher level of government and the local government have very little sources to raise revenue from them. The concept developed for this study is mainly focusing on how revenue generation affects financial capability of local government.

### **3.6 Reason for Resource Constraints**

#### **3.6.1 Delay in Fund Transfer from the Upper Tiers**

The funds are not released in due time by provincial government for planned projects and schemes. The approved funds for development projects are not released completely due to which local government is unable to completely execute the development projects approved for the area (Ali, 2006). The local government face financial problems such as insufficient funds, little sources of revenue generation and delay in funds transfer from high tiers of government. The financial problems create hurdles in timely disbursement of funds and project

implementation as well which effect the role of local government negatively (Coker and Adams, 2016).

The higher level of government always delay the funds provision to local government in order to become dominant over local government. The delay in funds provision affect the smooth delivery of basic services to local level and affect the living standard of people as there life is totally dependent on these services. The literature reviewed show that the upper tiers always delay the funds transfer to local level which create local government performance to work devotedly for welfare of people.

### **3.7 Impact of Financial Constraints**

#### **3.7.1 Delay in Disbursement to Development Projects and Project Implementation**

Hence, the delay in timely release of fund from the upper tiers of government results in delay in disbursement. The local government fail to initiate or implement the development projects and dispose-off local services due to delay in the transfer of funds from high tiers of governments (Khan, 2017). The local governments become successful in achieving goals when they obtain 70% of their grants, while those local governments getting one quarter were unable to achieve the goals and implement the projects (Gabor, 2001). Hence, the desired projects start lagging behind.

The concept has been developed through reviewing literature. The literature reviewed show that the development projects can only be implemented when there is sufficient funds provided by the upper tiers of government. The delivery of basic services is the main responsibility of local government but local government fail to provide because of financial constraints faced by local government.

### **3.7.2 Delay in Service Delivery and Implication on Local Level**

Thus, the financial problems faced by local governments' results in delay of in-time implementation of the local project. Given the population pressure, the needs and demands for municipal service of community are increasing and the delivery of these services needs to be made fast-tracked. The devolved services to district governments are increasing while there is less decentralization of expenditures for these services and the devolved expenditure are mostly salary expenditures (Sabir & Ahmed, 2003). The local government is unable to provide educational and health facilities in District Mardan, due to lack of adequate funds and financial support from provincial government (Ali, 2006). Local government is always neglected by higher level of government in the process of decision making, budgeting and financial management. The lack of participation in decision making and local planning increase the problems of local government, that's why local government is unable to provide quality services (Ahmed, 2012). ). In South Africa increasing vicious circle of poverty, health problems and lack of basic services to the local community are the impacts of financial constraints faced by local government (Byl, 2014).

The delay in service delivery at local level place a huge impact on the living standard of local people. Delay in service delivery is always result of financial constraints faced by local government. The financial constraints such as lack of funds, delay in funds provision and no sources of revenue results in delay of basic services and project implementation.

The district and local government in most of the countries throughout the world face financial constraints caused by delay in funds transfer, insufficient funds, increase in expenditure and limitation in own source of revenue generation. The study is formulated following the above conceptual framework. The financial constraints faced by district government are identified while keeping the focus on how these problems and constraints effects the ability of local

government and impacts the delivery of services to local level. In Swat the financial constraints and its implication are hence identified using the conceptual framework given above.

### **3.8 Units of Data Collection**

The units of data collection were the targeted respondents relevant to the field of this study. The following respondents were selected for interviews because they have rich information regarding the study. The following respondents were well acknowledged from the situation of local government and have better knowledge about the budget, fund disbursement mechanism and sources of revenue generation. A total of 20 interview were conducted from the targeted respondents using semi-structured interview guide.

The units of data collection for this study include District Nazim & district council members, Tehsil Nazim's, Chief Officers (Finance and Planning), Union Council Nazim's and Union Council Secretaries. Every UDC selected for this study was of greater importance for collection of required data because the selected UDC's are involved in the process of local government activities and have faced the same problems faced by local government.

- District government is headed by the District Nazim and have the responsibility to be part of budget making, project planning and overall activities of district government and have much information about the problems faced by district government at provincial, district and at local level that's why District Nazim is selected as UDC for this study.
- District council members also have much information about the problems faced by local government because they are part of every decision making in the district council.
- Tehsil Nazims have the responsibilities to deliver the service delivery on tehsil level and are well acknowledge of financial problems faced at tehsil level and implication of delay in service delivery on local level.

- The chief officer of finance and planning were also selected as UDC's for this study, because they have sufficient information about budget approved and released by provincial government and the projects approved, implemented and delayed due to financial constraints.
- The Union Council Nazim and secretaries were also selected as UDC's for this study, because they also have problems in delivering basic services at union council level and implication of delay in service delivery on local level.

### **3.9 Methods of Data Collection**

The data were collected through key informant interviews. Interviews were conducted face to face using a semi-structured interview guide. Key informant interviews were useful in getting in depth information about causes of the problems. Using key informant interviews provide a lot of information in limited time from individuals who are aware of the situation and have a lot of information about the situation.

Key informant interviews involve interviewing those individuals who are well acknowledge and can provide required information, ideas, and insights on a particular subject. Key informant interviews are essentially qualitative interviews. While conducting key informant interview first of all only few informants are interviewed. Secondly, key informant interview are conducted with the help of using interview guides, the interview guide help the interviewer to easily cover the list of topic and issues which the researcher want to identify during session (Kumar, 1989).

The main themes of questionnaire includes:

Constraints in fund transfer from provincial government to local government, own sources of revenue generation, hurdles in disbursement of fund to lower tiers and management of funds and implication of these problems on local projects and local people.

### **3.10 Sampling Technique**

Purposive sampling technique was used to collect data for this study. Purposive sampling technique is very useful to collect data from the respondents who are rich in information related to the study. The selected respondents for this study are well acknowledge of the problems and have a lot of information about the study, that's why purposive sampling technique was used. In qualitative research method for the identification and selection of information rich cases related to the phenomena, purposive sampling technique is widely used. (Palinkas et al., 2015).

### **3.11 Locale**

The targeted area for this study was district Swat. District Swat was recently much effected by the militancy and it is also the third largest district of Khyber Pakhtunkhwa in term of population. The district government of Swat is also facing financial issues and constraints that's why district Swat is selected as a locale for this study.

The lush green and historic Swat valley also known as the Switzerland of Pakistan is situated in north of Peshawar. The old name of Swat was Udyana which means the land of gardens. According to census 2017, the population of Swat is about 2,309,570. The capital city of Swat is Saidu Sharif and the regional government affairs are administered here. In ancient time the valley of Swat has remained the center of Buddhist Civilization and its remnants can be found in many places in Swat. The valley of Swat is surrounded by majestic mountains, full of roaring rivers, green forests, snow-covered peaks and the archaeological and monasteries dating back to Buddhist era add more to its historical charm (Khyber Pakhtunkhwa Tourism Corporation).



## **CHAPTER 4**

### **FINDINGS AND DISCUSSIONS**

This chapter includes findings and results briefly derived from data collected through conducting key informant interviews using semi structured interview guide. The derived findings and discussion clearly lead us towards a clear and big picture of district government financial constraints and its implication on performance of district government capability and on local level. The results and discussion derived are laid down in following thematic areas; delay and deduction in fund transfer from provincial government, financial constraints to district governments, delay in disbursement to development projects, delay in project implementation and delay in basic delivery and its implication at local level.

#### **4.1 Delay and Deduction in Funds Transfer from Provincial Government**

The local government throughout the world face many problems and hurdles from upper tiers of government especially in financial terms. The major problems faced by local government is financial constraints which badly affects the performance of local government in delivering their assigned functions which in turn decrease the trust of people on local government institutions. One of the major problem faced by local government is financial constraints from provincial government.

Delay in funds provision is one of the major issues faced by local government. Funds transfer is always delayed by the provincial government which creates problems for local government to deliver basic services to local people. The funds and budget was released to local government in three installments, first release was made on the very first day of fiscal year, 2<sup>nd</sup> release was made with a delay of three months and the third with a delay of two months, the delay in funds

release affect the ability of local government to perform well in social indicators and deliver quality services to local people (Khan, 2017).

One of the major problem local government in Papua New Guinea (PNG) face is the slow and late transfer of funds from the national government. The release of funds from the treasury to provincial and district government were inconsistent and were transferred too slowly or very late to be used for development works. The local government require reliability and on time transfer of funds from national government in order to improve the quality of services delivered to local areas (Duncan & Banga, 2018).

The district government of Swat is also facing the problem of delayed funds and late release of budget from provincial government. The local government act has given authority to local government but in reality, it does not exist. The provision of funds is always in the hands of provincial government and political leaders. The provincial government release half or two third of the budget approved for development works with a delay of two or three months, and the remaining half budget are not released by the provincial government, this results in delay and completion of development projects and sometime lead to cancellation of tender projects or the projects become pending until the next development budget is approved. District government of Swat have not received the approved budget completely in the last 4 years. In fact, the district has received only a part of the budget and the remaining budget is not released yet by the provincial government. The provincial government neglects the importance of local government for local development and approved funds for development work are delayed with the reason that the provincial government is facing financial crisis.

*“Local government play an important role in development of grass root level but due to financial constraints and Provincial negligence, the development process is delayed at the local level”*

One of the key informant interviewee said that the development of a country is linked with the development of grass root level, and development can only be achieved through local government institution because they are well aware about local problems and know the remedies for these problems. The District government is unable to deliver quality services in timely manner, because without adequate financial resources the local government cannot work in a sustainable way to improve living standard of the local people. The District government do not have adequate funds to proceed on with their responsibilities. The provincial government are not supporting the local government financially and are saying that the provincial government is facing financial crises due to which funds are not released.

*“The provincial government have made deduction from every budget and have never released the promised funds completely which affect the performance of district government and discourages local government representative to work with full devotion”*

One of the key informant interviewee said that the provincial government is not taking any interest to help the local government financially and morally. The provincial government is not favoring the local government because they do not want the local government to achieve prosperity and achieve their goals and become dominant over provincial government. The provincial government interfere in the affairs of local government through MPA's (Member of Provincial Assemblies) and MNA's (Member of National Assemblies) and creates problems in local schemes for local representatives. The local government do not have any other sources to get funds from due to limited autonomy, that's why local government is totally dependent on transfers of funds from provincial government. The provincial government in this regard have done a lot of damage to local government in term of delivering their functions because the provincial government do not release the funds completely and release the funds with a delay of two to three months. The provincial government in this tenure has always delayed release of budget up to two to three months, and half or two third deduction from the budget was made

every time, hereafter 50% of the total approved budget was released for the fiscal year (2015-16), 60% for fiscal year (2016-17), 50% for the fiscal year (2017-18) and 75% for the fiscal year of (2018-19).

The delay in funds transfer is also a problem of local government in Tanzania. The funds are delayed by the higher level of government and funds provided to local government are not sufficient to fulfill the devolved responsibilities, which resulted in increase in community needs and problems (Ame, Chaya and John, 2013). Similarly, local government in Nigeria have lack of adequate funds and the sources of funds are also decreased for meaningful growth and sustainable development project because the government of Nigeria is facing annual deficits and financial crises. Thus the local government of Nigeria have failed to accomplish below the expectation (Coker and Adams, 2016). The local government of Khyber Pakhtunkhwa has received the funds in three installments, first installment was released on every fiscal year, 2<sup>nd</sup> installment with three months' delay and third with two-month delay (Khan, 2017). The funds from provincial government are not allocated to district government in due time to execute planned development projects (Ali, 2006).

This study too points out that funds transfer from provincial government are not released on time and always delayed up to two to three months. The delay in funds transfer affect the ability of local government to deliver services in timely manner and affect the lives of local people. This study also points out that the funds are not released by the provincial government completely and always deduct half or two third from approved funds. The release of half or two third budget to local government resulted in mismanagement of funds, delay in service delivery and increase in the problems of local areas. Hence, it can be concluded that the delay in services delivery to local level is caused by the delay in fund provision and deduction from funds.

## 4.2 Delay in Project Implementation

Local government is the main pillar for development of a nation. Local government with adequate funds and resources can boost the development of a country, but unfortunately in Pakistan local government do not have sufficient funds to deliver basic services and fulfill their responsibilities. The funds provided to local government are insufficient which result in delay in project implementation and affect local people. The funds released by local government for development work are not enough and are not fully released.

The budget approved for development work are released in 4 parts (25% each), but the approved budget in the last 4 years have never been released completely and mostly 25 % to 50% was missing from every fund. In the fiscal year (2015-16) the budget approved was Rs. 526.912 million and the budget released actually was Rs. 263.455 million, in the fiscal year (2016-17) the approved budget for development works was Rs. 638.158 million and the released budget was Rs. 388.491 million, in fiscal year (2017-18) the approved budget was Rs. 443.43 million and the budget released by provincial government was Rs. 221.715 million. Similarly, in the fiscal year (2018-19) the budget approved was Rs. 490.515 million and released budget was Rs. 366.783 million. In every budget 50% or 25% funds were not released to local government by the provincial government. Project and scheme approved by the local representatives for their local areas are pending in many areas and implementation of projects was delayed until next year when the allocation was made for the new fiscal year of local government.

The budget released for development works by provincial government in this 4-year tenure has been shown in the table below, the table 4.2 shows the budget approved by provincial government and the actual budget released by provincial government to local government and deduction made by provincial government from the approved budget.

**Table 4.2: Approved and Released Budget for Development Work**

<b>Years</b>	<b>Approved budget</b> Rs. in Million	<b>Released by provincial govt.</b> Rs. in million	<b>Released in % approx...</b>	<b>Deduction in % approx...</b>
<b>2015-16</b>	526.912	263.455	50%	50%
<b>2016-17</b>	638.158	388.491	60%	40%
<b>2017-18</b>	443.43	221.715	50%	50%
<b>2018-2019</b>	490.515	366.783	75%	25%

*Source: Finance & Planning Department-District Swat*

One of the key informant interviewee said that:

*“Due to lack of funds and deduction from provincial government many mega projects in Swat were not implemented which include Jirga Hall, Darulaman, tourism spots, recreation center (Park) on Mingora Bypass”*

Local government with financial constraints from provincial government and other budgetary and revenue limitation are unable to deliver basic services to local people and improve their living standard. The development at grass root level is very difficult to achieve with inadequate financial resources. In Pakistan the local government powers are just limited to theory but in practice local government has no authority to implement a particular projects without legal approval from provincial government and bound to provincial government in financial terms. The District government of Swat has planned to implement some mega projects in District Swat which were of big importance for development of the area and welfare of the people. The projects were not implemented by the district government due to lack of funds and lack of interest from provincial government and other authorities. The mega projects approved to be

implemented by district government of Swat were Jirga Hall, Darulaman, tourism spots, recreation center (Park) on Mingora Bypass and graveyard which was very beneficial for the people of Swat, for the prosperity of local government and in gaining people trust over local government.

The main purpose of local government is to deliver municipal or basic services to local people, but it cannot be expected from local government with having such financial limitation and constraints. The financial constraint has been the main issue which dramatically affect the achievements and prosperity of local government and their ability to work devotedly for the welfare of the people. One of the key informant interviewee said that:

*“Due to lack of funds 60 projects are still not implemented, 460 projects were approved but only 400 are completed and the remaining are still not implemented due to lack of funds”*

The projects remaining need to be implemented as soon as possible because these projects have higher impact on the local community, and it create many other problems for them. The civil society often visit the office and asked for the approved scheme, but we are helpless as we do not have funds to proceed on with the projects. The remaining 60 projects include street pavement, water supply schemes, graveyard, sanitation etc. the intensity of these projects is very high because these projects are very important to be implemented because these projects include basic services attached with daily life and can seriously affect people lives and their health. The provincial government are not ready to help the local government in financially and elude themselves by showing that the provincial government itself is facing financial crises and are unable to help in this regard, in reality they have financial resources but are not supporting local government because of their narrow mindedness that they will lose their dominancy over local government. The local government is helpless in order to deliver basic services to local people, one of the respondent said that:

*“We have approved the scheme of distributing sewing machines on the deserving and skilled women, but unfortunately due to delay in release of funds the scheme are not been started yet”*

The local government is unable to help marginal part of the society who are totally dependent on their parents and husband and cannot support their families financially due to cultural restrictions. In some areas there are still restriction on women to work outside of house and needs to be at home all the time. We have approved the scheme to distribute the sewing machines on skilled and deserving women so they can become able to support their families and work at home or nearby domestic centers. The scheme will started in the area as the initial funds were released by the provincial government.

*“The delay in release of funds sometime lead to duplication of schemes, because the MPA’s and MNA’s for vote bank, political gain and getting sympathy approve the same project/scheme and get funds very quickly.”*

Local representative in obtaining development funds for scheme have to fulfill several requirements and have to go through a long process of documentation. The delay in funds and long process of documentation results in delay of project implementation. The political leaders of Pakistan are not supporting the local government institutions because they are interfering in in the affairs of local representatives for political gain. The sole responsibility of MPA (Member of Provincial Assembly) and MNA (Member of National Assembly) is to make legislation in the parliament but unfortunately, they are not doing their job properly. In many areas many schemes were pending due to approval and delay in release of funds, while in the meantime, the MPA’s with their political approach approve the funds for the same schemes quickly for which the local representatives had already submitted a document. Thus, till the release of funds to local representative, the project has been implemented by the MPA’s and the funds released to local government goes in vain, because they cannot spend the funds on other projects without approval from local government. The local representative again had to



get approval for the change of location or change of scheme which is again a lengthy process and consume much time in approval. Thus, the provincial government or other authorities blame local government or local representative for not spending the released funds but the hurdles are created by the upper tiers of government and political leaders.

The local government failed provide health and educational facilities due to lack of adequate funds provision by local government (Ali, 2006). The local government in Nigeria were unable to achieve sustainable project development and meaningful growth in Nigeria due to lack of funds availability (Coker and Adams, 2016). The financial problems of local government in Tanzania resulted in failure of delivering basic services to local community and delay in completion of development projects in the area. The local governments become successful in achieving goals when they obtain 70% of their grants, while those local governments getting one quarter were unable to achieve the goals (Gabor, 2001).

The main finding of this study include delay in project implementation caused by insufficient and delay in release of funds by the provincial government. The implementation of mega projects in Swat were not been implemented yet due to limited financial resources and the funds provided to local government were not enough to compensate these projects. These projects were of greater importance for the local people of Swat to improve their living standard but unfortunately these projects were not implemented.

### **4.3 Limitations in Own Sources of Revenue Generation**

The local government in Pakistan is facing financial problems due to limited funds and less sources of revenue generation. The most productive taxes are collected by the federal government such as taxes on imports, production or excise duties and sales tax while local government have very little and less productive sources to generate revenue from them (Kardar, 2006).

The local government have very little or no authority to generate revenue from own sources and levy taxes. Local government in Pakistan face limitations in revenue generation and the revenue are mostly generated by provincial and federal government. Local government always have financial problems due to which their performance is always questioned without proper information. The revenue generated which are very little but help the local government somehow to achieve some of their goals and support them when there is lack of fund. The district government of Swat with lack of funds are unable to levy taxes in the district because Swat is a tax-free zone and there is not a penny obtained from taxes. One of the key informant interviewee said that:

*“We are facing financial problems and there is no other financial support from provincial government and in Swat no revenue is generated by the local government due to exemption of District Swat from taxes”*

The local governments have very limited powers to generate revenue from own sources of revenue, the taxes collected by local government are not enough for financial capacity of local government because they are not much productive. The local government do not get support from the upper tiers of government and are always dependent on provincial government. Local government with less revenue powers in other districts are little bit supported by collecting some taxes in the area which help them in supporting ongoing projects delayed by lack of funds. The District government of Swat do not have any sources to generate revenue from local taxes because district Swat is exempted from taxes and considered as a tax-free zone where taxes on industries, traders, contractors and taxes in other sectors are exempted. District Swat was declared is a tax free zone because at the time of merging an accord was signed between Swat and Dir states with the government of Pakistan that no taxes will be imposed in the district Swat. One of the respondent said that:

*“The revenue is generated by tehsil level from only few sources which include property taxes, transport terminal and business taxes, though the revenue generated is not sufficient to fulfill the need of local government”*

However, taxes are collected from few sectors by tehsil level which include property taxes, transport terminal taxes, market taxes, fair taxes etc. The taxes collected at tehsil level are very little and are kept for operational activities such as disasters like floods and other natural disasters, and municipal services such as street cleaning etc. The taxes are not sufficient to support the ongoing projects and projects become pending due to lack of sufficient funds provided by provincial government.

The local government own sources of revenue generation is below 0.1%. The federal government and provincial government have the authority to levy most productive taxes and local government do not have the power to collect taxes, and are totally dependent on provincial government (Kardar, 2006). The decrease in the sources of funds and revenue generation, the local government in Nigeria is unable to deliver the services to local community (Coker and Adams, 2016). In Sindh, local government only have 10 percent revenue in hand which is not sufficient to support the delivery of basic services to local people (Sabir and Ahmed, 2003). The district government of Swat has no revenue base due to exemption of district Swat, and Swat is declared as a tax free zone because an accord was signed during merging of Swat and Dir states with Pakistan (Jan, 2017).

The literature reviewed show that local governments with no revenue sources are not able deliver services in timely manner because without revenue generation the local governments are totally dependent on higher level of government. This study also points out that in Swat there is no revenue generation sources from which local government raise their revenue because Swat is a tax free zone, and the taxes generated at tehsil level are very little and cannot

support local government financially. As a result, the local government failed to deliver most of the services to local level which also include many mega projects and other schemes.

#### **4.4 Delay in Service Delivery and its Implication at Local Level**

The local government play a major role in delivering basic services such as health, education and infrastructure to local community. The local government with lack of financial resources are unable to deliver public services and fulfill their obligations which affect the lives of local community and negatively affect the economy. The local government faces many hurdles in achieving the national objectives such as unavailability of resources, including human, financial, equipment and time resources (Ritonga, 2014). The responsibilities and functions assigned to district government require the system to be financially viable and sustainable in order to empower the community in a true sense (Anjum, 2001). In South Africa increasing vicious circle of poverty, health problems and lack of basic services to the local community are the impacts of financial constraints faced by local government (Byl, 2014).

Delay in provision of basic services to local community might have very serious implications on the lives of local people and can affect their living standard negatively. The responsibilities of delivering basic social services were devolved to local government without adequate financial support from the upper tiers of government. The local government is unable to deliver basic social services in timely manner to local community due to lack of adequate funds for these services and the local community has to bear the consequences.

*“The delay in delivery of basic services possess serious implication at local people because basic services such as water supply, sanitations etc. are very important for maintenance of daily life”*

The local people at grass root level are totally dependent on the services provided by the local government. The delay in provision of these services affect the lives of local people and

decrease the trust of people on local government institutions. The schemes and projects of water supply, sanitation, graveyards, Jirga Hall etc. are of great importance for local community. The delay in these services is always a cause of delay in fund provision. The following above services is attached with day to day life activities of people and the provision of these services are the responsibility of local government bodies. The upper tiers of government create hurdles for local government by blocking and delaying the funds, setting up some strict rules and by delaying the approval of tendered projects, for the reason to stop the local government dominancy over them and people trust on local government. One of the respondent while conducting key informant interview said that:

*“The women are badly affected by delaying the project implementation due to lack of funds, because women are the most vulnerable group of society and are unable to earn something on their own”*

The delay in funds provision and project implementation affect the local community as a whole and especially the most vulnerable group of the society. Women mostly in local areas due to cultural norms cannot work outside and have to work either at home or in vocational centers. The local government have approved the scheme of distributing sewing machines among skilled and deserving women who are eager to earn something for their families. The sewing machines would be distributed among skilled women working at domestic or vocational centers because they are unable to buy their own sewing machines. The female local representatives are regularly visiting the district office to get the funds in order to start the scheme as soon as possible, but the funds are still not released by the provincial government. The local representatives have made promises to women in domestic centers and other deserving women in their areas that the local government will distribute the sewing machines to support them in order to make them independent but due to delay in project implementation the women are

asking about the scheme every day and local representatives have no words to satisfy them as they don't know when the funds will be provided.

*“The projects approved such as hand pumps and tube wells in the area are still not implemented and people do not have access to clean drinking water, and due to climate change the shortage of water in the area is alarming”*

The financial constraints faced by local government have very serious implications at local level because the devolved responsibilities need to be delivered in timely manner to local level. The people are facing problems in getting clean drinking water because shortage of water is increasing in the area. In the past, the water was about 20 to 40 feet below the surface ground but now due to climate change the water can be found about 60 to 80 feet below the surface ground in rural areas while in urban areas the situation is quiet alarming. The local people have no means to make hand pumps on their behalf as mostly the people are from poor strata. The delay in funds from provincial government increased the problems of local people and they have to bring the water from nearby neighbors or hand pumps in other areas.

The local representatives of district Mardan stated that delay in provision of health and educational facilities at local level are caused by lack of sufficient fund and resources (Ali, 2006). In South Africa increasing vicious circle of poverty, health problems and lack of basic services to the local community are the impacts of financial constraints faced by local government (Byl, 2014).

Thus, the delay in funds release, lack of financial and moral support from provincial and federal government, delay in implementation of projects and schemes, lack of revenue generation sources and delay in service delivery have quiet serious implications at local level. The local people are dependent on local government for delivery of basic services which needs to be provided on time, but due to unfunded mandates the local government failed to deliver basic social services to local people. The local government is willing to deliver quality services but

are always restricted by financial constraints, that's why they are prioritizing those projects which are necessary for development of local areas. These problems and constraints stops the capability of local government to show their performance in all indicators given in their mandates.

## CHAPTER 5

### CONCLUSION AND POLICY RECOMMENDATIONS

#### 5.1 Conclusion

Local people always have many expectations from local government in delivering basic services to local community. Nevertheless, the local government undergo various problems in the form of financial constraints which adversely affect the performance of local government. The local government with lack of funds are unable to achieve the required objectives due to which the performance of local government is always lagging. The local government is facing problems in attainment of funds from provincial government because the funds are always delayed by the provincial government up to two to three months. Provincial government do not release the funds fully and in time.

Moreover, local government do not have productive tax sources to generate revenue in order to become financially stable. The district government of Swat do not have sources of revenue generation because Swat was declared as a tax free zone due to which the financial capacity of local government become more vulnerable. The local government with insufficient and delayed funds transfers are unable to implement projects on time. The implementation of projects is always delayed because of financial constraints such as delay and deduction in funds release from provincial government. In district Swat many mega projects weren't implemented due to lack of funds with district government, these projects include Jirga Hall, Darulaman, graveyard, recreation center, water supply and sanitation, tube wells, distribution of sewing machines etc. The delay in delivery of basic social services is always caused by delay in funds disbursement by the provincial government.



The local government have the responsibility to deliver basic services to local people in timely manner and of good quality to improve their living standard. The district government was unable to deliver the quality basic services in district Swat due to lack of sufficient funds and delay in funds provision from provincial government. The delay in funds provision and project implementation leads to delay in services delivery and affected the quality of services delivered to local people which has various implications on the lives of local people.

## **5.2 Recommendations**

- Provincial government as per Article 140-A should ensure complete transfer of funds to local government for assigned functions and basic services they are delivering.
- Additional funds for district government of Swat should be provided to eliminate the financial problems faced by local government due to absence of own sources of revenue generation in district Swat.
- The provincial government as per legislation should assure the release of funds at the start of new fiscal year and without any delay.
- The provincial government should eliminate the long procedure and several requirements for getting funds, so local representative can get funds easily and deliver the services in timely manner.
- The provincial government should create certain laws which better clarifies the division of power and functions between local government and provincial government.
- Local government should be made autonomous in budgeting for district government, decision making and have the authority to fulfill their duties satisfactory and without any interference by the political leaders.

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## APPENDIX

### Interview Guide

#### Financial Constraints and its Implications for Service Delivery in Swat

**Respondent Name** \_\_\_\_\_ **Designation** \_\_\_\_\_

**Department** \_\_\_\_\_ **Location** \_\_\_\_\_

1. How many development projects are currently in progress? (Record the details relating to types of projects e.g. new construction, renovation, purchase of equipment, hiring...)
2. How many development projects are completed in this tenure?
3. Have these projects been completed in-time?
4. If No, Why? (Record reasons)
5. How many of them have been delayed due to fund provision issues?

6. What are the reasons for delay in funds transfers from the local government to district government?
  
7. What are the effects of delay in funds on the ongoing development projects?
  
8. What are other problems district government face in implementation of development projects? (e.g. limited implementation force-capacity issues, non-cooperation from government offices/local people, court cases, etc.)
  
9. What is the composition of district government revenues (Record aggregate details)?
  1. PFC funds transfer (composition i.e. Transfers: Grants, Loan etc)
  2. Local taxes
  3. Local non-Tax revenues (like fees, rates - stamp paper fee, motor vehicle registration etc.)
  4. Others (record details)
  
10. Are the funds from Provincial government received in-time and with regular intervals?  
If No, then state the manner in which funds are received?

11. Do you think the available sources of revenue generation are enough for financial capacity of local government?
  
12. How revenues are utilized for development works and how it is managed by the district government?
  
13. How expenditures of district government are managed with these financial problems?
  
14. How delay in funds disbursement effect delivery of basic services to local level?
  
15. How local people are affected by the delaying service delivery and delaying of project implementation?
  
16. What are the effects of delay in funds on quality of service delivery?