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PROJECT PERFORMANCE ASSESSMENT REPORT

THE ISLAMIC REPUBLIC OF PAKISTAN

SINDH STRUCTURAL ADJUSTMENT CREDIT
(CREDIT NO. 3686-PAK)

NWFP STRUCTURAL ADJUSTMENT CREDIT
(CREDIT NO. 3687-PAK)

NWFP COMMUNITY INFRASTRUCTURE AND NHA STRENGTHENING CREDIT (CREDIT NO. 2829-PAK)

December 19, 2005

Country Evaluation and Regional Relations
Independent Evaluation Group

Currency Equivalents (annual averages)
Currency Unit = Pakistani Rupee (Pr.)

1997	US$1.00 = Pr. 41.11
1999	US$1.00 = Pr. 49.50
2001	US$1.00 = Pr. 61.93
2003	US$1.00 = Pr. 57.75
2004	US$1.00 = Pr. 59.37

Abbreviations and Acronyms

AAA	Analytical and Advisory Activities
ADB	Asian Development Bank
ADP	Annual Development Program
AIT	Agricultural Income Tax
CAP	Community Action Plan
CAS	Country Assistance Strategy
CASPR	Country Assistance Strategy Progress Report
CBO	Community-based Organization
CCB	Citizen Community Board
CD	Community Development
CDD	Community-driven Development
CFAA	Country Financial and Accountability Assessment
CI	Community Infrastructure
CIP	Community Infrastructure Project
DCA	Development Credit Agreement
DFID	UK Department for International Development
EDO	Executive District Officer
ESW	Economic and Sector Work
GER	Gross Enrollment Rate
GDP	Gross Domestic Product
GNI	Gross National Income
GONWFP	Government of Northwest Frontier Province
GOP	Government of Pakistan
GOS	Government of Sindh
HDI	Human Development Indicators
HR	Human Resources
ICR	Implementation Completion Report
ID	Institutional Development
IDA	International Development Agency
IEG	Independent Evaluation Group
IMF	International Monetary Fund
IMMR	Instructional Materials and Minor Repairs
I-PRSP	Interim Poverty Reduction Strategy Paper
ISP	Institutional Strengthening Program
KPP	Khushal Pakistan Program
LG	Local Government
LGERDD	Local Government, Elections & Rural Development Dept.
LGO	Local Government Ordinance
LHW	Lady Health Worker
M&E	Monitoring and Evaluation
MELG&RD	Ministry of Environment, Local Government and Rural Dev.
MIS	Management Information System
M&R	Maintenance and Rehabilitation
MTBF	Medium-term Budgetary Framework
MTFRP	Medium-term Fiscal Restructuring Plan
MTR	Mid-term Review
NAM	National Accounting Model
NER	Net Enrollment Rate
NFC	National Finance Commission
NGO	Non-Government Organization
NHA	National Housing Authority
NRB	National Reconstruction Bureau
NWFP	Northwest Frontier Province
OED	Operations Evaluation Department *
O&M	Operations and Maintenance
PA	Project Agreement
PAC	Public Accounts Committee
PD	Program Document
PE	Public Enterprise
PFAA	Provincial Financial and Accountability Assessment
PFC	Provincial Finance Commission
PGDP	Provincial Gross Domestic Product
PIFRA	Project for Improvement in Financial Reporting and Auditing.
PIHS	Pakistan Integrated Household Surveys
PIU	Project Implementation Unit
PMU	Project Management Unit
PPAR	Project Performance Assessment Report
PPF	Project Preparation Facility
PRGF	Poverty Reduction and Growth Facility

* OED has changed its official name to Independent Evaluation Group (IEG). The new designation "IEG"will be inserted in all IEG's publications, review forms, databases, and web sites in the next few weeks.

Abbreviations and Acronyms (cont'd)

PRP	Provincial Reform Program
PRSP	Poverty Reduction Strategy Paper
PSC	Public Service Commission
PSD	Private Sector Development
PSLMS	Pakistan Social and Living Standard Measurement Survey
PTA	Parent-Teacher Association
SAC	Structural Adjustment Credit
SAP	Social Action Program
SAR	Staff Appraisal Report
SDC	Swiss Agency for Developmentand Cooperation
SIDA	Sindh Irrigation and Drainage Authority
SMC	School Management Committee
SO	Social Organizer
SOC	Social Organizer Coordinator
SP	Sindh Province
TMA	Tehsil Municipal Administration
TA	Technical Assistance
UA	Union Administration
UNDP	United Nations Development Program
UNICEF	United Nations Children's Fund
UPE	Universal Primary Education
WAPDA	Water and Power Development Authority
WSP	Water and Sanitation Program

Fiscal Year

Government: July 1 – June 30

Director-General, Evaluation	:	Mr. Vinod Thomas
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IEG Mission: Enhancing development effectiveness through excellence and independence in evaluation.

About this Report

The Independent Evaluation Group assesses the programs and activities of the World Bank for two purposes: first, to ensure the integrity of the Bank's self-evaluation process and to verify that the Bank's work is producing the expected results, and second, to help develop improved directions, policies, and procedures through the dissemination of lessons drawn from experience. As part of this work, IEG annually assesses about 25 percent of the Bank's lending operations. In selecting operations for assessment, preference is given to those that are innovative, large, or complex; those that are relevant to upcoming studies or country evaluations; those for which Executive Directors or Bank management have requested assessments; and those that are likely to generate important lessons. The projects, topics, and analytical approaches selected for assessment support larger evaluation studies.

A Project Performance Assessment Report (PPAR) is based on a review of the Implementation Completion Report (a self-evaluation by the responsible Bank department) and fieldwork conducted by IEG. To prepare PPARs, IEG staff examine project files and other documents, interview operational staff, and in most cases visit the borrowing country for onsite discussions with project staff and beneficiaries. The PPAR thereby seeks to validate and augment the information provided in the ICR, as well as examine issues of special interest to broader IEG studies.

Each PPAR is subject to a peer review process and IEG management approval. Once cleared internally, the PPAR is reviewed by the responsible Bank department and amended as necessary. The completed PPAR is then sent to the borrower for review; the borrowers' comments are attached to the document that is sent to the Bank's Board of Executive Directors. After an assessment report has been sent to the Board, it is disclosed to the public.

About the IEG Rating System

The time-tested evaluation methods used by IEG are suited to the broad range of the World Bank's work. The methods offer both rigor and a necessary level of flexibility to adapt to lending instrument, project design, or sectoral approach. IEG evaluators all apply the same basic method to arrive at their project ratings. Following is the definition and rating scale used for each evaluation criterion (more information is available on the IEG website: http://worldbank.org/oed/eta-mainpage.html).

Relevance of Objectives: The extent to which the project's objectives are consistent with the country's current development priorities and with current Bank country and sectoral assistance strategies and corporate goals (expressed in Poverty Reduction Strategy Papers, Country Assistance Strategies, Sector Strategy Papers, Operational Policies). *Possible ratings:* High, Substantial, Modest, Negligible.

Efficacy: The extent to which the project's objectives were achieved, or expected to be achieved, taking into account their relative importance. *Possible ratings:* High, Substantial, Modest, Negligible.

Efficiency: The extent to which the project achieved, or is expected to achieve, a return higher than the opportunity cost of capital and benefits at least cost compared to alternatives. *Possible ratings:* High, Substantial, Modest, Negligible. This rating is not generally applied to adjustment operations.

Sustainability: The resilience to risk of net benefits flows over time. *Possible ratings:* Highly Likely, Likely, Unlikely, Highly Unlikely, Not Evaluable.

Institutional Development Impact: The extent to which a project improves the ability of a country or region to make more efficient, equitable and sustainable use of its human, financial, and natural resources through: (a) better definition, stability, transparency, enforceability, and predictability of institutional arrangements and/or (b) better alignment of the mission and capacity of an organization with its mandate, which derives from these institutional arrangements. Institutional Development Impact includes both intended and unintended effects of a project. *Possible ratings:* High, Substantial, Modest, Negligible.

Outcome: The extent to which the project's major relevant objectives were achieved, or are expected to be achieved, efficiently. *Possible ratings:* Highly Satisfactory, Satisfactory, Moderately Satisfactory, Moderately Unsatisfactory, Unsatisfactory, Highly Unsatisfactory.

Bank Performance: The extent to which services provided by the Bank ensured quality at entry and supported implementation through appropriate supervision (including ensuring adequate transition arrangements for regular operation of the project). *Possible ratings:* Highly Satisfactory, Satisfactory, Unsatisfactory, Highly Unsatisfactory.

Borrower Performance: The extent to which the borrower assumed ownership and responsibility to ensure quality of preparation and implementation, and complied with covenants and agreements, towards the achievement of development objectives and sustainability. Possible ratings: Highly Satisfactory, Satisfactory, Unsatisfactory, Highly Unsatisfactory.

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Principal Ratings

Project	*ICR**	*ICR Review**	*PPAR*
NWFP Community Infrastructure (Cr. 2829)			
Outcome	Satisfactory	Moderately Unsatisfactory	Moderately Unsatisfactory
Sustainability	Likely	Non-evaluable	Unlikely
Institutional Dev. Impact	Substantial	Modest	Modest
Bank Performance	Satisfactory	Unsatisfactory	Unsatisfactory
Borrower Performance	Satisfactory	Unsatisfactory	Unsatisfactory
NWFP SAC – I (Cr. 3687)			
Outcome	Satisfactory	Moderately Satisfactory	Moderately Satisfactory
Sustainability	Likely	Non-evaluable	Likely
Institutional Dev. Impact	Modest	Modest	Modest
Bank Performance	Satisfactory	Satisfactory	Satisfactory
Borrower Performance	Satisfactory	Satisfactory	Satisfactory
Sindh SAC – I (Cr. 3686)			
Outcome	Satisfactory	Satisfactory	Moderately Unsatisfactory
Sustainability	Likely	Likely	Unlikely
Institutional Dev. Impact	Modest	Modest	Modest
Bank Performance	Satisfactory	Satisfactory	Satisfactory
Borrower Performance	Satisfactory	Satisfactory	Unsatisfactory

* The Implementation Completion Report (ICR) is a self-evaluation by the responsible operational division of the Bank. The ICR Review is an intermediate Independent Evaluation Group (IEG) product that seeks to independently verify the findings of the ICR.

Key Staff Responsible

Project	*Task Manager/Leader*	*Division Chief/ Sector Director*	*Country Director*
NWFP Community Infrastructure Project (Cr. 2829)			
Appraisal	G. Lee	M. Garcia-Zamor	M. Nishimizu
Completion	Julie G. Viloria-Williams	Constance Bernard	John W. Wall
NWFP SAC – I (Cr. 3687)			
Appraisal	Abid Hasan, Mark Sundberg	Sadiq Ahmed	John W. Wall
Completion	Paul Wade, Zareen Naqvi	Sadiq Ahmed	John W. Wall
Sindh SAC – I (Cr. 3686)			
Appraisal	Ahmad Ahsan, Hanid Mukhtar	Sadiq Ahmed	John W. Wall
Completion	Ahmad Ahsan, Hanid Mukhtar	Sadiq Ahmed	John W. Wall

Preface

This is the Project Performance Assessment Report (PPAR) on three lending operations to the Islamic Republic of Pakistan from 1996 to 2003, to assist the Northwest Frontier Province (NWFP) in developing community infrastructure projects, and to assist the NWFP and the Sindh Province (SP) in implementing structural reforms in public resource management, human development, governance, and private sector development (PSD), with the overarching objective of improving the delivery of basic public services and thereby reducing poverty.

The NWFP Community Infrastructure and National Housing Authority Strengthening Credit (CIP) (Credit 2829-PK), in the amount of SDR 13.7 million, was approved on March 14, 1996, became effective on July 17, 1996, and was closed on June 30, 2003, 18 months behind the original date. Seventy-seven percent of the Credit was disbursed. Parallel financing was provided by Switzerland in an amount equivalent to US$3.5 million, subsequently increased to US$4.5 million, 92 percent of which was disbursed. The project was co-financed by the Swiss Agency for Development and Cooperation (SDC) and by UNICEF.

The SP Structural Adjustment Credit (SAC) (Credit 3686-PK), in the amount of SDR 79.1 million, was approved on July 9, 2002, became effective on July 17, 2002, and was closed on December 31, 2002, the original date. The Credit was fully disbursed.

The NWFP Structural Adjustment Credit (SAC-I) (Credit 3687-PK), in the amount of SDR 71.2 million, was approved on July 9, 2002, became effective on July 12, 2002, and was closed on December 31, 2002, the original date. The Credit was fully disbursed.

An Independent Evaluation Group (IEG) mission visited Pakistan in October/ November 2004 to discuss performance with federal and provincial officials who implemented the projects, representatives of donors, and members of the Bank resident mission. The PPAR is based on all relevant Bank and Fund documents and on interviews with Bank staff. Their cooperation and assistance in preparing this report is gratefully acknowledged.

Comments from the Bank's Regional Management have been incorporated in the report. A draft report was sent to the Government of Pakistan and no comments were received. A copy was also sent to Swiss Agency for Development and Cooperation (SDC) that co-financed the NWFP Community Infrastructure and National Housing Authority Strengthening Credit (CIP) operation, and their comments are attached in Annex G. An IEG response is attached in Annex H.

This report was prepared by Pierre de Raet (Consultant, IEGCR), who assessed these projects in October/November 2004 under the supervision of Lily Chu (Task Manager, IEGCR). H. Joan Mongal and Roziah Baba (IEGCR) provided administrative support.

Summary

1. Up to the 1990s, Bank assistance to Pakistan was concentrated in agriculture, energy, and infrastructure. In the 1990s, there was a shift towards social sectors and public administration in response to increased evidence of widespread poverty and poor delivery of social services. The three operations reviewed here find their origin in this shift in emphasis. In addition, the two provincial policy development operations were to address the challenges raised by the devolution announced by the Musharraf government upon assuming power in 1999. The main objective of this PPAR is to assess to what extent operations at the sub-national level have proved a successful vehicle in raising performance in public services delivery compared to previous operations at the national level.

2. *Community Infrastructure Project in the Northwest Frontier Province (1996).* Its objective was to increase the productivity and living conditions of low-income groups through the provision of basic infrastructure and community development. From its inception, the project suffered from implementation constraints due to the institutional weaknesses in the Pakistani administration and to the difficulties inherent to having a community-driven project executed by a highly centralized provincial system, characterized by weak management, blurred responsibilities, heavy financial procedures, poor incentives, and gender imbalance, a critical shortcoming in community development. Implementation of the devolution policy while the project was being executed created further uncertainties. In this climate, ownership was absent for most of the implementation period. While the physical infrastructure was completed, the social infrastructure (community development, health and hygiene education, sanitation, activities targeted at women and children, responsibility for Operations and Maintenance – O&M) proved to be much more challenging and results were mixed if not meager.

3. The ratings of moderately unsatisfactory outcome, modest institutional development impact, and unsatisfactory Bank and Borrower performance are maintained. Sustainability is rated unlikely (against non-evaluable in the ICR Review) because the project did not succeed in institutionalizing community development processes within the provincial and local administrations.

4. The main lessons for Community Development Projects are:

- successful Community-driven Development depends on the understanding of and commitment to a Community Development model by the local authorities;
- project design must allow for maximum flexibility depending on the circumstances of each community;
- the design of the project must ensure that the social infrastructure interacts with the chosen physical infrastructure. Implementation plans must allow for this;
- high quality Community Development and Institutional Development staff is of crucial importance and should be in place from project start through completion;
- the design of the project should pay particular attention to the active participation of women in all project phases. Sustainability is largely dependent on them;

- when beneficiary contributions are put up, the project design must provide for verification of effective payment and origin of funds of contributions to capital cost and O&M; and
- M&E systems must be in place and fully functioning before project start and those responsible to operate and use it recruited and trained.

5. *Structural Adjustment Credits of the Northwest Frontier Province and of the Sindh Province (2002).* After devolution was announced, studies on provincial finances highlighted that a major factor in Pakistan's poor performance in reducing poverty in the 1990s was due to the inability of the provinces to provide essential public services, which was in turn due to the provinces' weak governance and dire public finances. Given the new responsibilities devolved to local governments, the provinces needed to restore their public finances and generate sufficient resources to fund local governments. The two Structural Adjustment Credits (SACs) addressed those issues and were very similar in content and design. They both aimed at: (i) strengthening governance; (ii) strengthening public health and education delivery systems, with a focus on primary service delivery; (iii) undertaking fiscal and financial management reforms; and (iv) deregulation and business facilitation to enhance prospects for growth and poverty alleviation. Strengthening governance to improve public service delivery was a cross-cutting theme.

6. With the assistance of the Bank, both SACs were based on reform programs prepared over 2000-01 by provincial governments. They were one tranche operations based on actions taken prior to Board presentation and both Credits were disbursed in July 2002. Their performance subsequent to effectiveness diverged after elections were held in October 2002. In the Northwest Frontier Province, the parties elected formed a solid coalition which supported the reform program as meeting much of their own agenda, particularly in the delivery of social services. A second SAC was approved in 2004 and a third one is under discussion. In Sindh, on the other hand, a fragile coalition emerged from the elections with often conflicting agendas, a situation which led to slow decision-making and even paralysis in some reform areas. Faced with this situation, the province and the Bank agreed in 2004 to undertake a program of analytical work expected to provide the background necessary to a resumption of reforms.

7. For the Northwest Frontier SAC, the ratings of moderately satisfactory outcome, modest institutional development impact, and satisfactory Bank and Borrower performance are confirmed. Sustainability is rated likely (against non-evaluable) on the basis that the operation proved to be a solid basis for a second SAC and for deepening the dialogue on the critical area of public resource management.

8. For the Sindh SAC, the ratings of modest institutional development impact and satisfactory Bank performance are confirmed. Outcome is moderately unsatisfactory (against satisfactory) because the pace of reforms slowed considerably after the 2002 elections, especially in redressing important bottlenecks in financial management, in civil service reform, and in promoting private sector development. Sustainability is unlikely (against likely) because there is currently little prospect of arriving at the consensus required to strengthen fiscal and financial management. Borrower performance is unsatisfactory (against satisfactory) because commitment and ownership weakened considerably after the 2002 elections.

9. The main lessons from the provincial SACs are:

Lessons for Pakistan

- the limited experience gained by the two first SACs reviewed here suggests that operations at the sub-national level are a useful complement to those at the national level. In terms of contributing to improved delivery of service and poverty reduction, they compare favorably with the Social Action Program;
- unless the mechanisms governing the financial relationships between the federal and provincial governments are revised, there is little or no prospect for the provinces to be able to fulfill their social mandate as provided by the Constitution and the devolution plan in a sustainable manner;
- capacity at the lower level is generally very weak since power resides at the center for historical reasons. The focus, content, and design of sub-national operations should target capacity and institutional building at that level in conjunction with the transfer of responsibilities from the higher to the lower level. The present assessment revealed the lack of clarity in roles and responsibilities, financial procedures, and modalities of using funds transferred to lower levels; and
- when designing sub-national operations, joint discussions with the central government are indispensable to ensure that the conditions for success falling under the jurisdiction of the central level are either expected to be fulfilled within the time frame of the operation or are excluded from the reform program.

Lessons of Broad Applicability

- ownership and commitment, at the political as well as at the administrative level, are keys to success. If obtained, sub-national operations generate valuable benefits in terms of creating greater awareness among provincial and local authorities of their duties and responsibilities vis-à-vis their constituencies;
- given the weak local capacity, emphasis should be placed not only on building institutional capacity and training, but also on incentives to encourage staff to learn and assume greater responsibility; and
- sub-national operations should be accompanied by well designed and well focused TA directed at the issues listed above.

Vinod Thomas
Director-General, Evaluation

1. Introduction

1.1 Up to the 1990s, Bank assistance to Pakistan was concentrated in agriculture, energy, and infrastructure. In the 1990s, there was a shift towards social sector and public administration in part due to increased concern over widespread poverty and poor delivery of social services. The three operations reviewed here find their origin in this shift in emphasis. In addition, the provincial policy development operations also reflect the devolution policy of the federal government initiated in 2001, which was designed to improve the ability and responsibility for delivery of social services. Thus, the main objective of this PPAR is to assess to what extent operations at the sub-national level, either at the local or provincial level, have proved to be a more successful vehicle in raising performance in public services delivery than previous operations at the national level, such as the Social Action Program (SAP), Pakistan's main vehicle for expanding basic services coverage initiated in the early 1990s.

1.2 The NWFP Community Infrastructure and National Housing Authority (NHA) Strengthening Project (CIP)[1] belongs to the group of 17 projects financed by the Bank in the social sector between 1990 and 2003, including social protection and poverty, education, health and population, and community infrastructure, some at the national level, others at the provincial level.

1.3 The Sindh Province (SP) and Northwest Frontier Province (NWFP) Structural Adjustment Credits (SAC)[2] are part of the group of policy development operations of the early 2000s that addressed several of the major 2002 Country Assistance Strategy (CAS) themes (fiscal improvement, governance, distortions, service delivery, and public administration/implementation capacity). Accordingly, the two operations focused on those themes as vehicles to improve service delivery.

1.4 The report is structured as follows: Section 2 provides the background and context in which the three operations were designed; Section 3 discusses performance of the CIP and the lessons to be drawn; and Section 4 discusses the provincial SACs and their lessons.

[1] The Staff Appraisal Report (SAR) for the CIP is dated February 13, 1996 (Report No. 15341-PAK) and the Implementation Completion Report (ICR) is dated December 31, 2003 (Report No. 27496-PAK). Throughout this report, the project will be referred to as CIP.

[2] The Program Document (PD) for the SP SAC is dated May 28, 2002 (Report No. 24193-PAK) and the ICR is dated June 19, 2003 (Report No. 25158-PAK). The PD for the NWFP SAC is dated May 31, 2002, (Report No. 24188-PAK) and the ICR is dated June 19, 2003 (Report No. 25157-PAK).

2. Background

2.1 Pakistan, twice the size of France, has a population of about 148 million, growing at 2.1 percent per year. The country consists of four provinces: Punjab, Sindh, Northwest Frontier, and Balochistan. The GNI per capita in 2003/04 was US$521.[3] Over most of the period after independence (1947), the country outperformed its neighbors, with GDP growing at over 6 percent per annum, but, in the 1990s, the growth rate declined to about 4 percent per year. The economic situation has improved since 1999, with a stable government in place under President Musharraf, the resumption of reform policies, and support from the international community: GDP growth reached 5.1 percent in 2002/03, is estimated at 6.4 percent in 2003/04, and is projected to reach 8 percent in 2004/05.

2.2 Despite a good growth performance over the long-term, Pakistan has failed until very recently to make progress in its social indicators, which lag behind those of its neighbors. The slower growth of the 1990s resulted in fact in an increase in the incidence of poverty, reaching 32.1 percent in 2000/01, compared to 27 percent in 1990/01. During that period, urban poverty fell, but rural poverty increased substantially from 24.6 percent in 1992/93 to 38.7 percent in 2002/03. Poverty is reflected in almost all social indicators: Pakistan ranked 142 out of 175 countries in the 2003 UNDP's Human Development Index (HDI); infant mortality is 76 per thousand; the fertility rate is 4.5; girls aged 1-4 have a 66 percent higher death rate than boys, explaining the lower proportion of women in the population; and in comparison with other low-income countries, Pakistan has 20 percent fewer children in primary school and 40 percent fewer girls. To address poverty reduction in a comprehensive way, Pakistan issued a Poverty Reduction Strategy Paper (PRSP) in December 2003.

DEVOLUTION

2.3 Performance of operations at the provincial or local level must be assessed in the light of the devolution policy adopted by the Musharraf government in 2001. The policy aims at "reconstructing the institutions of the state" through a system of democratically elected local governments (LG).[4] According to the Local Government Ordinances (LGO) issued by the provinces in August 2001, devolution had two sets of objectives: (i) a political objective aimed at reforming political structures; and (ii) a set of economic and social objectives aimed at granting the citizenry a greater say in managing local affairs, including the delivery of social services. It involved the abolition of the existing three levels of provincial administration (divisions, districts, and tehsils) and the creation of a new tier of LGs (districts, tehsils, union administrations), and the replacement of the existing municipal bodies by these new LGs. Reforms took place in three areas: political, administrative, and fiscal.

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[3] The Federal Bureau of Statistics has revised the national accounts statistics in 2004, moving the base year from 1980/81 to 1999/00. The government believes the new statistics capture better the state of the economy over the past 20 years since some economic activity had been underestimated or not reported. The rebasing has resulted in GDP estimates for 1999/00 and subsequent years 20 percent higher. Using the revised base, GDP per capita in 2003/04 is estimated at US$638 instead of US$521. Throughout this report, the old statistics are used since the analysis and decisions of the Bank during the period covered by this assessment were based on the previous statistics.

[4] Annex A presents the main features of the devolution.

2.4 In the political arena, local officials are elected directly or indirectly depending on the tier. A key feature of the reform is the establishment of bodies through which citizens are able to access and influence government at the local level, the most important of which being the Citizen Community Board (CCB), formed voluntarily and composed of at least 25 members. CCBs can initiate development projects, establish cooperatives, and support external oversight bodies, such as Monitoring Committees. At least 25 percent of the development budget of each tier must be earmarked for development projects identified by the CCBs. At the administrative level, most functional departments of the province were transferred to the districts with a similar, but smaller, structure at the tehsil level, but not at union level, since there are no expenditure assignments to the union.

2.5 At the fiscal level, responsibilities for elementary and secondary education, primary and secondary health, agriculture, and intra-district roads were transferred to the districts, while municipal services, including roads and streets, water supply systems, sewers, and sanitation, were devolved to the tehsils.[5] Although union administrations (UA) were not assigned service-delivery responsibilities, they are in fact responsible for small-scale development projects. On the revenue side, the mechanism adopted for the transfer of resources from the provinces to LGs mirrors the revenue sharing system at the federal-provincial level. A Provincial Finance Commission (PFC) is to decide, for a medium-term period, the share of a “divisible pool” to be transferred to districts according to a formula based on population and an index of “backwardness”, the province keeping resources for expenditures for which it is responsible, including debt liabilities. Since their creation, PFCs have not made any awards covering a medium-term period and interim awards are extended every year. The implementation of the fiscal reforms is far from complete; as a result, the responsibility for and the actual delivery of public services are still very much blurred.

2.6 Up to now, implementation of the devolution has been very uneven among provinces, due to a host of factors: unclear processes, procedures, and mandates, lack of capacity at the local levels, insufficient financial resources, delocalization of personnel, and, last but not least, considerable resistance on the part of the provinces and their staff.

THE NORTHWEST FRONTIER PROVINCE (NWFP)

2.7 The NWFP, the smallest province in size, has a population of about 20 million, growing at 2.8 percent per year. It is largely mountainous in the north and west with lowlands leading to the Indus valley in the east. Nearly 50 percent of the population lives in the mountainous and arid areas. The influx of some 2 million refugees from the Afghan conflicts has exacerbated pressure on the limited resources of the province. The economy is based on agriculture (livestock, timber, tobacco, horticulture), services, public employment, mostly in the armed forces, a vibrant informal micro and small sector, and remittances from low-skilled workers. The manufacturing base is very narrow. Mineral resources, precious and semi-precious stones, marble, and granite, are

[5] The fiscal reforms were devised so as to avoid amendments to the 1973 Constitution with respect to the functions exercised respectively by the federal and the provincial governments. Since 1973, the provinces were responsible for service delivery.

underexploited, while river water is abundant and used for hydro-power. The province is highly dependent on revenue transfers from the federal government according to the National Finance Commission (NFC) mandate for sharing revenue in the divisible revenue pool. In addition, it is dependent on the ability of the Water and Power Development Authority (WAPDA) to generate profits and distribute them to the provinces (hydel profits).

2.8 Income per capita is about 30 percent lower than the national average. Poverty in the NWFP is higher than in Pakistan in general, and is prevalent in the mountainous and rural areas (49 percent, against 31 percent in urban areas). Social indicators are very low and the gender disparity is the highest in the country: the average family size is 7.8 (against 6.8 for the country); the average size farm is 2.2 acres (against 9.4); more than 40 percent of children under two are not fully immunized; infant and maternal mortality rates are above national averages; female literacy is only 15 percent (against 27); enrolment of girls in primary education is 54 percent against 84 percent for boys. Generally, the population in the NWFP has a much lower access to physical and health-related infrastructure. The jurisdiction of the provincial government does not extend to the tribal areas which are under the federal government.

THE SINDH PROVINCE

2.9 Sindh is the second largest province in size, with a population of about 35 million, growing at 2.9 percent per year. It is the home of Karachi, the largest city in the country with some 12 million inhabitants. Income per capita is about US$600. It is the most urbanized province, with 49 percent of the population living in urban areas, and its economy accounts for about 30 percent of national GDP. Industry accounts for 28 percent of provincial GDP, agriculture for 23 percent, commerce for 17 percent, and transport and communications for 12 percent.

2.10 Sindh exhibits the widest disparity in income, a very large urban-rural gap, and a wide social gap in human development. Poverty in the rural areas stands at 37 percent, about the national average. Social indicators in rural areas are very low compared to those in urban areas: male literacy is 52 percent against 78 percent; female literacy is 11 percent against 55 percent; infant mortality is 103 per thousand against 67. Rural Sindh is highly dependant on public social services, while the share of the private sector in urban centers is very high: 40 percent of primary enrollment (against 5 percent in rural areas) and 50 percent of medical beds.

3. The NWFP Community Infrastructure Project (CIP) (FY96)

THE STRATEGY CONTEXT AND PROJECT ORIGIN

3.1 The Bank's country assistance strategy of November 1995, acknowledged that Pakistan's progress in growth had hardly been accompanied by increased people's access to basic services and improved quality of life and that Pakistan continued to lag behind other countries at comparable levels of development in key social indicators, in differences between poor and non-poor, and in gender disparities. To meet that challenge, the thrust of the strategy was to help reduce poverty, notably by focusing on service delivery, and it noted upfront "To this end, we intend to work with the Government to involve *communities*, the private sector. Such a partnership is necessary to deliver results on the ground faster."[6]

3.2 Although it continued to support the SAP,[7] the Bank argued that it had to be complemented by expanding access to and improving the delivery of core social services, notably "by raising the participation of people in designing, implementing, and monitoring programs to improve their lives more quickly", and by "targeting poor women and children, particularly in rural areas – including the North, where needs are great but which has not received sufficient donor attention in the past.[8] Thus, the Bank presented the NWFP CIP as a project "under which communities in low-income areas are involved in selecting, planning, operating, and maintaining their infrastructure, as well as financing a significant share of the cost".[9]

3.3 The project finds its origin in a series of studies conducted by the Bank in 1989 and by NHA, an arm of the Ministry of Housing and Works, which had concluded that earlier approaches of constructing and financing serviced plots and new homes or upgrading projects without community involvement had not served low-income groups and tended to ignore issues related to operation and maintenance (O&M). On the basis of these findings, NHA and the Government of the NWFP (GONWFP) came to the conclusion that addressing the infrastructure needs of low-income communities required community involvement, with due regard to affordability, sustainability, and effective O&M arrangements. The province developed new policies for community infrastructure providing for a contribution by the community of the land required, of at least 20 percent of the capital cost (excluding primary infrastructure), and of 100 percent of O&M costs, the local council having to contribute 10 percent of the capital cost (excluding primary infrastructure). The province launched two pilot operations on that basis, which served as blueprint for the preparation of the CIP.

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[6] Internal document, November 22, 1995

[7] The Bank contributed to the SAP by two operations, the first one in FY94, rated as satisfactory, and the second one in FY98, rated unsatisfactory. A discussion of the outcome of the SAP may be found in the Country Assistance Evaluation (CAE) report forthcoming.)

[8] Internal document, November 22, 1995, para.44.

[9] Op. cit.

OBJECTIVES AND DESIGN

3.4 The objective of the project was to increase the productivity and living conditions of low-income groups in the NWFP through the provision of basic infrastructure and community development (CD). This was to be achieved by: (i) infrastructure upgrading and CD in existing urban and rural low-income settlements; (ii) promoting the use of demand-driven, participatory design procedures and affordable standards for infrastructure; (iii) strengthening the ability of provincial and local governments to collaborate with communities to implement low-income infrastructure programs; and (iv) promoting sustainable arrangements for O&M of basic services. The main benefits expected were improved health, increased productivity, and better business opportunities. This objective remained unchanged throughout project implementation, although there was a shift in emphasis towards institutional strengthening, at both the federal and local levels, after devolution was announced. There were two components to achieve the objective:

- *Upgrading of Community Infrastructure* (CI) consisting of: (i) upgrading of basic infrastructure in about 55 urban and rural communities, including, *inter alia*, provision of water supply, storm water drainage, flood protection, streets and footpaths, sanitation and solid waste management; (ii) provision of incentive grants towards the cost of on-plot sanitation facilities; (iii) carrying out of CD, provision of health and hygiene education, and, wherever requested by the community, improvement of land registration facilities and documentation; and (iv) provision of design and implementation assistance, including the establishment or strengthening and operation of Project Implementation Units (PIUs), the provision of consultants' services, and training of staff and communities.

- *Institutional Development (ID) and Project Preparation* consisting of: (i) provision of TA to NWFP for the carrying out of a study for strengthening its Local Government, Elections and Rural Development Department (LGERDD), institutionalizing the Project Management Unit's (PMU) infrastructure functions within LGERDD, and strengthening local councils; (ii) provision of TA to strengthen NHA, including assistance in data analysis and sector monitoring; program monitoring, evaluation and dissemination; building technology evaluation and dissemination; policy development; and information exchange; and (iii) refinancing of the Project Preparation Facility (PPF).

3.5 Without affecting the overall objective of the project, several events led to changes in the scope of some sub-components and to reallocations of funds. First, substantial cost savings, arising from the devaluation of the Pakistani Rupee, the smaller size of the communities served in the early phases of the project, and the slow progress of some components led the Federal Government (GOP), GONWFP, and the Bank to agree at the mid-term review in May 1999, to extend the CI component to 35 communities, of which 10 were extensions of existing schemes to neighboring community blocks and were referred to as "deepening" schemes.

3.6 Second, it was agreed to refocus effort to the institutionalization of community mobilization and development processes and to build the capacity of LGs to enable them to undertake community based development activities.[10] However, with no progress in implementation after about 18 months and with devolution taking shape, the scope of the sub-component was revised again to target institutional support initiatives to strengthen the capacity of LG officials.

3.7 Third, a similar evolution took place at the federal level. In mid-2000, GOP requested that NHA be replaced by the Ministry of Environment, Local Government and Rural Development (MELG&RD) as the entity responsible for ID and policy formulation and that a substantial portion of the Credit be reallocated to that sub-component. The Bank agreed to broaden the sub-component to finance a nationwide information and training program on participatory approaches in support of the newly elected LG officials. The Development Credit Agreement (DCA) and the Project Agreement (PA) were amended in June 2001 to reflect these changes.

3.8 The main design features of the CI component were the following:

- a fairly complex institutional set-up within the provincial government with LGERDD as the department responsible for the project, and a PMU responsible for providing the technical resources and capacity for planning, design, implementation, and day-to-day project management.[11] The PMU was to be strengthened in planning and CD, design and implementation, M&E, and finance, while the PIUs, whether existing or to be established at the divisional level, were to be strengthened with Social Organizer Coordinators (SOC) to assist in CD.

- the component was to cover 55 communities in three phases (20, 27, 8) over five years (subsequently increased to 90 as noted above), with upgrading of an individual scheme expected to take 2-3 years. Community-Based Organizations (CBOs) were to be extensively involved in all stages of the project cycle.

- the criteria for pre-selecting communities were: low income; lack of basic infrastructure or slum area; settlements above 3,000 persons; geographic spread and urban/rural balance; and potential for community participation. To be eligible, the schemes proposed by communities were to satisfy the following: evidence of community and local council participation and contribution to capital costs, as per the provincial guidelines (at least 20 percent from the communities + 10 percent from the local councils, excluding primary infrastructure); availability of primary infrastructure, based on a separate feasibility study reviewed by the Bank; environmental sustainability; technical and economic viability (the cost per scheme was limited to Rs 7,200 per household net of community contribution);

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[10] The sub-component was renamed Institutional Strengthening Program (ISP). The Swiss Agency for Development and Cooperation (SDC), the cofinancier, agreed to raise its contribution from US$3.5 million to US$4.5 million to assist in this task.

[11] The PMU had been created in 1989 to design and implement the Asian Development Bank's (ADB) Second Urban Development Project. It had responsibility for infrastructure projects preparation.

and sustainability in the form of prior agreements to adopt the completed works and to provide the financing of O&M (100 percent). In addition, continued satisfactory O&M was a condition for further eligibility.

3.9 The design of the project remained substantially unchanged after the announcement of the devolution plan, except that 8 of the 35 new sites – designated as pilots - were to be executed by Tehsil Municipal Administrations (TMA) in accordance with their new responsibilities. This was to test the principles of community infrastructure development and participation under the new institutional set up.

RELEVANCE OF OBJECTIVES

3.10 The objective of the project was fully consistent with the 1995 Bank's country assistance strategy and was – and still is – highly relevant. However, its design suffered from several institutional weaknesses inherent to having a decentralized community-based project executed by a highly centralized and complex administration, with its attendant bureaucratic layers and rigid decision-making processes. It underestimated the institutional gap between the provincial level and the grass root community level as well as the negative impact caused by the high turnover of staff in the Pakistani civil service. It attempted to fill that gap by beefing up the staff of the PMU and PIUs and the provision of a consortium of consultants, but, at the same time, created an even more complex structure. More importantly, ownership of the CIP model by the provincial authorities was overestimated as evidenced by their skepticism towards the lower levels' capacity to assume ownership and implementation of development projects, and their resistance to delegate power and/or reticence to build up capacity at the lower level. The attitude exhibited by the provincial authorities of "looking down" upon the lower administrative levels came to the open with the implementation of devolution. Another factor whose impact was underestimated was the extent to which the particular social norms of the province – much more restrictive than in the other provinces - would be limiting the role of women in decision-making and participatory activities. To sum up, although the objective of the project was sound, its institutional set-up was tenuous and fragile.

IMPLEMENTATION

3.11 From the very beginning, the project faced serious constraints to implementation: (i) wavering Government ownership, with frequent changes in leadership, poor understanding of and commitment to the project principles, and consequently considerable delays in approval of budgets and administrative decisions, including appointment of key personnel; (ii) appointments of directors general to the PMU with little or no experience; (iii) limited management and implementation capacity of PMU and PIU staff distracting consultants from their normal tasks; (iv) poor delineation of tasks between PMU and PIUs compounded by an acute shortage of logistical support in the field; (v) highly centralized administrative, financial, and budgetary procedures; (v) restrictive policies on the recruitment of NGOs, slowing considerably the outsourcing of capacities and skills in CD and jeopardizing their potential role in establishing CD on a long-term basis; (vi) high turnover of staff; (vii) low salaries and incentives for field staff, especially for the Social Organizers (SO) negatively affecting their morale and motivation; and (viii) gender imbalance in the PMU and PIUs and among SOs, a critical shortcoming for CD as it frustrated not only community mobilization but also the more comprehensive program covering sanitation, health and hygiene education, and the specific activities targeted at women and children.

3.12 The adverse impact of the above constraints had become clear by the mid-term review in May 1999, as there was a significant imbalance between physical implementation and the broader social objectives of the project, reflecting a lack of commitment to and an inability to create the basic conditions for CD as much as a lack of institutional capacity at all levels. That imbalance persisted till the end of the project. The mid-term review concluded that, without a major improvement in the overall management of the project, it would be difficult for the project to be completed and for its objectives to be achieved by the closing date, December 31, 2001.[12] To redress the situation, GONWFP and the Bank agreed on a two-pronged strategy: (i) the need for an outsourcing plan of NGOs; and (ii) the gradual transfer of responsibilities from the CIP model to greater reliance on LGs for the provision of community services. However, little was achieved in the ensuing two years - for a mix of constraints listed above - to the point that the Bank seriously considered downgrading the rating of the project to unsatisfactory and was reluctant to consider extending the closing date despite repeated requests from GONWFP officials.[13]

3.13 Against this background, there was one positive development, the slow but increasing pace in the construction of physical infrastructure, an indication, according to Bank missions, of the interest in and ownership by the communities of demand-driven schemes. During that period, the Bank exhibited an ambiguous and vacillating attitude towards the project and sent conflicting signals to the authorities: on the one hand, stressing – sometimes in strong terms - the failings of the project with threats of cancellations; on the other, entertaining since December 1999, the prospect of a second operation.[14] It was only by mid-2001, with the arrival of a new Director General at the PMU, the removal of some administrative bottlenecks, the recruitment of additional SOs, and the partnership with three NGOs, that some components started making noticeable progress. However, even with the closing date extended first to December 31, 2002, and again to June 30, 2003, several activities could not be completed as envisaged originally.

Achievements under the Community Infrastructure Component.

3.14 *Infrastructure upgrading*. The communities were offered a menu of infrastructure upgrading. Most projects selected were simple, such as improvements in access roads,

[12] As of March 30, 1999, only 23.8 percent of the Credit had been disbursed, while only 12 percent of expenditures expected for CD had been made and none for the ID component.

[13] The mounting frustration during this period is illustrated by the frequent revisions in work programs, and the numerous – and constantly readjusted - priority actions agreed at the end of each supervision mission, with little effect.

[14] A second project, Second NWFP Community Infrastructure Project – CIP II (Report No. 28119-PK of April 29, 2004), in the amount of SDR 25.3 million, was approved by the Board on May 20, 2004.

road paving, and drainage, with only a few water supply projects. Construction of primary infrastructure was carried out by contractors, while secondary - or community – infrastructure was carried out by contractors and the communities themselves. By June 30, 2003, the closing date of the Credit, most of the physical works were reported as completed. The data are scanty, but there is little doubt that the additional sites involved less work and were implemented more rapidly, partly under the pressure of the approaching closing date.[15] At appraisal, it had been estimated that the project would reach some 420,000 beneficiaries; at closing, the estimate was 600,000, including indirect beneficiaries.[16] According to a "Third-Party Evaluation", covering a sample of 12 communities carried out by consultants in late 2002, the investment cost of a typical scheme was some 35-40 percent lower than local government norms due to much lower unit costs. This evaluation also reported that the works were generally of good quality.[17]

3.15 On the crucial question of the communities' contribution of 20 percent to capital costs, the picture is not clear: the visit to the field by IEG revealed that, in several – if not many – cases, contractors had financed this contribution themselves in order to speed up contract award. Regarding the 10 percent contribution by the Local Councils, little information is available, but on several occasions, the province had to advance the funds. Similarly, in the case of the 8 pilot sites implemented by TMAs, the province had to advance the funds. Strangely, the source of the contributions to the capital cost, a cornerstone - with O&M - of the sustainability of any CD project, is not discussed in any supervision report or the ICR.

3.16 *Sanitation*. The project provided for incentive grants of about 25 percent towards the approved cost of on-plot sanitation facilities. However, as early as mid-1997, GONWFP decided to drop the component due to a change in policy on subsidization of house latrines as it created equity problems and had not yielded positive results in other projects. By way of compromise, it accepted to support the component in the first 29 sites where it had been committed to the communities. For the remaining sites, it was agreed to look into other options based on communal facilities rather than individual ones. However, no progress was made on this issue until closure.

3.17 *Community Development*. This is the area where implementation difficulties were the most visible and caused most delay. Community mobilization and organization up to the preparation of Community Action Plans (CAP) were more or less in step with infrastructure construction. However, four issues arise when assessing performance under this phase of CD. They all cast doubt on the genuine involvement of the communities: (i) political interference is recognized to have played an important role in the identification and selection of sites during the first two years of the project; (ii) infrastructure construction was the driving force of the project, as opposed to what would

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[15] Internal Bank documents, and the ICR do not provide clear information/data on the motivations of the communities for their choice of works, the type of works carried out, the extent to which secondary works were undertaken by contractors alone or jointly with members of the communities, etc.

[16] ICR, p. 6.

[17] The IEG mission was informed by several interlocutors that quality in construction had deteriorated in the second half of the project.

be expected when dealing with Community-Driven Development (CDD). This is consistently noted by supervision reports and is illustrated by the decision, as early as mid-1997, to reduce the time allotted for CAP preparation from 29 to 7 days not to delay construction and speed up disbursements. Although community mobilization was supposed to continue during detailed design and other preparation activities, this decision had a negative impact on consensus building and decision-making among community members and was counterproductive; (iii) there was a lack of understanding of what "community mobilization" actually means as well as a lack of an agreed action plan of the activities to be carried out with the communities, including timing, methodology, assignment of responsibilities, strategy for women activities, etc. As a result, combined with the constraints listed above, the scope and content of this component lacked rigor and implementation was inevitably loose,[18] and (iv) women were little involved in the early phases of community mobilization and in the choice of infrastructure, since their own CBOs were not the main interlocutors in this area.[19]

3.18 The second area of the CD component was the provision of health and hygiene education and of specific activities targeted to women and children. By the mid-term review in May 1999, implementation of these programs had not started and no funds had been spent.[20] This was the major reason for the Bank to insist on partnerships with NGOs. However, as already noted, problems continued until a new Director General, appointed in mid-2001, took remedial actions. Even then, formal approval at a higher level meant delay.[21] It is only by early 2002, after removal of administrative bottlenecks, that progress was more sustained in providing training in health and education and in running awareness and orientation campaigns on O&M. By January 2003, CD activities were being implemented on 74 sites by SOs, and on 16 sites by three NGOs.[22] Funds allocated to these activities were spent at 65 percent.

3.19 *Technical Assistance and Training*. Up to the termination of its contract in December 1998, the consultant consortium spent an inordinate amount of time and energy to compensate for the management shortcomings of the PMU. As a result, the training of PMU managers and staff was carried out in an haphazard way, while the different training needs analyses, and preparation of training programs and materials for CIP staff, field personnel, and CBOs suffered delays. Despite the subsequent appointment of a Training Coordinator and the recruitment of individual consultants, it took a long time to translate the results of the different needs analyses into training

[18] An internal document of 1997 mission states: " we need a clear definition of 'community mobilization' and criteria for judging if it has been adequately achieved."

[19] At the two sites visited by IEG, the mission had requested to meet with the women to ascertain their priorities vis-à-vis those of the men and obtain their views on the benefits from the infrastructure built, but permission was denied on the grounds that it was against the "social norms".

[20] An internal document following the mid-term mission reads as an indictment of CD activities, especially of the different social programs.

[21] Discussing the activities under this CD sub-component, an internal document of May 2001 notes: "The feedback from the women's CBOs has been consistently critical of the packages offered by the Project for women and children. While mobilization and capacity building of their CBOs generates great enthusiasm and expectations, the Project provides little incentives [sic] to sustain them through its interventions aimed specifically for them."

[22] The contract with NGOs terminated in December 2002.

concepts and programs as well as to train trainers. This bleak situation was exacerbated when the scope and content of the training programs had to be revised to respond to the needs of the devolution. By the end of the project, training was imparted to the communities by the CD staff and some NGOs. However, with the implementation of the Institutional Strengthening Program (ISP) under the ID component, training programs were increasingly merged with activities conceived for and targeted to respond to the needs of the new local tiers of government. This was the case for the TMAs responsible for the 8 pilot sites and even for the PMU.

3.20 *Monitoring and Evaluation*. The project envisaged an M&E framework consisting of: (i) a MIS as a management tool for the PMU; (ii) a performance monitoring system to measure progress against plans, quality of implementation, and effectiveness in reaching objectives; and (iii) a process monitoring system to analyze project processes and thereby identifying potential areas for improvement. Although their design was timely, the effective operationalization of the M&E systems was considerably delayed due to a lack of skilled staff, delays in procurement, uncertainty of assignments, and poor cooperation among staff. In addition, the role of M&E in providing information to management for effective and timely decision-making was not fully appreciated. As a result, M&E was long neglected and the M&E unit often performed ad hoc tasks to support management. It took several years, until a local M&E specialist was recruited, to streamline the framework. The process monitoring system, administered by the Bank's Water and Sanitation Program (WPS), proved to be the most useful in attempting to institutionalize processes. Bank supervision reports address at length the travails of making the different M&E systems operational but they, as well as the ICR, provide no information on what they finally delivered in terms of measuring achievements.

3.21 *Operation and Maintenance*. By the time of the mid-term review, the PMU had signed O&M agreements with all the 55 original communities, describing their responsibilities. However, in practice, CBOs had not been effectively mobilized and their contributions (100 percent) not collected. In addition, O&M activities had not been institutionalized in the CIP processes and not monitored. During the ensuing two or three years, progress was slow and in pace with the handing over of completed sites to CBOs. A complicating and delaying factor emerged in 2001 because the O&M agreements provided for the CBOs to be responsible for O&M of primary works, instead of the local councils, as provided in the SAR, giving rise to conflicts between communities and councils. By mid-2002, O&M orientation and training were underway in all of the 55 original sites and were to start in the 35 additional sites. Effective O&M was reported to be uneven with technical problems unsolved in some cases. In the case of water supply schemes, communities are reported not to be able to afford O&M.

Achievements under the Institutional Development Component

3.22 *Institutional Strengthening Program*. The objective of the component was to institutionalize CD processes and to build the capacity of LG institutions to undertake CD activities themselves. After the component had been redirected to supporting the new LGs, as noted above, the provincial authorities had difficulties in designing a program and defining the responsibilities for its implementation. Also, the hiring of three ID specialists was not completed until early 2002. By end 2002, all the preparatory work had been completed (work program, budget, needs assessment of TMAs), but additional local consultants were to be recruited to tailor the programs to the specific needs of concerned TMAs. By project end, it was agreed that the program would be actually implemented over 2003, and possibly beyond, with the financial assistance of SDC. As a result, actual implementation of the ISP did not take place while the Bank was present in the project, but the component certainly contributed to helping the provincial authorities lay the ground for strengthening LGs.

3.23 *Federal Facilitation Program*. After the component had been finally revised, some progress was made in developing a nationwide awareness and training program for elected LG officials. Implementation started in March 2001, but after three months, the National Reconstruction Bureau (NRB), the architect of the devolution, questioned the timing, target audience, and role of some of GOP entities in dissemination, monitoring, and policy review and development. This created further delay. In the end, a fairly large number of master trainers, trainers and officials were trained, but the program was launched too soon after local officials had been elected (they hardly knew what their new responsibilities were to be), and the trainers did not have the requisite expertise. The component had no effective impact and was abandoned.

OUTCOME

3.24 *The rating of Moderately Unsatisfactory is confirmed*. There is no firm evidence that the project led to increased productivity and improved living conditions of low-income people in the province. Certainly, the well-being of the communities concerned has been raised in that benefits derived from improved infrastructure are likely to endure for the medium-term. But the implementation record casts doubt on having achieved the central objective of generating genuine CD. In addition to widespread political interference during the first two years of implementation, the effectiveness with which the specific objectives were attained is blurred and questionable at best: this is the case for the sustainability of a CDD and voluntary participatory approach; for the empowerment of communities to launch new development initiatives; for the ability of provincial and local governments to collaborate with communities; and for the sustainability of O&M arrangements. The IEG mission revealed that opinions vary widely about the true achievement of a CD spirit: most observers indicated that the latter builds up when there is a common and immediate interest at hand, but quickly dwindles once the project is completed. Also, achieving the objective is crucially dependent on effective and permanent O&M, a factor which is uncertain.

3.25 The uncertainty concerning results is largely due to two related factors: (i) not only did it take a long time to set up a M&E framework, but also it was not used as a tool by the project management; and (ii) whatever the quality of the M&E systems and of the information and data collected, the supervision and completion missions failed to use and report them. This was a major failure for a project aimed at testing the innovative and replicable character of a new CDD model.

INSTITUTIONAL DEVELOPMENT IMPACT

3.26 *The rating of Modest is confirmed*. While there is uncertainty as to genuine CD among the communities covered by the project, the latter had a positive impact on the provincial and some local authorities in that they became aware of a new development model but also of the new challenges to meet. However, the rating cannot be superior because the ISP component was so much delayed that it was not carried out before closing of the Credit, while the Federal Facilitation Program was only partly and inconclusively undertaken.

SUSTAINABILITY

3.27 The ICR review rated sustainability as Non-evaluable on the basis of insufficient time to assess the criterion. *This assessment rates sustainability as Unlikely*. Several factors – key to promote CD - point to unsustainability: (i) the extent to which communities themselves financed their contribution to capital costs is uncertain,[23] (ii) local councils had difficulties in meeting their own contribution to capital costs; (iii) acceptance of responsibility and willingness to pay for O&M by the beneficiaries is questionable; (iv) the project did not succeed in institutionalizing processes within the provincial and local administrations; and (v) the fundamental changes introduced by the devolution are likely to radically disrupt whatever modus operandi was achieved between the provincial/local authorities and the communities, leading all stakeholders to approach new CD projects (such as the ongoing CIP-II) in a different frame of mind, with little or no interest in follow-up of the first operation.[24]

BANK PERFORMANCE

3.28 *The rating of Unsatisfactory is maintained*. The Bank failed in two major respects at the time of preparation/appraisal: (i) it overestimated the commitment of the provincial government and its willingness/ability to internalize a development approach based on the community being the principal actor. It misjudged the inherent conflict of developing and carrying out a fundamentally decentralized project through a highly centralized administration; and (ii) the risks were poorly identified and categorized at appraisal with unclear and unspecific mitigating measures built in the design of the project.

3.29 In fairness to the Bank, implementation is to be judged considering the novelty of the approach in a difficult context. Also, Bank performance was affected by the disruptions and uncertainties caused by the devolution so that attribution of some failures is not easily identifiable. However, each mission reports reads more as reporting on a

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[23] Most officials interviewed by the IEG mission recognized that requesting the communities to contribute to capital costs was advisable, but few thought that a cash contribution was the preferable way; most were in favor of contributions in kind.

[24] The possibility of such a lack of interest is illustrated by the following. On the occasion of the IEG mission, the PMU personnel had not come to one of the sites visited since completion of the project in 1998. The explanation was that, once a project is completed, it is "delivered" to the community without further involvement on the part of the PMU. This is certainly not conducive to assessing outcome or sustainability.

"rescue mission" than on a "supervision mission", each one containing a list of "critical actions" to be taken by officials and the PMU, only to be repeated and/or readjusted at the next mission. The Bank failed to act decisively and showed great hesitation in responding to the lack of progress in implementation, shifting from threats to acquiescence. This raises the question whether too much attention was devoted to completing the "visible" components - physical infrastructure - at all costs (including extending it by adding 35 sites) before Credit closing, at the expense of analyzing and testing the conditions necessary for successful CD in all its aspects. In other words, faced with continuous delays, it might have been preferable to limit the physical size of the project and shift resources to the broader social aspects of CD, since this was after all the ultimate objective of a project that was to a large extent a test. The unfortunate outcome is that fairly little has been learned in terms of key determinants of success and sustainability of CD in the Pakistani context, and therefore of its replicability in the country and elsewhere.

BORROWER PERFORMANCE

3.30 *The rating of Unsatisfactory is confirmed.* GONWFP showed little or no commitment for most of the time, with little interest in attempting to understand and assimilate the philosophy underlying the project. This is amply illustrated by the passivity in face of political interference, delays in administrative approvals, reluctance to facilitate financial flows and transfers, high turnover in staff, lack of interest in M&E, and, last but not least, very poor management. Provincial officials showed little motivation and willingness to learn and to adapt. Also, officials took no steps to mitigate the negative impact of social norms on implementation and attainment of objectives: for the duration of the project, there was not a single woman in the management team, while the project had an important component targeting women and children. The rating also applies to GOP, which proved indecisive and unable to articulate a clear action program for its institutional component, which, in the end, was rushed through without impact whatsoever.

LESSONS LEARNED

- Successful CDD depends in priority on the understanding of and commitment to a CD model by the local government authorities.

- The project and the community participation model must be designed so as to permit maximum flexibility depending on the circumstances of each community.

- The design of the project should ensure that the social infrastructure, i.e., the CD per se, interacts with the chosen physical infrastructure. Since CD is a long process, implementation plans must allow for this.

- The selection of high quality CD and ID staff is of crucial importance for CDD. They should be in place from the beginning of the project and available for the period of the project.

- The design of the project should pay particular attention to the active participation of women in all phases of the project, not only as recipients of targeted packages but also as deliverers of good practice to members of the community. Sustainability of any CDD project is largely dependent on women.

- Investments costs of CDD projects with active participation of the beneficiaries are likely to be substantially lower than when implemented by government entities.

- For any CDD project based on cash contributions (whether for capital costs and/or O&M) from the LG and the community, the design of the project must provide for verification of effective payment and origin of funds.

- Any M&E system must be finalized, put in place, and fully functioning before start of the project and those responsible to operate and use it recruited and trained. Supervision and completion missions must report systematically on the findings of the system.

4. The Provincial Structural Adjustment Credits

THE STRATEGY CONTEXT

4.1 Under the 1973 Constitution, most public services are the responsibility of the provinces. Their budgets account for 80 percent of Pakistan's public expenditures on education, health, roads, and irrigation services. In contrast, since tax authority is concentrated at the federal level, federal transfers, based on NFC "awards", account for around 80 percent of provincial resources.[25] This dependence on federal transfers had led to an increasing mismatch between provincial expenditures and revenues, a situation that prompted the Bank to launch, in early 1999, an analysis of provincial finances and their fiscal sustainability.[26]

4.2 In 1999, the Musharraf government quickly adopted a comprehensive reform program and started preparing a poverty reduction strategy. Progress was rapidly achieved, and GOP reached an agreement with the IMF on a Stand-By arrangement in November 2000, followed by a Paris Club debt restructuring in January 2001. Satisfactory performance under the Stand-By led the Bank to review its assistance strategy in May 2001 in a CAS Progress Report (CASPR)[27] and to resume lending with a US$350 million national SAC, which covered public resource management and reforms in the banking, power and gas sectors. The Bank strategy was tailored to address not only the emerging pillars of the government' poverty reduction strategy (macro-economic stability, human development, growth, and governance), but also the need to build knowledge followed by lending in support of the dialogue with the provinces and the newly established LGs. The areas targeted were governance, human development, and community-based services. GOP expected its new program of devolution to make the public sector more accountable to users and more efficient at delivering basic social services.

4.3 In June 2002, a full CAS[28] was issued in a very different context. The improved economic management over the previous two years and the events of September 11, 2001 had led to significant donor support, including from the Bank with a US$500 million SAC-II at the national level. The CAS, prepared in parallel with the two provincial SACs, stressed the need to: (i) shift the focus to policy and implementation performance at the provincial level, as had been the case at the federal level with GOP's reform program; (ii) proceed first with knowledge transfer and capacity building as the best way to reap pay-offs; and (iii) improve systematically governance in service delivery. At the same time, it defined three "engagement" principles to guide financial support: strong

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[25] As noted in Section 2, the sharing of the divisible pool between the federal government and the provincial ones has remained unchanged since 1997, at 37.5 percent in favor of the provinces.

[26] Pakistan: Reforming Provincial Finances in the Context of Devolution – An Eight Point Agenda. Report No. 21362-PAK, November 10, 2000. This study led to others that shaped the provincial SACs. Islamic Republic of Pakistan: Country Financial Accountability Assessment. Report No. 27551-PAK, December 30, 2003.

[27] CAS Progress Report, May 16, 2001 (Report No. 22219-PAK).

[28] Report No. 24399-PAK, June 24, 2002.

client "pull" to reform and selectivity; a programmatic approach focused on transfer of knowledge followed by transfer of resources; and partnerships with donors and outreach to every level of government.

IMMEDIATE BACKGROUND AND DESIGN

4.4 The findings of the study on provincial finances greatly influenced the content and design of the two SACs. Started in 1999, the study had highlighted the fact that the poor performance in reducing poverty in the 1990s was as much due to the inability of the provincial and local governments to provide essential public services as to the failure of GOP to sustain a high GDP growth rate. It pointed to the provinces' weak governance and public finances as key factors behind this failure and noted that, while some initial reforms had been undertaken, there remained a large agenda to tackle in resource mobilization and expenditure management. The study argued that, for devolution to succeed, the provinces needed to restore their public finances and generate sufficient resources to fund LGs. The Bank/provinces dialogue on the subject took a new turn with the appointment of technocrats to the provincial governments, who quickly undertook an intensive reflection on the dire economic and financial situation they had inherited and on the way to redress it. With the support of the President and their governor, the NWFP and SP government leaders developed a reform program over 2001, which was to become the basis of the two SACs.[29]

4.5 The design of the two SACs was similar. It was largely influenced by the conditions prevailing at the time and by the 2002 CAS. The Bank was cautious and skeptical of the chances of success of adjustment operations conducted by the provinces given the perceived risks: the novelty of the idea; the stability of the regime; the commitment at the federal and provincial levels; the weak institutional and administrative capacity; the uncertainty associated with the devolution just announced but yet to be implemented; and, last but not least, the prospect of federal and provincial elections in October 2002.

4.6 The provincial authorities were conscious of the difficulties and of the Bank's skepticism. To overcome the latter, they felt it was critical not only to develop a reform program but also to start implementing it on their own. Such a course of action would raise the chances of gaining credibility with stakeholders and the donor community, and, at the same time, demonstrate the feasibility of a sub-national model and the justification for financial support. The areas of their program selected for reform were those where shortcomings were most acute, i.e., public finance, financial management, social services, and private sector development. A corollary – and practical - objective in the mind of these "champions", was to create a situation such that it would be difficult for subsequent provincial governments, notably after the October 2002 elections, to depart from the post reform set-up, thereby increasing the likelihood of continued reforms and sustainability in the medium- to long-term.

[29] There was however strong opposition and skepticism on the part of the federal bureaucracy. The leadership of Punjab Province also participated in the dialogue on provincial finances, but eventually decided in favor of an adjustment program in the education sector.

4.7 Given the authorities' desire to show ownership and its own skepticism, the Bank opted for a series of SACs covering a three-year period. Self-activating entry and exit triggers for continued Bank assistance were agreed, in addition to the maintenance of a satisfactory macro-economic framework. Thus, the first operation was based on a set of actions taken before Board presentation. The size of the Credits was based on the direct cost of reforms, the strength of the reform program, absorptive capacity, and the resource requirements of expanding support for priority social services. They were to allow the provinces to incur larger budgetary expenditures derived from implementing the program, especially the costs of fiscal restructuring and service delivery improvements. Both Credits consisted of one tranche, disbursed upon effectiveness. They were onlent in local currency to the provinces according to a subsidiary loan agreement providing for the exchange risk to be borne by GOP, a service charge of ¾ of 1 percent on the principal amount withdrawn and outstanding, and an amortization period of 35 years, including a grace period of 10 years. Accordingly, the full benefit of IDA terms on debt repayment accrued to the provinces and not to the federal government. The reform program of each province was detailed in a Letter of Development Policy. The actions taken prior to Board presentation are in Annexes B and C for the NWFP and SP, respectively.

A. THE NORTHWEST FRONTIER PROVINCE SAC

Objectives

4.8 In June 2001, GONWFP adopted an economic and social reform program, the Provincial Reform Program (PRP) 2001-2004, whose broad objectives were to restore good governance and the respect for the rule of law, enhance the effectiveness of public expenditures, and reestablish the integrity of the State institutions and their accountability to the public. There were four pillars, with strengthening governance to improve public service delivery as the cross-cutting theme: (i) strengthening governance through the reform of the civil service to strengthen the accountability, integrity, and professionalism of State institutions; (ii) strengthening public health and education delivery systems and the devolution of responsibilities to expand access to these services, with a focus on primary service delivery; (iii) fiscal and financial management reforms to increase provincial revenues, reprioritize expenditures, strengthen procurement and improve budget preparation, execution, and oversight; and (iv) deregulation and business facilitation to enhance prospects for growth and poverty alleviation. The Credit endorsed these four areas and aimed at supporting implementation of the program over FY03-05. The Government which emerged from the October 2002 elections had many goals similar to those of the PRP and of the SAC and, in January 2003, it endorsed the project.

Relevance of Objectives

4.9 The objectives of the Credit were fully relevant as they were consistent with the national I-PRSP, the PRP, and the Bank's strategy. Its design was also consistent with the CAS' "engagement" principles: (i) a strong client "pull" was undoubtedly present; (ii) the Credit was the first in a series given the prevailing uncertainties; and (iii) close coordination had been established with ADB, the UK Department for International

Development (DFID), and UNICEF, all involved in providing support for the social sectors, capacity building, and institutional reform in the province.

Implementation and Achievement of Objectives

4.10 Implementation and achievement of objectives are assessed by reference not only to the conditions prior to Board presentation and the final triggers for a second SAC[30] (i.e., actions taken prior to Board approval of SAC-II - Annex D),[31] but also to general progress in implementing the program. Generally speaking, implementation slowed down after the October 2002 elections due to four factors: (i) the new government was not formed until December and, even after endorsing the program in January 2003, it needed time to assimilate its content: (ii) there were no longer dedicated "champions" to maintain the momentum: (iii) the teething problems of the devolution inevitably caused uncertainties and delays; and (iv) the lack of political alignment between the provincial and district governments caused frictions.

4.11 *Governance and Civil Service Reform*. Achievements were mixed and some reforms were delayed. With regard to the administrative and operational aspects of the devolution, the following steps were taken: (i) key provincial departments and most of the provincial staff were transferred to the districts; (ii) the authority to recruit teachers and most of the non-policy functions, including budgeting, were also transferred; (iii) the district rules of business were revised and notified; (iv) Dispute Resolution Committees were set up and a Local Government Commission was created to oversee the working of the LGs and to help in conflict resolution; and (v) the rules and regulations governing personnel management were revised and simplified in a new Establishment Code. However, implementation of these first steps was uneven, because of delays in transferring staffing budgets, inconsistencies in demarcation of responsibilities, and provincial interference in district affairs.

4.12 Concerning the civil service reform and personnel management, progress was achieved in some areas: (i) several provincial departments were restructured and streamlined: (ii) personnel policies were revised to promote management on the basis of performance, merit, accountability, and transparency and to facilitate retirement of redundant or incompetent personnel; (iii) the Public Service Commission (PSC) was strengthened and its autonomy reinforced – it became solely responsible for all recruitment above grade 11; (iv) personnel management was made more flexible with all new employment by fixed-term contract, except for the police and prison departments

[30] At the time of SAC-I approval (July 2002), it was anticipated that a series of three SACs would cover FY03 to FY05. In fact, delays under SAC-I led to push back the second operation by one year. A second SAC, in the amount of SDR 62.1 million, was approved on June 22, 2004, with the Credit fully disbursed upon effectiveness and closed on December 31, 2004. At the time of writing of this report, the Bank and GONWFP were discussing the possibility of a third operation.

[31] Some of the triggers for a follow-up operation, identified as indicative in the SAC-I document, were kept, while others were either dropped or changed in the course of supervision missions of SAC-I and preparation of SAC-II. Also, some new triggers were introduced. Changes were made to increase specificity, to respond to and highlight the priority reforms of the new government, and to strengthen reforms in key areas. In general, they had the effect of "raising the bar".

and the judiciary, thereby limiting pension liabilities,[32] and (v) the first phase of a centralized Human Resource (HR) database was completed. Despite these initial steps, the efficacy of the reforms was hampered by continued high turnover in staff, including among high officials. In the area of judicial reform, the judiciary and the executive were separated before the project, but the government failed to replace the position of Magistrate, abolished by the devolution, by family and minor civil courts, thereby creating a vacuum in the dispensation of justice to the disadvantaged.

4.13 Several ongoing institutional reforms and capacity building programs financed by donors were extended and deepened. They concentrated on training the staff of LGs in their new functions as well as the staff of different provincial commissions and CCBs. GONWFP undertook a review of the capacity-building needs for the province as a whole and established several reform units, for education, health, and budget analysis, as well as a coordination unit for the SAC. However, building capacity at the local level remains a daunting task for years to come.

4.14 *Human Development*. Progress was made and results demonstrate an improvement in delivery of social services at the local level. Updated official data will not be available until 2006 when the results of the 2005 Pakistan Integrated Household Surveys (PIHS) will be published. Data in the following paragraphs are from the 2005 Pakistan Social and Living Standard Measurement Survey (PSLMS) and are comparable with the PIHS.

4.15 In education, good progress was made in improving access and gender disparity: the Gross Primary Enrollment Rate (GER) rose from 73 percent in FY02 to 80 percent in FY05, with the gender gap declining from 40 to 28 percentage points; it is likely to reach the target of 85 percent in FY06; the Net Primary Enrollment Rate (NER) (age 6-10) rose from 51 to 57 percent during the same period, with the gender gap declining from 23 to 18 percentage points; the literacy rate (age 10 and older) rose from 38 to 45 percent; free public education was expanded through secondary level and free textbooks were provided to girls of all grades and to boys up to grade 2 in all public primary schools; and basic facilities were greatly improved in girls' schools, including an increase of 50 percent in classrooms. Some progress was also achieved in raising the quality of education: separate teaching and management cadres were created; the teacher-student ratio was raised from 1:40 to 1:30; additional teachers were recruited, including over 1,500 female teachers; a system of monitoring teacher absenteeism, a major problem in Pakistan, was introduced; and several public-private partnerships were established: the private sector and the community play an increasing role, with Parents Teachers Associations (PTA) active in almost all primary schools with the authority to manage the Instructional Materials and Minor Repairs (IM&R) funds for minor school repairs.

4.14 On the financial side, total expenditures for education were substantially increased starting in FY03, in line with the Medium-term Budgetary Framework

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[32] With the FY04 budget, GONWFP increased the sanctioned posts by 9,000 teachers, health workers, and policemen to meet the needs for additional public services and lifted the ban on recruitment (in effect for 7 years) of other personnel categories, as it had become a bottleneck to service delivery. However, the scope for expanding recruitment under these categories was limited by the number of vacancies, thus restraining the wage bill.

(MTBF). They rose to 30.0 percent and 30.6 percent of total expenditures in FY03 and FY04, respectively, against an average of 24.6 percent in FY99-01 and 22.4 percent in FY02, with reallocations in favor of primary and secondary education and vocational training. They are expected to remain at about 30 percent in FY05 and FY06 (Table 4.1). Also, in FY03, GONWFP overshot the target of directing 70 percent of development funds to girls' schools by reaching 81 percent, while user charges from higher education were raised by 14-30 percent. In FY04, expenditures for education represented 3 percent of the provincial GDP (PGDP)[33] and were expected to remain at that level.

Table 4.1: NWFP - Expenditures on Education and Health

	Avg. FY99-01 Actual	FY 02 Budget	Actual	FY03 Budget	Actual	FY04 Budget	Actual	FY05 Budget	FY06 WB project
Education									
As % of total exp.	24.6	19.7	22.4	24.8	30.0	27.2	30.6	27.7	30.1
As % of PGDP	2.4	2.4	2.3	3.0	3.0	3.0	3.0	3.0	3.1
Health									
As % of total exp.	6.8	6.1	5.5	6.4	7.1	7.1	7.3	8.2	7.3
As % of PGDP	0.6	0.7	0.6	0.8	0.7	0.8	0.7	0.9	0.8

Source: NWFP Department of Finance and Bank estimates

4.15 A similar picture emerges in health. The restructuring of the sector, initiated before the project by the provincial Health Sector Reform Unit, whose mandate is to reorganize the sector in line with devolution, was deepened and expanded in some areas: increased resources and powers were transferred to the districts; institutional capacity in planning and budgeting was intensified at the district level; tertiary hospitals were given financial and administrative autonomy while the network of district hospitals was rationalized; a training program for nurses was launched to ease their shortage and several hundreds posts were created; facility-specific contracts were introduced to combat absenteeism; the provincial monitoring systems were strengthened; and several partnerships with the private sector and NGOs were initiated. The results are as follows: infant mortality declined by 3 percent; the coverage of pre-natal consultations rose significantly between FY02 and FY05 and the coverage of post-natal consultations from 4 to 21 percent; the share of pregnant women having received a tetanus toxoid injection rose from 35 to 45 percent; immunization of children aged 12-23 months increased from 54 to 57 percent under the project's period and stands at 76 percent in FY05, a level higher than the target of 65 percent in FY06; the share of population with access to TB control using daily observation therapy sessions (DOTS) reached the end-FY06 target of 100 percent; access to safe drinking water increased from 58 to 66 percent; and access to family planning and primary health care services were improved by the expansion of the Lady Health Worker (LHW) program, whose membership increased by over 50 percent.

4.16 Total spending for health rose from 5.5 percent of total expenditures in FY02 to 7.1 percent and 7.3 percent in FY03 and FY04, respectively (Table 4.1) and is expected

[33] There are no statistics on provincial GDP in Pakistan. It is estimated that the GDP of the NWFP is 10-11 percent of the national GDP.

to remain at that level in FY05-06. It represents some 0.7-0.8 percent of PGDP. However, spending was lower than budget allocations because of delays in transferring non-wage expenditure budgets to the districts, vacancies of staff, capacity constraints, and time taken to prepare and approve new schemes, all factors illustrating the needed improvements in efficacy and capacity.

4.17 *Public Finances*. Reforms focused on improving fiscal sustainability and restoring financial accountability. Despite an increase in the fiscal deficit from 0.32 percent of PGDP in FY01 to 1.62 percent in FY04 - reflecting rising development expenditures, GONWFP succeeded, over FY02-04, in increasing fiscal space (total spending minus interest payments and pensions). This was mainly due to two positive developments: (i) the substitution of cheap IDA resources in FY03 and in FY04 for expensive debt, mostly to the federal government (debt servicing fell from 3.3 percent of PGDP in FY02 to 2.2 percent in FY04, while public debt fell from 17.8 percent to 15.6 percent); and (ii) increased revenues collected by the province, which rose by 20.3 percent and 8.9 percent in FY03 and FY04, respectively (Table 4.2). This increase in fiscal space, combined with reprioritization of expenditures, permitted increased spending on the social sectors as noted above.

Table 4.2: NWFP - Summary Fiscal Accounts, FY01-FY06 (in % of PGDP)

	FY01	FY02	FY03	FY04	FY05			FY06
	Actuals	Actuals	Actuals	Actuals	MTBF	Budget	WB Proj.	MTBF
Total revenues and grants	9.0	9.6	9.2	8.4	9.6	10.2	9.7	9.7
Federal tax assignments (NFC)	5.1	5.0	5.5	5.1	7.4	5.7	5.7	7.5
Provincial own revenues	2.6	2.4	2.3	2.2	2.2	2.6	2.6	2.1
o/w provincially collected	0.8	0.8	0.9	0.8	0.9	0.8	0.9	0.9
Tax revenues	0.3	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Non-tax revenues	0.5	0.4	0.5	0.5	0.5	0.4	0.5	0.5
Federal & foreign grants	1.3	2.2	1.3	1.1	0.1	1.9	1.3	0.1
Total expenditure	9.3	10.3	10.1	10.1	10.4	11.4	10.8	10.3
Current exp.	8.3	8.3	8.1	7.9	8.1	8.2	8.4	8.0
Dev. exp.	1.0	2.0	2.0	2.2	2.3	3.2	2.4	2.4
Fiscal space (total exp. - [int. + pensions]	6.7	7.4	7.7	7.9	8.4	9.2	8.7	8.5
o/w social sector spending	n.a.	2.9	3.8	3.8	4.1	4.3	4.1	4.1
non social sector spending	n.a.	4.5	3.9	4.0	4.4	4.9	4.6	4.4
Debt servicing	n.a.	3.3	2.7	2.2	1.9	2.1	2.1	2.0
Public debt	n.a.	17.8	15.9	15.6	14.3	15.9	16.4	14.5
Fiscal deficit	-0.3	-0.7	-0.9	-1.6	-0.8	-1.2	-1.1	-0.7

Source: NwFP Department of Finance and Bank estimate

4.18 In revenue mobilization, with no or little say over resources transferred by GOP, reforms focused on raising provincially collected revenues: (i) the tax system was simplified and restructured; (ii) an agricultural income tax (AIT) was introduced to complement the land-based tax,[34] (iii) several tax rates were harmonized with those of other provinces; (iv) user charges were raised for tertiary-level social services and irrigation water; (v) tax administration was strengthened; and (vi) three studies on tax policy and administration (AIT and land tax; tax potential; and tax administration) were completed that are to be the basis for continued tax reform under the PRP. On the expenditure side: (i) in line with the MTBF, the share of current expenditures was reduced substantially, while development spending as a percentage of total expenditures increased from 10.3 percent in FY01 to 21.8 percent in FY04; (ii) in addition to their reprioritization in favor of the social sectors, development expenditures under the Annual Development Program (ADP) were considerably streamlined; (iii) a debt management strategy was proposed to GOP to ensure continued early retirement of expensive debt; and (iv) the annual wheat subsidy was reduced by about two thirds compared to FY01, some Public Enterprises (PE) were closed, and the pension funds were established outside the budget with annual capital/asset build-up aiming at matching liabilities within 10 years.

4.19 Some progress was achieved in budget preparation, execution, and oversight: the budget nomenclature was streamlined; performance budgeting was initiated as well as computerization of land records; the provincial and district budgets were linked online; and the Budget Analysis Unit was made fully operational, capable of monitoring the budget cycle regularly. Similarly, fiscal devolution was pursued: all non-salary recurrent expenditures and development expenditures were transferred to the districts but the transfer of salaries is conditional to the revision in the NFC award; districts and tehsils saw their responsibilities in revenue collection and management increased; and some incentive matching grants were introduced under the PFC Award to encourage districts to raise revenue mobilization. The impact of these measures on service delivery is still unknown and will depend on continued in-depth progress in resource management and in capacity building.

4.20 Despite the progress made in improving the fiscal situation under SAC-I, further progress will be increasingly difficult to achieve in the medium to long term. Indeed, fiscal sustainability will remain very fragile after IDA budget support is completed unless provincially collected revenues are raised substantially given the uncertainties of increased awards and transfers from GOP. To rise to that challenge, provincially collected revenues should grow at a rate higher than that of PGDP, a condition hardly realistic unless institutional capacity rapidly increases at the local level to capture a greater share of the revenues generated by economic activities and unless private sector growth is vigorously promoted. The whole poverty reduction strategy of the province is dependent on its ability to broaden the tax base and to perfect its tax system. However, there is an undeniable risk of complacency on the part of the authorities as long as budget support is expected.

4.21 In financial management, public accounting was improved by: (i) a systematic and regular reconciliation of accounts; (ii) the adoption of a New Accounting Model

[34] Unlike the other provinces, the land tax in NWFP applies to all landholdings, irrespective of size.

(NAM) with full computerization,[35] (iii) the appointment of a Provincial Financial Controller responsible for monitoring all fiscal, financial management, and procurement aspects of the reform program; (iv) the adoption of a Provincial Financial and Accountability Assessment (PFAA) carried out with the assistance of the Bank in 2003 providing for a detailed financial management improvement program to be implemented over 4 years[36] (under the PFAA, internal audit units were established in several government departments); (v) the establishment by the Provincial Assembly of an external oversight body, the Public Accounts Committee (PAC), charged with reviewing public accounts annually; and (vi) the adoption by the Assembly in November 2003 of a new Procurement Law.

4.22 *Promoting Sustainable Growth.* Progress was minimal. Reforms were not defined as well as those under the other chapters of the program, although the government was aware of the critical role of the private sector for growth and poverty reduction. Understandably, it was absorbed by the demands of devolution and the fiscal situation. Besides an improvement in law and order, the main achievements were: a substantial reduction in the number of inspections of plants and businesses; the leasing of most small hydel projects to the private sector; the clarification of the regulatory framework applicable to mining; and the reorganization of the technical and vocational training institutes. There was also progress in reforming irrigation with farmer organizations established for local water management. Progress has recently picked up. In 2004, the Government announced a PSD policy statement based on sound principles. This was followed up by Analytical and Advisory Activities (AAA) from the Bank (an Economic Report was delivered to the Government in June 2005) to refine a medium-term growth strategy whose implementation has recently started.[37]

4.23 The post-October 2002 Government proved quite timid in reducing the role of the public sector in the economy, resisting divestiture of public enterprises (PEs). An additional restraining factor in PSD is the little flexibility the provinces have in liberalizing business legislation and practices as these are largely the domain of the federal government, a factor more exacerbating in the case of NWFP, as it lags behind other provinces in attracting private investment.

Outcome

4.24 *The rating of Moderately Satisfactory is confirmed*. Assessment of outcomes of a policy development program is to be cautious after a first of a series of three operations, especially when it is the first ever such operation at the level of a sub-national entity with no experience of adjustment operations. With this in mind, the province laid the foundation for continued progress in reform under the program. However, only the first steps were launched under SAC-I and its follow-on components and a more reliable

[35] Under the Bank-financed Project for Improvement in Financial Reporting and Auditing (PIFRA).

[36] In 2002-03, the Bank carried out a Country Financial and Accountability Assessment (CFAA) as indicated in footnote 27 above.

[37] In June 2005, there was a shift in the orientation of the Government towards the private sector and several recommendations of the Economic Report are been implemented.

judgment will be possible after the implementation of the second operation, approved by the Bank in July 2004. The rating is based on the following. Good progress was achieved in education and health, but further strides will depend on more effective financial mechanisms between the province and the districts and increased capacity at the local level. But, there were also shortcomings – some important – in implementing the program. Governance remains fragile as the institutionalization of many aspects of devolution is far from complete and will depend not only on higher capacity at the local level, but also on improved professionalism of all civil servants, including at the provincial level. Progress in civil service reform is also fragile and is undermined by continued political interference and high rotation among staff.

4.25 The fiscal situation in particular is fragile and will remain difficult in the absence of budget support from the donor community, larger transfers from the federal government, or much improved provincial revenue mobilization with all its attendant conditions. A key issue, where little progress was achieved so far, is the need to streamline financial procedures and clarify the respective mandates and responsibilities of provincial and district staff. Another challenge not covered specifically by this assessment but now highly relevant to improve the delivery of public services, will be the capacity of LGs, especially the districts, to mobilize and manage revenues themselves. Finally, implementation was weakest in the area of promoting private sector growth, where only limited progress was made for lack of clear and focused direction and commitment.

4.26 In sum, while the province took some courageous steps in tackling obstacles to growth and poverty reduction, it addressed each reform area as an individual platform for action, without a coherent and cohesive vision of their indispensable linkages.

Institutional Development Impact

4.27 *The rating of Modest is confirmed*. The project had the benefit to create among provincial and local authorities a much needed awareness of and exposure to the complexity of the challenges faced in improving peoples' life. In that respect, the institutional impact is undeniable. However, from a more mundane point of view, the project had a modest impact: while some new institutions were created or existing ones strengthened, it is premature to judge their effectiveness.

Sustainability

4.28 *The rating of Non-evaluable is upgraded to Likely*. The rating is based on the unlikelihood of major reversals since the government generally supports the content of the PRP. Also performance proved to be a solid basis for a second operation. As the first in a series, the project laid the groundwork for broadening and deepening reforms. However, uncertainties and risks should not be minimized and may erode the progress achieved until now. As already noted, the fiscal situation is likely to remain precarious, unless the present and future governments demonstrate firm commitment. The devolution is far from completed and there will certainly be administrative and other hurdles to overcome. In the future, political alliances or coalitions may prove much less inclined to reforms. But above all, sustainability will depend on the commitment of the governments in place and on a massive capacity building program supported by the donor community.

Bank Performance

4.29 *The rating of Satisfactory is confirmed*. The Bank should be commended for seizing an opportunity and perceiving its potential for benefits despite the risks present at preparation. Also, it acted speedily by engaging in an intensive dialogue with the proponents of reform. During supervision and preparation of SAC-II, it demonstrated consistency in approach and flexibility in refining and adjusting the triggers for a second operation, while remaining firm on the key conditions for success, such as the need to streamline the annual development program of the province to safeguard fiscal space for the social sectors. For the future, more Economic and Sector Work (ESW) will be required, especially on identifying sources of growth.

Borrower Performance

4.30 *The rating of Satisfactory is confirmed*. There was commitment to reforms, even though the government in place since late 2002 was not familiar with the agenda and had to spend time and energy in assimilating the program. However, this commitment was somewhat uneven: the coalition of Islamic parties and the government were very supportive of the human development reforms as these largely reflected their political agenda in this area, but were reluctant to initiate reforms aimed at promoting growth and PSD. The lack of commitment in this area stems from a lack of knowledge and strategy of how to go about reducing the role of the public sector. As already noted, the government lacked a coherent vision of the relationships between reform areas.

B. THE SINDH PROVINCE SAC

Objectives

4.31 Upon taking office in April 2000, the Government of Sindh (GOS) launched a reform program aimed at alleviating poverty by improving public service delivery and stimulating growth. The program was championed by the leadership of the province and committed civil servants. With the issuance of the report on provincial finances, the dialogue with the Bank intensified and helped integrate the reform areas into a medium-term framework. With the prospect of elections in October 2002, GOS initiated a process of building a consensus with civil society, donors, and the private sector.

4.32 The program, closely aligned with the national poverty reduction strategy, was based on three pillars, which were supported by the Credit as key objectives with corresponding components: (i) fiscal restructuring and financial management; (ii) improving public service delivery through civil service reform, decentralization, and reforms in health, education, water, and urban services to help accelerate human development and achieve the millennium goals; and (iii) regulatory reforms, privatization, and infrastructure improvements to stimulate private sector activity and economic revival. The government emerging from the October 2002 elections was formed in December on the basis of a multi-party coalition. It endorsed the program and the project in March 2003.

Relevance of Objectives

4.33 The objectives of the Credit were fully consistent with the national I-PRSP, GOP's devolution plan, and the Bank's CAS of June 2002. Support for a medium-term fiscal restructuring plan was also consistent with the IMF' s Poverty Reduction and Growth Facility (PRGF). As in the case of the NWFP, the CAS's "engagement" principles were present: (i) the leadership of the province was at the origin of reforms at the provincial level and had promoted the idea with the federal government and other provincial governments; in addition, it had shown exceptional energy and commitment in initiating the reform process; (ii) a series of SACs matched the medium-term vision of the program and allowed for flexibility in implementation; and (iii) there was strong support by the donor community. The risks – political continuity, implementation capacity, and exogenous factors - were well identified by the Bank and well evaluated. Although high, the Bank felt that, given the strong momentum for reforms, the risks were worth taking.

Implementation and Achievement of Objectives

4.34 Implementation and achievement of objectives are assessed on the basis of the actions taken prior to Board presentation and progress made over FY03-04 in achieving the benchmarks and triggers for a second operation. As of writing, progress has been insufficient to launch a second SAC. In fact, most of the progress achieved did take place during FY01-02. Immediately after the 2002 elections, there was, as expected, delay due to the formation of a new government and its endorsement of the program. However, as early as the first half of FY03, increasingly longer delays crept in, reflecting the reluctance - and the divisions - at the political level to carry on with the reforms, despite continued commitment on the part of some members of the government. Continued delays and protracted discussions over 2003-04 led GOS and the Bank to undertake a program of analytical work, in the form of an economic report,[38] which is expected to provide the necessary background to GOS to resume its reform agenda and help the Bank design a follow-on operation better suited to the changed political environment.

4.35 *Fiscal Restructuring and Financial Management*. Reforms focused on restructuring and strengthening the tax system to create fiscal space, improving the composition of expenditures, fiscal decentralization, and financial management. Implementation of the budget over FY01-04 was broadly in line with the Medium-Term Fiscal Restructuring Plan (MTFRP), although some indicators do not show consistent favorable trends (Table 4.3). Good progress was achieved in revenue mobilization, where provincially collected revenues progressed from 1.6 percent of PGDP[39] in FY00 to 2.2 percent in FY04, mainly due to the simplification and restructuring in the tax system undertaken during FY01-02: the number of taxes was reduced, the tax base was widened by introducing an AIT, the base of the property tax was expanded, and the number and

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[38] The Sindh Economic Report is expected to be completed by end 2005.

[39] Sindh's GDP is estimated to represent 28-29 percent of the national GDP.

rates of stamp duties were rationalized and converted into ad valorem rates. The performance of the property tax and of stamp duties was particularly good, while the AIT proved to yield lower revenues than expected because of difficulties encountered in assessment and collection. However, governance and management problems kept revenue performance from reaching their potential and budget targets were never achieved.

Table 4.3: Sindh - Summary Fiscal Accounts - FY01-FY05 (in % of PDGP)

	FY00 Actual	FY01 Actual	FY02 Actual	FY03 Actual	FY04 Rev. est.	FY05 Budget
Total Revenues	**7.0**	**7.1**	**7.7**	**7.7**	**8.3**	**8.1**
Federal assignments	4.5	4.6	4.7	4.9	4.6	4.8
Provincial Revenues	1.6	1.8	1.9	1.9	2.2	2.3
Tax Revenues	0.7	0.9	0.9	0.8	1.0	0.9
Non-Tax Revenues	0.9	1.6	1.1	1.1	1.2	1.3
Federal Grants	0.9	0.6	1.1	0.9	1.4	1.1
Total Expenditure	**6.9**	**7.2**	**7.7**	**8.3**	**7.5**	**10.0**
Current Expenditure	6.4	6.9	7.1	7.6	6.1	8.3
o/w social services	1.9	1.8	1.9	2.0	2.0	0.5
o/w debt servicing	1.5	1.2	1.1	1.0	0.9	0.9
Development Expenditure	0.5	0.3	0.6	0.7	1.4	1.7
Fiscal Deficit	**0.2**	**-0.2**	**0.0**	**-0.6**	**0.8**	**-1.9**

Source: Sindh Department of Finance and Bank estimates

4.36 Progress was also achieved in tax administration with the creation of a coordination committee covering the two revenue departments, the Board of Revenue (stamp duties, land tax and AIT, and irrigation charges) and the Excise and Taxation Department (property tax, infrastructure cess, and other taxes) as a first step towards their integration under the ministry of finance and, ultimately, the creation of a single Revenue Authority.

4.37 The increased fiscal space created by improvement in revenues permitted to retire expensive debt to GOP, lowering debt servicing from 1.5 percent of PGDP in FY00 to 0.9 percent in FY04, a major benefit of the reforms. However, its impact on raising the share of actual expenditures for priority social sectors over the years subsequent to the approval of the project was minimal, as institutional weaknesses kept the level of non-salary spending (non-salary current expenditures and development expenditures) behind budget estimates throughout the period (Table 4.4). The low rate of utilization of funds was due to: delays in the release of funds from the province for procedural reasons; capacity constraints at the district level and lack of adequately trained staff; and ambiguity in spending rules, with, as a result, cash balances accumulating in district accounts.

4.38 The first phase of fiscal decentralization was completed in FY02 by unbundling the provincial budget into district budgets and by transferring non-salary funds. Also, responsibility for the Khushal Pakistan Program (KPP – pro poor public works program), rural water supply, and road schemes, was transferred. However, the availability of funds to the districts remained limited and subject to rigidities and ambiguities: (i) in the absence of a revision in the national award formula, the province had little choice but to keep the PFC award on an interim basis,[40] (ii) the distribution criteria for development expenditures remained ambiguous since the award does not identify explicitly the revenue sources; and (iii) the province remained reluctant to transfer the responsibility for collecting land-based taxes, such as the AIT and the property tax, to the districts, even though such transfer would provide the latter with an incentive to improve their fiscal base. Independently of the constraints imposed by the federal award formula, much work remains at the provincial level to achieve a better balance in resource allocation between province and districts, to enable the latter to discharge their responsibilities under the devolution plan.

Table 4.4: Sindh - Expenditures on Education and Health

	Avg. FY99-01		FY 02		FY03		FY04*	FY05
	Budget	Actual	Budget	Actual	Budget	Actual	Actual	Budget
Education								
As % of total exp.	23.3	21.3	19.0	20.2	20.1	19.4	21.4	16.5
As % of PGDP	1.9	1.4	1.7	1.6	2.0	1.6	1.6	1.7
Health								
As % of total exp.	5.3	5.6	5.2	5.1	6.5	5.0	5.5	5.2
As % of PGDP	0.5	0.4	0.5	0.4	0.6	0.4	0.4	0.5

*Starting in FY04, district governments received single line transfers from the province and made their own budgets. Hence, provincial budgets pertain only to expenditures made by the province itself. Therefore, data for FY04 onwards are not entirely comparable with those of previous years.
Source: Sindh Department of Finance and Bank estimate

4.39 In financial management, progress was made at the provincial level, again mostly in FY01-02. GOS adopted a Financial Management Reform Program, under which several steps were taken: appointment of a Provincial Financial Controller, responsible for improving the financial management system; reconciliation of receipts and expenditures in line with the program targets; computerization and introduction of the NAM under the PIFRA project in several provincial departments and districts,[41] completion of the background work, in line with federal guidelines, for the establishment of internal audit units in all provincial departments and districts; and creation by the Provincial Assembly of a PAC, open to the public and the press. The province also worked closely with the Bank on the PFAA. Progress in financial management was much slower at the district level, because of vacancies in the posts of Executive District Officers (EDOs) (Finance), uncertainty about their role and responsibilities, and lack of capacity. In procurement, considerable work went into preparing a new Procurement

[40] The interim award provides for the sharing province/districts as follows: for current expenditures, the divisible pool, consisting of federal tax assignments, federal straight transfers, and provincial tax revenues, is shared 60/40 percent; for development expenditures, the divisible pool, consisting of the ADP allocation minus the counterpart of foreign-financed projects and a reserve fund for compensating poor districts, is shared 30/70 percent.

[41] The FY06 provincial budget was prepared for the first time on the basis of the NAM.

Bill, rules, and standard bidding documents, but the new bill is yet to be approved by the Assembly.

4.40 *Public Service Delivery*. The reform agenda covered the civil service and the delivery of education, health, and urban services, as well as rural water supply and sanitation. In the area of civil service, progress was limited as many of the measures intended by the pre-October 2002 government were partially implemented or delayed. Some 270,000 civil servants were transferred to LGs, with reporting and accountability to elected officials.[42] The PSC was given more autonomy and made responsible for all recruitment above grade 11 to foster merit and professionalism, but the Governor retained the discretionary power to overrule the Commission's decisions. Monitoring of the number of transfers, especially at senior levels, was discontinued in practice and the average tenure period shortened. To strengthen governance and accountability in the education sector and reduce widespread teacher absenteeism, the School Management Committees (SMCs - equivalent to PTAs) were given the power to report teachers' absenteeism and recommend transfers or dismissals as well as to recruit female teachers and junior staff on contract. However, their capacity to carry out these responsibilities remained hampered by strong political opposition to such a delegation of powers and by financial constraints, as discussed below.

4.41 In education, GOS adopted an Education Sector Reform Strategy, whose objective is to ensure that, by 2010, 70 percent of primary school age children complete primary school with basic skills of numeracy and literacy. The strategy focused on improving access and quality. Access was much improved by the delivery of free textbooks in primary school, the reopening of a large number of closed schools and the refurbishing of shelter-less ones, and the expansion of the compulsory Universal Primary Education (UPE) program to an increasing number of "talukas" (same as thesils) and city districts. The results are as follows. On the basis of the 2005 PSLMS (see para. 4.14), in primary schools, the GER increased from 50 to 56 percent between FY02 and FY05, with the gender gap declining from 23 to 17 percentage points, and the NER increased from 40 to 48 percent, with the gender gap declining from 12 to 11 percentage points.[43] The overall literacy rate (age 10 and older) rose from 46 to 56 percent. However, there was very slow progress in the distribution of scholarships to girls due to the late release of funds and the lack of clarity among district officials on how to use the funds.

4.42 In terms of share in total expenditures and PGDP, spending on education remained flat after FY02 (Table 4.4). In that connection, the effectiveness of SMCs, expected to be not only key players in promoting and developing community involvement and empowerment in school affairs but also important facilitators in accelerating funding at the local level, was considerably hampered by the lack of clarity on how to implement the policy governing their role and responsibilities. As a result, there was persistent confusion about the mode of transfer of funds from the province to

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[42] In 2000, the provincial civil service counted 459,000 civil servants, whose salaries and pensions absorbed 47 percent of total expenditures; 43 percent were in the lowest grades, 1-5, often functionally illiterate.

[43] The UNICEF Multi Indicator Cluster Survey had a GER of 69 percent for boys and of 58 percent for girls for 2004.

the districts, about their use, and about the rules under which SMCs were to operate. In addition, SMCs lacked training to understand their functions and responsibilities.

4.43 In the health sector, the pre-October 2002 government adopted a reform program, with well-defined targets in line with those of the 2001 National Health Policy. Reforms focused on: reviving the immunization and tuberculosis programs; improving sector management and transparency in procurement, and reducing absenteeism; enhancing M&E; and promoting public-private partnerships. According to the June 2005 PSLMS, the percentage of children (12-23 months) fully immunized increased from 15 to 46 percent between FY02 and FY05. Other sources indicate infant mortality dropping from 95 per thousand in FY99 to 71 in FY04; the TB DOTS coverage increasing from 8 to 100 percent between FY99 and FY05; and the number of births attended by a skilled birth attendant rising from 18 to 36 percent between FY99 and FY04. As in the case of education, performance was negatively affected by factors such as cumbersome and ambiguous release procedures, lack of clarity on how to use the funds, and poor capacity in financial management and procurement at the district level. As a result, the rate of utilization of budget allocations remained behind allocations (Table 4.4).

4.44 In water supply, the same PSLMS indicates that access to safe drinking water (from tap) has increased overall from 30 to 45 percent between FY02 and FY05 (from 4 to 20 percent in rural areas and from 67 to 71 percent in urban areas).[44] Urban services, including water and sanitation, were devolved to the TMAs, with a technical directorate retained at the provincial level and support units at the district level. However, no reliable indicators show whether performance in service delivery has actually improved at the local level. In general, it was plagued by the same rigidities and constraints already noted: lack of clarity in responsibilities, acute shortage of planning and technical capacity at the TMA level, and lack of financial and fiscal autonomy. However, the situation in the sector, compared to what is usually referred to as "social sectors" (education and health), is made worse by the fact that the focus of higher levels of government is on the latter.

4.45 *Private Sector Development and Economic Revival*. Reforms aimed at improving the investment climate by restoring law and order (after the ethnic conflicts of the 1990s in Karachi), modernizing the regulatory framework, initiating privatization, rehabilitating infrastructure, roads and irrigation, and promoting agriculture and rural development. Overall, progress was very limited. In the regulatory field, the main achievement was the reduction in the number of factory inspections from 27 to 6, to be carried out in two days. But another key objective, the consolidation and rationalization of the vast labor legislation into 6 laws, was not achieved: only one law was enacted providing for more flexibility in hiring and firing; most of the other pieces of legislation require review by the federal government. Little progress was achieved in privatization, mainly because the

[44] At the time of approval of the SAC, the government was formulating a strategy for the rural water supply and sanitation sector in the context of the preparation of a Community Infrastructure Project. The strategy was based on community participation, cost sharing, and improvement in governance by devolving water schemes to the lowest administrative levels.

Privatization Commission, established by the pre-elections government, remained without chairman until late 2003.

4.46 In the road sector, the priority was shifted to increasing budget allocations to maintenance and rehabilitation (M&R) and to the completion of ongoing projects. Allocations for M&R were increased, but the release of funds and their effective utilization lagged behind. At the district level, priorities in maintenance were often not established or respected, partly due to an absence of mechanism linking the provincial Road Maintenance Unit with the districts. As of end 2003, the Road Fund, an important element of the sector strategy and of the reform program, had yet to be established. Much progress was achieved in completing ongoing projects in FY01-02, but less so in FY03, when the rate of utilization of funds was again higher for new projects than for ongoing ones. In irrigation, the program aimed at implementing the institutional and policy reforms initiated in the irrigation and drainage sector under the National Drainage Program, i.e., strengthening the autonomy and the functioning of the Sindh Irrigation and Drainage Authority (SIDA), whose mandate is to achieve an efficient management and a self-sustaining operation of the irrigation and drainage systems, with an emphasis on maintenance of canals. No progress was achieved in this area.

Outcome

4.47 *The rating of Satisfactory is downgraded to Moderately Unsatisfactory.* Again, caution is called for in assessing outcome on the basis of a single operation. The pre-October 2002 government designed a very ambitious program whose first stages were implemented swiftly and courageously. These undoubtedly produced significant initial results in terms of opening the debate on economic and social management in the province. Also, initial progress was made in fiscal restructuring, human development, and civil service reform. However, reforms in all areas slowed considerably after the 2002 elections, for lack of commitment of the political parties in power and divergences in policy orientations. It soon led to slow implementation, if not paralysis in some areas.

4.48 The rating is based on the following. The initial fiscal restructuring created fiscal space by retiring expensive debt and mobilizing additional provincial revenues. However, without a revision in the federal award formula and the insufficiently cohesive and sustained effort by the provincial authorities in raising efficiency in resource mobilization and expenditures, the fiscal restructuring did not produce the impact originally expected from the reforms, notably in channeling more resources to social services. This was exacerbated by the inability – or lack of determination - to address the numerous and recurrent problems - although well identified - arising from inadequate and burdensome financial procedures and lack of clarity in roles and responsibilities between the province and the lower LG units. This was a major shortcoming that negatively affected all reform areas in human development, governance, and public services. Although progress was made in human development indicators, the performance in the sectors was constrained precisely by this type of financial shortcomings. The civil service reform showed hesitations and even some minor reversals, while that aimed at promoting PSD remained timid, with little achieved. In sum, the record is very mixed if judged by comparison with the triggers for a second operation in the timeframe envisaged after approval of

SAC-I. In those circumstances, GOS and the Bank rightly decided to undertake additional economic work to overhaul the program.

Institutional Development Impact

4.49 *The rating of Modest is maintained*. It is based on the fact that decentralization of functions were carried out according to the devolution plan, but little or no capacity was effectively created, whether in management, procurement, or training at the district level or below. Contrary to the NWFP, the greater awareness among the provincial leadership of the dire economic and social conditions of the population and of the complexities in attempting to solve them, was not kept as a motivating factor for sustaining reforms.

Sustainability

4.50 *The rating of Likely is downgraded to Unlikely*. There is currently little prospect of arriving at the consensus required to strengthen and deepen the reforms initially undertaken to ensure their sustainability. Two important issues stand out, first the need to strengthen the fiscal situation and financial management, the key to a sustainable program, and second, the need to redress the many procedural obstacles and institutional ambiguities plaguing the administrative set-up following the devolution. This is a huge task requiring strong political determination. Without the latter, there is a risk of reversals in policies, albeit generally resisted so far. Also, up to now, the districts and lower level LGs have little or no sense of direction.

Bank Performance

4.51 *The rating of Satisfactory is maintained*. As in the case of the NWFP, the Bank seized a unique opportunity to support champions of reforms, acted speedily, and expended considerable efforts to structure an ambitious program. However, emboldened by the commitment of the government in place, it probably gave insufficient weight to assessing the volatile political conditions prior to the elections, although it recognized political continuity as the major risk. During supervision and preparation for an eventual second operation, the Bank showed consistency in focusing on the key parameters of the program and was well advised, in the face of insufficient progress, to launch a program of economic work.

Borrower Performance

4.52 *The rating of Satisfactory is downgraded to Unsatisfactory*. Although there was firm commitment by the former leadership, it considerably weakened after the elections due to a fragile alliance among parties advocating conflicting agendas and vying for influence through patronage. This quickly resulted in slowing decision-making and in dilution of efforts.

C. LESSONS FROM THE PROVINCIAL SACS

4.53 Some lessons apply to Pakistan, others have a broader applicability.

Lessons for Pakistan

- The limited experience gained by the two first SACs reviewed here suggests that operations at the sub-national level are a useful complement to those at the national level. In terms of contributing to improved delivery of service and poverty reduction, they compare favorably with the SAP.

- Unless the mechanisms governing the financial relationships between the federal and provincial governments are revised, there is little or no prospect for the provinces to be able to fulfill their social mandate as provided by the Constitution and the devolution plan in a sustainable manner.

- Capacity at the lower level is generally very weak since power resides at the center for historical reasons. The focus, content, and design of sub-national operations should target capacity and institutional building at that level in conjunction with the transfer of responsibilities from the higher to the lower level. The present assessment revealed the lack of clarity in roles and responsibilities between the different levels, in financial procedures, and modalities of using funds transferred to the lower levels.

- When designing sub-national operations, joint discussions with the central government are indispensable to ensure that the conditions necessary for success falling under its jurisdiction are either expected to be fulfilled within the time frame of the operation or are excluded from the reform program.

Lessons of Broad Applicability

- Ownership and commitment, at the political as well as at the administrative level, are keys to success. If obtained, sub-national operations generate valuable benefits in terms of creating greater awareness among provincial and local authorities of their duties and responsibilities vis-à-vis their constituencies.

- Given the weak local capacity, emphasis should be placed not only on building institutional capacity and training, but also on incentives to encourage staff to learn and assume greater responsibility.

- Sub-national operations should be accompanied by well designed and well focused TA directed at the issues listed above.

Annex A: Devolution in Pakistan

1. Upon assuming office in 1999, the Musharraf government announced a reform aimed at "reconstructing the institutions of the state" through a system of democratically elected local governments (LG). Accordingly, Local Government Ordinances (LGO) were issued by the provinces in August 2001. The devolution had two sets of objectives. First, a political objective aimed at reforming the political structures by: (i) reviving the political system historically in the hands of entrenched interests; (ii) facilitating access of vulnerable citizens to political life; and (iii) strengthening accountability between politicians and the electorate. Second, underpinning the political objectives, the second set of objectives aimed at: (i) improving service delivery, in particular social services; (ii) devolving to local governments the responsibilities to regulate and administer laws on land, labor, natural resources, NGOs, and economic activities; and (iii) delivering access to justice.

2. The devolution was based on the abolition of the existing three levels of deconcentrated provincial administration (divisions, districts, and tehsils) and the creation of a new tier of LGs (districts, tehsils, union administrations), and the replacement of the existing municipal bodies by these new LGs. Reforms took place at three levels: political, administrative, and fiscal.

3. First, at the political level, the citizenry elects directly a 21-member Union Council (UC), with the nazim (mayor) and naib nazim (deputy mayor) elected on the same ticket. Nazimen and naib nazimen are ex-officio members of the district councils and the tehsil councils, respectively, with the other members elected by the UC councilors. Members of the tehsil and district councils are therefore elected indirectly. At each administrative level, there are three types of bodies through which citizens are able to access and influence government at the local level: external oversight bodies; citizen dispute resolution mechanisms; and bodies responsible for community development and management facilities, the most important of which is the Citizen Community Board (CCB), formed voluntarily and composed of at least 25 members. CCBs can initiate development projects, establish cooperatives, and support external oversight bodies, such as Monitoring Committees. At least 25 percent of the development budget of each tier must be earmarked for development projects identified by CCBs.

4. Second, at the administrative level, each district has 10 to 13 departments depending on the province, which form the executive branch. Each district has a District Coordination Officer (DCO), the highest-ranking civil servant, and an Executive District Officer (EDO) in charge of each department. A similar, but smaller, structure exists at the tehsil level, but no such structure exists at the union level, since there are no expenditure assignments to the union.

5. Third, the fiscal reforms were devised so as to avoid amendments to the Constitution with respect to the functions exercised respectively by the federal and the provincial governments. Thus, on the expenditure side, there were no shifts of

responsibility from the federal to the lower levels of government, but only from the provincial level. Broadly speaking, responsibilities for elementary and secondary education, primary and secondary health, agriculture, and intra-district roads were transferred to the districts, while municipal services, including roads and streets, water supply systems, sewers, and sanitation, were devolved to the tehsils. Although union administrations (UA) were not assigned service-delivery responsibilities, they are responsible for small-scale development projects initially funded from the District Government allocations under the Khushal Pakistan Program (KPP) (pro-poor public works program).

6. On the revenue side, the mechanism adopted for the transfer of resources from the provinces to LGs mirrors the revenue sharing system at the federal-provincial level. By amendment to its LGO, each province created in 2002 a Provincial Finance Commission (PFC) which is to decide, for a medium-term period, the share of a "divisible pool" to be transferred to districts according to a formula based on population and an index of "backwardness", the province keeping resources for expenditures for which it is responsible, including debt liabilities. Since their creation, PFCs have not made any awards covering a medium-term period and interim awards are extended every year. Presently, the local share of the divisible pool is as follows: Punjab: 39.8 percent; Sindh: 40 percent; NWFP: 40 percent; and Balochistan: 31 percent. The provinces have used different routes to fund the tehsils and UAs, but these have been largely financed out of the General Sale Tax (GST) revenues and by own-source revenues. The implementation of the fiscal reforms is far from complete and, as a result, the responsibility for and the actual delivery of public services are still very much blurred.

7. Up to now, the implementation of the devolution has been very uneven among provinces, due to: unclear processes, procedures, and mandates, lack of capacity at the local levels, insufficient financial resources, delocalization of personnel, and, last but not least, considerable resistance on the part of the provinces and their staff.

Annex B: Actions taken prior to Board Presentation of the NWFP SAC I

A. Strengthening the Accountability and Professionalism of State Institutions

1. NWFP has strengthened the Provincial Public Service Commission (PPSC) through the conferment on PPSC of: (i) financial and administrative autonomy in management of its affairs; and (ii) full authority for the recruitment through PPSC of all Public Service Officers.

2. (a) NWFP has initiated a program to streamline and right size all departments/attached departments, including: (i) the closing and/or merging of departments; (ii) the declaration of about 6,000 public service positions as redundant at the provincial level; (iii) the notification of NWFP's Surplus Pool Policy; (iv) the notification of NWFP's Facility Specific Contract Staff Policy; and (v) maintained the ban on new recruitment except in education and health.

(b) NWFP has initiated its comprehensive capacity building program.

(c) NWFP has introduced merit-based promotion policies for senior grades.

3. NWFP has strengthened its capacity to monitor public service performance through: (i) the completion and public dissemination of a multiple indicator cluster survey to benchmark key social indicators by district; (ii) the full funding of its educational and health management information system starting fiscal year 2003; and (iii) the approval of a third party user and facility survey program.

4. The complete separation of the judiciary from the executive.

5. Revision of Judicial Service Rules to allow the Chief Justice full autonomy in employment in the judiciary.

B. Education and Health Sector Reforms

6 NWFP has initiated education reforms to expand access to quality education services through: (i) the approval of a school staff rationalization program; (ii) the approval of, and allocation of funding for, the provision of missing water and sanitation facilities to girls' schools; (iii) the restructuring of its Frontier Education Foundation and the provision of enhanced funding for the Foundation; (iv) the approval of a program for the recruitment of 2000 additional primary school teachers during fiscal year 2003 for understaffed schools; (v) the establishment of an education sector reform unit; (vi) the strengthening of teacher absenteeism monitoring system; and (vii) providing in the approved MTBF of resource allocation consistent with education sector reforms.

7. NWFP has initiated health sector reforms through: (i) the introduction of health management institutional reforms, including establishing a management cadre, a program to rationalize health facilities and provide management and financial autonomy to tertiary hospitals; (ii) the approval of a scheme to increase coverage of extended program for immunization and TB coverage; (iii) the establishment of health sector reform unit; (iv)

approval of a three year program to increase female nursing staff and lady health workers; and (v) providing in the approved MBTF of resource allocation consistent with health sector reform.

C. Improving Fiscal Sustainability and Restoring Financial Accountability

8. NWFP has strengthened the tax base by: (i) the introduction of agriculture income tax (AIT); (ii) approval of a study for strengthening the AIT administration system; (iii) the rationalizing of a number of taxes; (iv) the revision of the formula for valuation of urban immovable property tax; and (v) the increasing of rating areas for property taxes from 18 to 27.

9. NWFP has adopted prudent fiscal management policies by: (i) reducing wheat subsidy; (ii) the establishment of a Road Maintenance Fund; and (iii) the establishment of General Provident and Pension Funds.

10. NWFP has adopted the MTBF for its 2003-2005 budget planning and formulation.

11. NWFP has adopted a Financial Management and Accountability Reform Program and has initiated: (i) the monthly reconciliation of revenues and expenditures and the making of such revenues and expenditures available publicly; (ii) the establishment of a Public Accounts Committee and the opening of the Committee proceedings to the public; (iii) the upgrading of the positions of District Account Officers in major districts; and (iv) the creation of a Provincial Financial Controller position.

12. NWFP has set up a Provincial Finance Committee and has released Khushal Pakistan Program and Social Action Program funds according to the formula-based allocations of Fiscal Year 2002.

13. NWFP has enacted a new Procurement Ordinance to: (i) promote fair and open competition; (ii) increase transparency; and (iii) strengthen the code of ethics required in procurement.

D. Promoting Growth

14. NWFP has initiated private sector development reforms through: (i) the establishment of a Deregulation and Facilitation Committee; (ii) the closing down of the following commercial autonomous bodies: the Agricultural Development Authority, the Fruit and Vegetable Board, the Provincial Frontier Cooperative Bank and the Provincial Urban Development Board; and (iii) the approval of a privatization program for the Bank of Khyber.

Annex C: Actions taken prior to Board Presentation of the Sindh SAC

A. Fiscal and Financial Reforms

1. Sindh has expanded the provincial tax base by: (a) introducing an agriculture income tax; (b) rationalizing stamp taxes by reducing their number and making them ad valorem; and (c) enlarging the property tax base by increasing the rating areas from 16 to 42, and adding 100,000 new units for property tax purposes.

2. Sindh has: (a) retired its billing arrears amounting to twenty-one (21) billion rupees in the aggregate owing to federal government agencies, private sector contractors and utilities; (b) reduced blocked account arrears (past overdraft) its overdraft with the State Bank of Pakistan by more than ninety percent ; and (c) set up specific arrangements to avoid the accumulation of such arrears in the future.

3. Sindh has: (a) adopted a medium term fiscal restructuring plan setting out specific targets for: (i) provincial revenues and pro-poor expenditures; and (ii) future expenditure obligations, such as in respect of debt servicing and pensions; and (b) incorporated such targets for the first year of such plan in the budget parameters for FY 2002/03.

4. Sindh has: (a) made publicly available quarterly Fiscal Monitoring Reports on revenues and expenditures based on accounts which are more than seventy-five percent reconciled with the Borrower's Office of the Accountant General; and (b) implemented revenue and expenditure targets agreed with the Association for the first two quarters of Fiscal Year 2002/2003.

5. Sindh has: (a) set up an ad-hoc Provincial Public Accounts Committee (PAC); (b) completed its review of audit reports for FY1998/1999 and FY 1999/2000; and (c) opened up PAC proceedings to the press.

6. Sindh has streamlined its financing procedures to ensure timely release of development expenditures and high priority non-salary health and education sector expenditures.

7. Sindh has: (a) taken a decision to appoint a professionally qualified Provincial Financial Controller in its Department of Finance (DOF) to lead financial management reforms based on terms of reference agreed with the Association, and (b) adopted a Financial Management Reform Program agreed with the Association.

B. Strengthening Governance: Civil Service and Public Service Delivery Reforms

8. Sindh has issued an Ordinance (the Sindh Public Service Commission (Amendment) Ordinance, (No. XXXIX of 2001)) amending the Sindh Public Service Act of 1989 to enhance the Sindh Public Service Commission's independence, increase its financial autonomy, expand its role in the recruitment of public servants, and limit and define the posts which are outside its purview.

9. Sindh has increased accountability and quality of, and access to, its education services through: (a) expanding the role of school management committees, chaired by parents/citizen community board members to monitor teacher performance and school budget implementation; (b) redeploying and recruiting teachers to make about 3,800 viable schools functional; and (c) setting up a monitoring, research and evaluation cell in its Department of Education (DOE) and initiating the monitoring of schools.

10. Sindh has increased the accountability and quality of, and access to, its health services through: (a) increasing the coverage of immunization services (EPI from 39% to 50% and TB Dots from 8% to 31%) based on a well-targeted program; (b) strengthening the health sector monitoring and evaluation programs; and (c) initiating a program of strengthening capacity in the district governments to deliver health services.

C. Regulatory and Private Sector Development Reforms

11. Sindh has streamlined the system of inspections of factories by reducing the number of such inspections from 23 to 7 all of which to take place in two days.

12. Sindh has issued an Ordinance establishing a Privatization Commission with a clear mandate to privatize a clearly defined list of assets approved by the Sindh Cabinet, and bids have been received for the first set of privatizations.

Annex D: Actions Taken Prior To Board Presentation of NWFP SAC-II

A. Improving Fiscal Sustainability and Restoring Financial Accountability

1. With a view to improving expenditure composition, the project portfolio in the FY04 ADP budget has been re-prioritized so as to reduce the throw-forward ratio of development projects to a level below the FY03 level of 3.2 years.

2. With a view to promoting fiscal devolution, a decision has been taken to transfer funds for district government staff salaries to the districts via NWFP's Account IV.

3. With a view to improving financial accountability, transparency and efficiency in public spending: (a) the monthly reconciliation rates of receipts, expenditures, suspense accounts, and intergovernmental accounts have been raised to 90 percent, 93 percent, 90 percent and 85 percent, respectively, with two months lag, from 75 percent, 51 percent, 80 percent and 84 percent, respectively, in FY03; and (b) a new procurement law has been enacted, and new procurement regulations and standard bidding documents for goods, works and consultants services have been notified and are operational.

B. Strengthening Accountability and Professionalism of State Institutions

4. With the view to promoting administrative devolution: (a) revised district rules of business have been notified and implemented; and (b) authority for recruitment of teachers has been devolved to district governments.

C. Accelerating Human Development

5. With a view to alleviating demand constraints on basic education: (a) the following progress in providing missing facilities for girls' schools has been achieved; (i) latrines – 96 percent; (ii) boundary walls – 90 percent; (iii) water supply – 64ercent; and (iv) additional classrooms – 50ercent; and (b) free public education expanded through secondary level and provision of free textbooks to girls of all grades and boys up to grade-2 in all government primary schools has been announced.

6. With a view to improving the quality of education, a system of monitoring teacher attendance to reduce teacher absenteeism has been implemented, under which Executive District Officers (EDOs) (Education) take disciplinary action based on timely reports and send monthly consolidated reports to the Directorate for Schools and Literacy.

7. With a view to enhancing health service delivery, coverage of TB (tuberculosis) daily observation therapy sessions (DOTS) has been extended from 10

to 17 districts, and 1800 new lady health workers and 200 female nurses have been deployed at district hospitals.

D. Promoting Growth and Private Sector Development

8. With a view to promoting private sector development: (a) a private sector development policy statement has been issued, and an agricultural growth strategy has been approved; and (b) of all remaining small hydel projects, three (3) have been leased to the private sector, five (5) have completed the bidding process and one (1) is being refurbished.

Annex E: List of Persons Met

Federal Government

Dr. Abdul Hafeez Sheikh, Minister for Privatization & Investment
(formerly Minister of Finance, Sindh)
Mr. Jehangir Bashar, Secretary, Board of Investment
(formerly Additional Chief Secretary, NWF Province)
Mr. Tanvir Jafri, Additional Finance Secretary, Ministry of Finance
Mr. Fazal-ur-Rahman, Secretary, Ministry of Ports & Shipping
(formerly Finance Secretary, Sindh Province)
Mr. Sajid Hassan, Secretary, Ministry of Education
Mr. Shakil Durrani, Secretary, Ministry of Population Welfare
(formerly Chief Secretary, NWF Province)
Mr. Daniyal Aziz, Chairman, National Reconstruction Bureau
Mr. Shafqat Ezdi Shah, Secretary, Local Government & Rural Development
Mr. Fahim Arshad Farooq, Deputy Secretary, Local Government & Rural Development
Mr. Mohsin Raza, Joint Secretary, Local Government & Rural Development
Mr. Normin Ali Shah, Project Manager, Local Government & Rural Development

Sindh Province

Mr. Malik Israr Hussain, Secretary, Finance Department
Mr. Ghulam Sarwar Khero, Additional Chief Secretary (ACS), Planning & Development Department
Mr. Muhammad Saleem Khan, ACS, Local Government Department
Ms. Naheed S. Durrani, Coordinator, Sindh Reform Program, Finance Department
Mr. Abdul Kabir Kazi, Program Director, Sindh Devolved Social Services Program, Finance Department
Mr. Surleh Farooqui, Additional Secretary, Development, Finance Department
Prof. Anita Ghulam Ali, Managing Director, Sindh Education Foundation
(formerly Minister of Education)

Northwest Frontier Province

Mr. Umar Khan Afridi, Secretary, Local Government Department
Mr. Mansoor Ali Shah, Secretary, Planning & Development Department
Mr. Aurangzeb-ul-Haq, Additional Secretary, Finance Department
Mr. Ahmed Amin, Additional Secretary, Finance Department
Dr. Jamal Abdul Nasir, Director General, Community Infrastructure Project (CIP), Local Government Department
Mr. Asghar Khan, Director, Zone 1, CIP, Local Government Department
Mr. Kiramat Ullah, Deputy Director, Regional Coordination Support Unit, CIP, Local Government Department
Mr. Khushal Khan, Coordinator, NWFP Reform Program, Finance Department
Ms. Fareeha, Senior Economist, Finance Department

Ms. Bushra Rahim, Programmer, Finance Department
Mr. Syed Imtiaz H. Gilani, Vice-Chancellor, NWFP University of Engineering and Technology (formerly Minister of Education)
Mr. Baz Mohammad Khattak, Chairman, Sarhad Development Authority (formerly Secretary Local Government)
Mr. Shehzad Arbab, Secretary Establishment (formerly Secretary Education)
Mr. Arshad Mirza, Secretary Works & Services (formerly Secretary Health)

Two Villages Visited:

- Village Lala, District Peshawar - 11/2/04
- Village Jabbi, District Noushera - 11/3/04

World Bank

John Wall, Country Director
Raja Rehan Arshad, Sr. Institutional Specialist
Amer Z. Durrani, Sr. Transport Specialist
Tahseen Sayed, Sr. Social Sector Specialist
Ahmad Ahsan, Lead Economist
Hanid Mukhtar, Sr. Economist
Zahid Hasnain, Economist
Zareen Naqvi, Sr. Economist
Julie Viloria, Sr. Institutional Specialist

UNICEF

Mr. Osama Makkawi Khogali, Chief, Provincial Office, Peshawar
Mr. Farooq Khan Abbasi, Assistant Project Officer, WES, Peshawar

ADB

Mr. Naved Hamid, Sr. Economic Advisor and Deputy Country Director
Mr. Mian Shaukat Shafi, Project Implementation Officer

DFID

Mr. Haroon Sharif, Economic Adviser

Others

Mr. Farid Rahman, Former Minister of Finance, NWF Province
Mr. Philippe Nouvel, former Resident Representative, World Bank

Annex F: Basic Data Sheet

NWFP STRUCTURAL ADJUSTMENT CREDIT (CR. 3687)

Key Project Data *(amounts in US$ million)*

	Appraisal estimate	*Actual or current estimate*	*Actual as % of appraisal estimate*
Total project costs	90.0	90.0	100
Total cancellation	-	-	-
Total project cost	-	-	-
Cancellation	-	-	-

Project Dates

	Original	*Actual*
Departure of Appraisal Mission	April, 9, 2002	April 9, 2002
Board approval	July, 9, 2002	July 9, 2002
Signing	July 10, 2002	July10, 2002
Effectiveness	July 12, 2002	July 12, 2002
Closing date	Dec. 31, 2002	Dec. 31, 2002

Staff Inputs (staff weeks)

	Actual/Latest Estimate	
	No. of Staff weeks	**US$('000)**
Preappraisal	25.51	129.1
Appraisal/Negotiation	(included above)	(included above)
Supervision	n/a	n/a
ICR	15.24	42.7
Total	40.75	171.8

Mission Data

	Date (month/year)	No. of persons	Staff days in field	Specializations represented	Performance rating	Rating trend
Identification/ Preparation	Jan. 2002	8	N/A	3 economists 1 lawyer 1 finance specialist 1 public sector specialist 1 health specialist 1 education specialist		
Appraisal	May 2002-June 2002	10	N/A	4 economists 1 lawyer 2 financial specialists 1 public sector specialist 1 education specialist 1 health specialist	S	S
Supervision	September 2002 January 2003 May 2003	9	N/A	4 economists 2 finance specialists 1 public sector specialist 1 education specialist 1 health specialist	S	S
Completion	December 2002-June 2003	1	N/A	1 Economist	S	S

SINDH STRUCTURAL ADJUSTMENT CREDIT (CR.3686)

Key Project Data *(amounts in US$ million)*

	Appraisal estimate	*Actual or current estimate*	*Actual as % of appraisal estimate*
Total project costs	100.0	100.0	100
Total cancellation	-	-	-
Total project cost	100.0	100.0	-
Cancellation	-	-	-

Project Dates

	Original	*Actual*
Departure of Appraisal Mission	11/20/2001	03/21/2002
Board approval	10/15/2002	07/09/2002
Signing	07/10/2002	07/10/2002
Effectiveness	07/17/2002	07/17/2002
Closing date	12/31/2002	12/31/2002

Staff Inputs (staff weeks)

	Actual/Latest Estimate	
	No. of Staff weeks	**US$('000)**
Preappraisal	95.41	307.9
Appraisal/Negotiation	(included above)	(included above)
Supervision	"	"
ICR	10.3	43.9
Total	105.71	*351.8

*Includes labor, travel and other costs

Mission Data

	Date (month/year)	No. of persons	Staff days in field	Specializations represented	Performance rating	Rating trend
Identification/ Preparation	July 2001-March 2002	5		1 economist 1 civil service specialist 1 financial mgmt. specialist 1 human dev. specialist 1 private sector dev. spec.	S	S
Appraisal	April 2002-May 2002	6		1 economist 1 financial mgmt. specialist 1 civil service 1 public sector specialist 1 private sector dev. Specialist 1 human dev. specialist	S	S
Supervision	September 2002	14		7 economists 1 financial mgmt. specialist 1 human dev. specialist 1 civil service specialist	S	S
	Dec. 2002-May 2003			1 economist 1 public sector specialist 1 private sector dev. specialist	S S	S S
Completion	Dec. 2002-May 2003	1		1 economist	S	S

NWFP COMMUNITY INFRASTRUCTURE AND NHA STRENGTHENING CREDIT (CR. 2829)

Key Project Data *(amounts in US$ million)*

	Appraisal Estimate	*Actual or current estimate*	*Actual as % of appraisal estimate*
Total project costs	38.80	46.60	120%
Total cancellation	-	-	-
Total co-financing (by SDC)	3.5	4.5	128%
Cancellation	-	-	-

Project Dates

	Original	*Actual*
Departure of Appraisal Mission		06/30/1995
Board approval	03/14/1996	03/14/1996
Signing	04/18/1996	04/18/1996
Effectiveness	06/30/1996	07/17/1996
Closing date	12/31/2001	06/30/2003

Staff Inputs (staff weeks)

	Actual/Latest Estimate	
	No. of Staff weeks	**US$('000)**
Preappraisal	31.1	110.6
Appraisal/Negotiation	46.3	137.3
Supervision	144.85	556,445.82
ICR	9	.35
Total	231.25	839345.82

Mission Data

	Date (month/year)	No. of persons	Staff days in field	Specializations represented	Performance rating	Rating trend
Identification/ Preparation	Feb. 1, 1993	3	N/A	1 task manager 1 municipal engineer 1 institutional	S	
	Set. 19, 1994	5		1 task manager 1 municipal engineer 1 land specialist 1 housing specialist 1 financial analyst		
Appraisal	June 30, 1995	8	N/A	1 task manager 1 municipal engineer 1 housing specialist 1 CD specialist 1 institutional specialist 1 engineer 1 procurement/disbursement 1 monitoring specialist	S	
	Feb. 15, 1996	5		1 task manager 1 CD specialist 1 institutional dev. specialist 1 legal officer 1financial analyst		
Supervision	Oct. 13, 1996	5	N/A	1 task manager 1 procurement/disbursement 1 municipal engineer 1 CD/process monitoring 1 management information SDC reps.	S	S
	May 5, 1997	6	N/A	1 task manager 1 community/inst. specialist 1 municipal engineer 1 mgmt. information 1 urban specialist	S	S
	Nov. 29, 1997	6	N/A	1 procurement 1 team leader 1 community/inst. specialist 1 municipal engineer 1 mgmt. information specialist 1 urban specialist	S	S
	April 30, 1998	6	N/A	1 SDC Reps. 1 team leader 1 community/inst. specialist 1 mgmt. information 1 urban specialist 1 accountant municipal engineer	S	S
	Dec. 19, 1998	3	N/A	1 SDC reps 1 task leaders	S	S
	May 14, 1999	6	N/A	1 urban/spl./imp 1 finance/monitoring; SDC rep 1 team leader 1 urban specialist 1consultant/engineer 1 community specialist 1 procurement/disbursement 1 finance/monitoring SDC program officer	S	S
	May 6, 2000	6	N/A	1 task team leader 1 comm. Dev. specialist 1 engineer 1 WSP process monitoring 1sr. disbursement specialist 1 proc./inst. mgmt. specialist SDC program officer	S	S

	Date (month/year)	No. of persons	Staff days in field	Specializations represented	Performance rating	Rating trend
	Nov. 9, 2000	6		1 team leader 1 WSP-SA Ins. Dev. specialist 1 procurement specialist 1urban specialist 1enginerr/cons.	S	S
	May 31, 2001	10	N/A	SDC program officer 1 task team leader 1 sr. urban specialist 1 sr. procurement specialist 1 engineer 1 engineer SDC 1 DY res. Rep. SDC 1 consultant 2 ins. Devt. Specialist Sector Officer EAD	S	S
	April 20, 2002	3	N/A	1 TTL 1 sr. urban specialist 1 SDC program officer/engineer	S	S
	Jan. 9, 2003	6	N/A	1 TTl 1 sr. urban specialist 1 WSP team leader 1 disbursement specialist 1 procurement specialist SDC program officer/engineer	S	S
Completion	Sept. 1, 2003	9	N/A	1 task team leader 1 disbursement 1Sr. FM specialist 1 procurement 1 engineer 1 CD social dev. specialist 1 WSP-inst. dev. specialist 1 AJKCISP chief technical officer 1 process monitoring 1 mgmt. specialist SDC program officer/Section Officer-EAD	S	S

SECOND NWFP STRUCTURAL ADJUSTMENT CREDIT (CR 39320)

Key Project Data *(amounts in US$ million)*

	Appraisal estimate	*Actual or current estimate*	*Actual as % of appraisal estimate*
Total project costs	90.0	90.0	100
Total cancellation	-	-	-
Total project cost	-	-	-
Cancellation	-	-	-

Project Dates

	Actual
Departure of Appraisal Mission	
Board approval	June 22, 2004
Signing	June 22, 2004
Effectiveness	June 23, 2004
Closing date	Dec. 31, 2004

Staff Inputs (staff weeks)

	Actual/Latest Estimate	
	No. of Staff weeks	**US$('000)**
Preappraisal	66.14	210,328
Appraisal/Negotiation	(inc. in the above amt.)	(inc. in the above amt.)
Supervision	10.5	20,541
ICR	N/A	N/A
Total	76.64	230,869

Mission Data

	Date (month/year)	No. of persons	Staff days in field	Specializations represented	Performance rating	Rating trend
Identification/ Preparation	September, 2003	8	N/A	1 TTL task team leader 1 economist 1 lawyer 1 PSD specialist 1 education specialist 1 health specialist 1 financial specialist		
Appraisal	April, 2004	9	N/A	1 TTL-task team leaders 1 economist 1 lawyer 1 finance specialist 1 private sector dev. 1 education specialist 1 health specialist	S	S
Supervision	September, 2004	10	N/A	1 TTL-task team leaders 1 economist 1 lawyer 1 finance specialist 1 private sector dev. 1 education specialist 1 health specialist	S	S
	December 2004	6		1 TTL-task team leaders 1 economist 1 lawyer 1 finance specialist 1 private sector dev. 1 education specialist 1 health specialist	S	S
Completion	May 2005	1	N/A	1 Economist	S	S

Comments Received from the Swiss Agency for Development and Cooperation (SDC)
E-mail dated December 12, 2005

Dear Kyle,

Thanks for sharing with us the draft Project Performance Assessment Report (PPAR) covering the three subject operations. As mentioned in the report our cofinancing support was limited to the NWFP Community Infrastructure and National Housing Authority Strengthening Credit (CIP) (Credit 2829-PK).

We generally concur with the assessment.

It rightly points out the inherent institutional weaknesses embedded in a highly centralised provincial system that resulted in implementation constraints.

We also agree with the finding that the project did not succeed in institutionalising community development processes within the provincial and local administrations eventhough SDC extended its maximum possible flexibility in this respect.

Furthermore the project was unable to capitalise from the unprecedented opportunity and space offered by the Local Government Framework . Instead of providing stimulus and meaningful support to the decentralisation efforts it preferred to continue the follow its regular implementation approach that on the contrary was meant for cintinuum of institutional vacuum at the locallevel.

Even though the lessons drawn are appropriate, we however, feel that the main lessons derived from the experience of the CIP could have been more specific and relevant to the current institutional landscape and the key stakeholders involved in its implementation including the Bank. Especially in the context of Bank's involvement support of the overall reform process.

Last but not the least, are there any lessons learnt from projects' interventions, if any, in the face of a number of natural clamaties that have especially hit NWFP in the recent years including the devastating earthquake of last October?

Kind regards.

Kathy Schneitter
SDC Country Director
Swiss Agency For Development and Cooperation (SDC)
Coordination Office Islamabad
Embassy of Switzerland
Islamabad, Pakistan

IEG's response to Swiss Agency for Development and Cooperation (SDC)
Sent via e-mail dated December 14, 2005

Dear Ms. Schneitter:

Thank you very much for your prompt and thoughtful comments on the draft Project Performance Assessment Report on the NWFP Community Infrastructure and National Housing Authority Community Strengthening Credit (CIP) (Credit 2829-PAK). We will be including your comments in the final report.

With respect to the specificity of the lessons, we hope that the lessons from this audit, taken in conjunction with additional lessons from a parallel review of the overall country lending program (Pakistan: Country Assistance Evaluation) will be of use to the Bank and other stakeholders in designing follow-up work. We have had discussions with the Bank regional team on these lessons, and management is broadly in agreement. In addition, IEG is undertaking a review of the Bank's assistance for natural disaster recovery. We have conveyed the preliminary findings and lessons of this review to the Bank staff working with the country authorities to help design projects to reflect the current needs arising from the recent earthquake. We would be pleased to send you copies of those reports when they are finalized. We also be happy to meet with any SDC staff to discuss specific lessons or issues that may be of use in future projects of a similar nature.

Once again, thank you for your comments, and for SDC's support of the Bank's program in Pakistan. To the extent that IEG work could be of use to you, please let us know.

Best regards,

Kyle Peters
Senior Manager
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