

Decentralization has been seen as a process, which normally transfer functions, authority power and responsibility from top government tier to lower government tier. Decentralization is a kind of system which has been implemented by many developed as well as developing countries for better governance at local or provincial level in order to improve the overall financial, administrative and political system of the country. Decentralization system is the ultimate requirement for making democratic process more effective. Delegation of power at the lower level leads to democratic governance. It is the obligation of democratic governments to delegate power at the provincial and local level in order to improve the level of governance. After the 18th amendment the importance of this particular system has significantly increased because of provincial autonomy provided by the constitution of Pakistan for enhancement of decision making process at provincial and local level. The system has been implemented only by the Military Governments. Democratic governments failed to implement local government system in Pakistan. Decentralization has three dimensions including political, administrative and fiscal decentralization. This research emphasizes on fiscal decentralization and its impacts on governance in Pakistan. The main objective of the study is to analyze the impact of fiscal decentralization on governance. However there are other objectives such as identifying the dimensions and indicators of decentralization and governance. Qualitative along with quantitative methodology has been applied to find the impact of fiscal decentralization on governance. Schneider Model has been applied by making minor modification in it for measurement of fiscal decentralization on basis of data taken for governance indicators and fiscal decentralization. The scores of worldwide governance indicators show performance of governance measured at a particular level. One of the conclusions of the study reveal that fiscal decentralization may be the reason for better governance, but in case of Pakistan, fiscal decentralization is not improving governance at local and provincial level by having low revenue and expenditure share to the provinces. Findings of the study also highlight the shifting of power as a problem for the funds to be transferred at large level with rationality. Fiscal decentralization is not being supported provincial autonomy on the basis of NFC award. The six worldwide governance indicators are also showing poor performance of Pakistan in the world by having low scores. However, there are certain measures given in the way forward may be taken for enhancement and improvement of the system such as: Fiscal decentralization policy needs to be implemented by providing the two most important mechanisms by transferring revenue responsibilities to district governments and spending decisions.

Keywords: Decentralization, Governance, Fiscal Decentralization, Governance Indicators.