

Decentralization and Public Financial Management in the Health Sector:
A Case Study of Pakistan

Dr Muhamamd Ali

muhammad.ali@uok.edu.pk

Professor, Department Of Political Science, University Of Karachi

Asim Jamal

Jamal.asim@gmail.com

Research Scholar, Department Of Political Science, University Of Karachi

Corresponding Author: * Dr Muhamamd Ali muhammad.ali@uok.edu.pk

Received: 13-10-2025

Revised: 25-11-2025

Accepted: 8-12-2025

Published: 27-12-2025

ABSTRACT

Decentralization is widely promoted as a governance reform to improve efficiency, accountability, and responsiveness in public service delivery, particularly in the health sector. In Pakistan, the 18th Constitutional Amendment of 2010 marked a significant shift in governance by devolving health sector responsibilities from the federal government to provincial governments. This reform substantially transformed Public Financial Management (PFM) arrangements in the health sector, affecting budgeting, expenditure control, and accountability mechanisms. This paper examines the impact of decentralization on health sector PFM in Pakistan by situating the reform within broader theoretical and empirical literature. It analyzes changes in health financing, governance, and service delivery outcomes while identifying persistent institutional and fiscal challenges. The study argues that although decentralization has enhanced provincial autonomy and policy responsiveness, weaknesses in public financial management capacity, coordination, and equity continue to limit its effectiveness. Strengthening PFM systems is therefore essential for translating decentralized governance into improved health outcomes in Pakistan.

Keywords: Public Financial Management (PFM) , Decentralization , Health Sector

INTRODUCTION

Decentralization has become a central feature of public sector reform agendas in developing countries, particularly in sectors such as health where service delivery is closely linked to local needs. The rationale for decentralization rests on the assumption that transferring authority and resources to subnational governments enhances efficiency, accountability, and responsiveness. However, decentralization also places significant administrative and financial responsibilities on subnational governments, making the quality of public financial management a critical determinant of reform success.

Public financial management encompasses the processes through which governments plan, allocate, execute, and monitor public expenditures. In the health sector, effective PFM systems are essential for ensuring that limited resources are directed toward priority interventions and translated into tangible service delivery improvements. Weak PFM systems, by contrast, can undermine decentralization by creating inefficiencies, delays, and inequities in service provision.

Pakistan presents a particularly relevant case for examining the relationship between decentralization and health sector PFM. The 18th Constitutional Amendment enacted in 2010 fundamentally altered the country's governance structure by devolving health sector responsibilities to provincial governments (Government of Pakistan, 2010). More than a decade after this reform, questions remain regarding its impact on financial management practices and health outcomes. This paper seeks to address these

questions by analyzing decentralization through a public financial management lens, drawing on both theoretical insights and empirical evidence.

Decentralization and Public Financial Management: Theoretical Perspectives

Theoretical debates on decentralization are largely grounded in the literature on fiscal federalism, which emphasizes the efficiency gains associated with assigning expenditure responsibilities to lower levels of government (Oates, 1999). According to this perspective, subnational governments are better positioned to identify local preferences and tailor public spending accordingly. In the health sector, this implies that decentralized financing can improve alignment between health expenditures and local disease burdens.

However, fiscal federalism theory also recognizes the risks of decentralization, particularly in contexts characterized by weak institutional capacity and uneven fiscal resources. Without strong public financial management systems, decentralization may result in fragmented budgeting, weak expenditure controls, and reduced accountability. Ahmad and Brosio (2015) argue that effective decentralization requires clear expenditure assignments, predictable intergovernmental transfers, and robust oversight mechanisms.

According to Andrew Lawson (2018) Public Financial Management (PFM) refers to the set of laws, rules, systems, and processes that governments use to mobilize revenue, allocate public funds, manage expenditures, and account for results. It encompasses a broader set of functions than financial management and is commonly conceived as a cycle of six phases, beginning with policy design and ending with external audit and evaluation. A large number of actors engage in this “PFM cycle” to ensure it operates effectively and transparently, whilst preserving accountability. Schick, A. (1998). Tariq Bajwa (2024) It is important for optimal utilization of public resources, efficient provision of services, getting the most value for money spent, maintaining fiscal discipline, enhancing al locative efficiency, equity and redistribution of wealth in a transparent and accountable manner.

Public financial management theory highlights the importance of budget credibility, transparency, and control in achieving effective service delivery. In decentralized systems, PFM becomes more complex due to the involvement of multiple tiers of government. Effective coordination and oversight are therefore essential to prevent inefficiencies and duplication. These theoretical insights underscore the central argument of this paper: decentralization in the health sector cannot succeed without strong public financial management institutions.

LITERATURE REVIEW

A substantial body of literature has examined the relationship between decentralization, public financial management, and health sector performance. Early theoretical work emphasizes the potential efficiency gains of decentralization, suggesting that subnational governments can allocate resources more effectively due to superior information about local needs (Oates, 1999). However, these benefits are conditional on the presence of adequate institutional capacity and sound financial management systems.

Empirical studies provide mixed evidence on the outcomes of health sector decentralization. Bossert and Mitchell (2011) introduce the concept of “decision space” to explain how decentralization expands the range of choices available to subnational governments. Their findings suggest that decentralization can improve service delivery when local governments possess sufficient managerial and financial capacity. In contrast, where capacity is weak, decentralization may exacerbate inefficiencies and inequities.

International evidence highlights public financial management as a critical mediating factor between decentralization and health outcomes. World Bank analyses indicate that decentralized health systems often struggle with fragmented budgeting processes, delayed fund releases, and weak expenditure

controls, particularly in low- and middle-income countries (World Bank, 2018). These weaknesses limit the ability of decentralized systems to translate increased autonomy into improved service delivery.

In South Asia, decentralization reforms have produced uneven results. Studies from India and Bangladesh demonstrate that while fiscal decentralization has improved local responsiveness, weak accountability and monitoring mechanisms continue to constrain performance in the health sector (Chaudhury et al., 2006). These findings underscore the importance of aligning decentralization reforms with investments in public financial management capacity.

The literature on Pakistan's health sector decentralization has expanded since the 18th Amendment. Nishtar (2010) argues that devolution created opportunities for provincial innovation but also introduced coordination challenges, particularly for national health programs. Subsequent studies by the World Bank (2018) and the World Health Organization (2020) highlight persistent weaknesses in provincial PFM systems, including delayed budget execution and limited financial transparency. Despite increased provincial autonomy, improvements in efficiency and equity have remained limited, pointing to the need for deeper institutional reforms.

Decentralization of the Health Sector in Pakistan

Prior to the 18th Constitutional Amendment, Pakistan's health sector operated under a centralized governance framework in which the federal government played a dominant role in policy formulation and financing. Provincial governments were primarily responsible for implementation. This arrangement was criticized for inefficiency, limited responsiveness, and bureaucratic rigidity.

The 18th Amendment redefined this structure by transferring responsibility for health to provincial governments. Provinces assumed authority over health planning, budgeting, human resource management, and service delivery, while the federal government retained a limited role in regulation and international coordination (Government of Pakistan, 2010). This reform was intended to enhance provincial ownership and accountability by bringing decision-making closer to citizens.

However, the transition to decentralized governance was uneven. Provinces inherited significant responsibilities without commensurate increases in institutional capacity. The absence of clear transitional arrangements further complicated the devolution process, particularly in relation to financial management and oversight.

Public Financial Management in Pakistan's Health Sector after Decentralization

Decentralization significantly altered public financial management practices in Pakistan's health sector. Provincial governments now prepare and manage health budgets within their respective fiscal frameworks. This has increased flexibility in resource allocation, allowing provinces to prioritize interventions based on local health needs.

Despite these gains, health sector financing remains constrained. Pakistan's public health expenditure has consistently remained below 2 percent of GDP, limiting the ability of provinces to expand services and improve quality (Ministry of Finance, 2022; World Bank, 2018). Budget execution challenges, including delayed fund releases and weak expenditure tracking, further undermine the effectiveness of health spending.

Audit and oversight mechanisms exist at the provincial level, but their effectiveness varies. Audit reports frequently identify financial irregularities and weak internal controls, yet follow-up actions remain inconsistent. These weaknesses highlight the need for stronger accountability mechanisms to support decentralized health financing.

Governance, Accountability, and Intergovernmental Coordination

Accountability is a central objective of decentralization, yet achieving effective accountability requires strong institutional arrangements. Provincial assemblies and audit institutions are responsible for overseeing health expenditures, but limited technical capacity and political constraints often weaken oversight functions.

Intergovernmental coordination remains a major challenge, particularly for nationwide health initiatives such as immunization programs and disease surveillance. The lack of formal coordination mechanisms has led to fragmentation and duplication, reducing the overall effectiveness of health spending. Strengthening federal–provincial coordination is therefore essential for ensuring coherence in health policy and financing.

Historical Trend Analysis of Health Expenditure (2013–2025)

Table 1

Presents a historical trend of Pakistan’s health expenditure over the last decade, demonstrating both increases in nominal spending and persistent challenges in fiscal allocation.

Fiscal Year	Total Health Expenditure (PKR billion)	Health Expenditure (% of GDP)	Per Capita Health Expenditure (Rs)	Source / Notes
2013–14	-	3.01%	-	NHA historical series (pbs.gov.pk)
2015–16	-	-	-	NHA historical series (pbs.gov.pk)
2017–18	1,206	~3.20%	~5,283	NHA 2017–18 (thenews.com.pk)
2019–20	1,466	~3.00%	~6,432	NHA 2019–20 (brecorder.com)
2021–22	1,962	2.91%	~8,526	NHA 2021–22 (pbs.gov.pk)
2023–24	Not publicly consolidated	~1.0%	-	Pakistan Observer reporting (pakobserver.net)
2024–25	924.9 (public sector only)	0.9%	-	Pakistan Economic Survey 2024–25 (geo.tv)

This historical trend highlights the gradual increase in nominal health spending while revealing that public expenditure as a share of GDP has declined in recent years, limiting the capacity of provinces to deliver health services effectively

POLICY IMPLICATIONS AND RECOMMENDATIONS

The historical trend analysis underscores the need to strengthen public financial management systems in Pakistan’s decentralized health sector. Capacity-building initiatives should enhance provincial and district-level budgeting, expenditure tracking, and audit functions. Additionally, equitable intergovernmental transfers are essential to reduce disparities across provinces. Specific policy recommendations include:

- 1. Strengthening PFM Capacity:** Invest in training provincial financial managers and health administrators to improve budget formulation, execution, and monitoring.

2. **Improving Fiscal Transparency:** Implement integrated financial management systems to track allocations, expenditures, and outcomes across federal and provincial levels.
3. **Equitable Resource Allocation:** Establish clear criteria for intergovernmental transfers to ensure less developed provinces receive adequate funding for essential health services.
4. **Monitoring and Evaluation Frameworks:** Develop performance-based budgeting linked to health outcomes to ensure funds are used efficiently and effectively.
5. **Enhancing Intergovernmental Coordination:** Institutionalize coordination mechanisms for nationwide programs like immunization, maternal health, and disease surveillance.
6. **Increasing Public Health Investment:** Gradually increase the public health budget towards WHO-recommended levels (5% of GDP) to meet population health needs.
7. **Strengthening Accountability and Audit Functions:** Ensure provincial audit reports are acted upon and develop mechanisms for civil society oversight.
8. **Promoting Evidence-Based Policy Making:** Use data from NHA and provincial health accounts to guide allocation decisions and track the impact of expenditures on health outcomes.

These recommendations aim to align decentralized governance with effective financial management, ultimately improving health outcomes and equity across Pakistan.

This study demonstrates that while decentralization through the 18th Constitutional Amendment has provided provincial governments with greater authority and flexibility in health planning and budgeting, its effectiveness is constrained by weak public financial management systems and limited fiscal space. Historical expenditure trends reveal that although nominal health spending has increased, public sector allocations as a percentage of GDP have declined, highlighting persistent resource constraints. These fiscal limitations, coupled with uneven provincial capacity and coordination challenges, hinder the ability of decentralized governance to translate autonomy into improved service delivery. Strengthening PFM capacity, expanding fiscal space for health, and implementing equitable intergovernmental transfers are therefore essential for realizing the full potential of decentralization in Pakistan's health sector.

CONCLUSION

This study has examined the implications of decentralization for public financial management in Pakistan's health sector, situating the analysis within broader theoretical debates and empirical evidence. The findings indicate that the devolution of health sector responsibilities following the 18th Constitutional Amendment fundamentally altered governance and financing arrangements by transferring authority to provincial governments. While this reform enhanced provincial autonomy and responsiveness, its effectiveness has been constrained by persistent weaknesses in public financial management systems and limited fiscal space.

The historical trend analysis of health expenditure over the past decade provides critical context for understanding these challenges. National Health Accounts data demonstrate that total health expenditure in Pakistan has increased steadily in nominal terms, rising from approximately Rs 1,206 billion in 2017–18 to Rs 1,962 billion in 2021–22. Per capita health spending also increased during this period, reflecting growing demand for health services. However, these gains mask a more concerning trend: public sector health expenditure as a proportion of GDP has remained consistently low and, in recent years, has declined to around 0.9 percent. This indicates that health spending has not kept pace with economic growth or population needs.

Within a decentralized governance framework, this constrained fiscal envelope significantly limits the potential benefits of devolution. Provincial governments may possess greater authority over health planning and budgeting, but their capacity to translate autonomy into improved service delivery is restricted by insufficient and unpredictable funding. The trend data further reveal growing disparities across provinces, with wealthier provinces allocating substantially higher health budgets than less developed regions. These disparities underscore how decentralization, when implemented without strong equalization mechanisms and coordinated fiscal policy, can exacerbate inequities in access to healthcare.

From a public financial management perspective, the trend analysis highlights structural weaknesses that undermine budget credibility, execution, and accountability. Persistent delays in fund releases, underutilization of development budgets, and weak expenditure tracking systems reduce the efficiency of health spending at provincial and district levels. As a result, increases in nominal allocations have not consistently translated into proportional improvements in health outcomes. This reinforces the central argument of this study that decentralization alone is insufficient to strengthen health systems unless accompanied by robust PFM reforms.

In conclusion, Pakistan's experience demonstrates that decentralization in the health sector must be supported by sustained increases in public health investment, strengthened intergovernmental fiscal arrangements, and enhanced public financial management capacity. Without addressing long-term expenditure constraints and governance weaknesses revealed by historical spending trends, decentralization risks becoming an administrative reform rather than a transformative strategy for improving health outcomes. Future policy efforts should therefore focus on expanding the fiscal space for health, strengthening provincial PFM systems, and ensuring equitable distribution of resources across regions to realize the full potential of decentralized health governance.

REFERENCES

- Ahmad, E., & Brosio, G. (2015). *Handbook of multilevel finance*. Edward Elgar Publishing.
- Bossert, T., & Mitchell, A. (2011). *Health sector decentralization and local decision-making: Decision space, institutional capacities, and accountability*. *Social Science & Medicine*, 72(3), 273–281. <https://doi.org/10.1016/j.socscimed.2010.11.045>
- Chaudhury, N., Hammer, J., Kremer, M., Muralidharan, K., & Rogers, F. H. (2006). *Missing in action: Teacher and health worker absence in developing countries*. *Journal of Economic Perspectives*, 20(1), 91–116.
- Government of Pakistan. (2010). *The Constitution (Eighteenth Amendment) Act, 2010*. Islamabad.
- Ministry of Finance. (2022). *Pakistan economic survey 2021–22*. Government of Pakistan.
- Nishtar, S. (2010). *Choked pipes: Reforming Pakistan's health system*. Oxford University Press.
- Oates, W. E. (1999). *An essay on fiscal federalism*. *Journal of Economic Literature*, 37(3), 1120–1149.
- World Bank. (2018). *Pakistan public expenditure review: Health sector*. Washington, DC.
- World Health Organization. (2020). *Public financial management for health: Strengthening health governance*. Geneva. <https://gsdrc.org/professional-dev/public-financial-management/>

Schick, A. (1998). A Contemporary Approach to Public Expenditure Management, Chapter 1, pp. 1-27, World Bank Institute, Washington DC <https://nspp.gov.pk/wp-content/uploads/2024/03/PFM-report-VI-15-01-24.pdf>