

# **NWFP Economic Report**

## **Accelerating Growth and Improving Public Service Delivery in the NWFP: the Way Forward**



World Bank and the Government of the NWFP

Peshawar, December 19-20, 2005



# A Development Strategy for the NWFP

Accelerating economic growth and reducing poverty requires action on four fronts:

- *Sustain rapid economic growth*, driven by a vibrant private sector
- *Accelerate improvements in education and health*
- *Strengthen social safety nets*
- *A specific development plan for the more backward areas* of the NWFP, such as the mountainous regions



# Achieving poverty reduction and job creation via rapid economic growth:

The provincial government needs to **focus scarce administrative and financial resources on its core functions** :

- provision of basic public goods (roads, irrigation infrastructure, water and sanitation, education and health, and research)
- modern regulation to promote competition, facilitate entry of new firms and the exit of those that cannot compete
- protection of property rights
  - land registration, policing contracts and an efficient legal system
- step back from many activities it is currently engaged in, in order to **create space for the private sector**



# Developing a vigorous private sector starts with :

1. creating a credible dialogue between the government and the private sector
  - clarify their respective roles in the economy :
    - government: focusing on its core functions
    - the private sector: direct production of goods and services
  
2. creating trust between the parties that the new strategy is here to stay
  - To signal this, the government must disengage from activities such as
    - financial services
    - transport
    - construction
  
3. This creates space for the private sector
  - over time a more mature and confident private sector
  - will expand business and employment in a number of activities



# The Drivers of Growth: Manufacturing

*Manufacturing* based on materials that are indigenous to the province :

- marble, granite, and construction materials (re. Afghanistan's reconstruction)
  
- Constraints in marble production:
  - Limited access to finance due to ambiguous ownership rights
    - access to finance necessary for investing in high quality technology
    - blasting loses much of the marble's value
  - Skills to finish and polish the stone are scarce
  - High cost of transporting marble from the mines to places where the stone is polished and/or exported
    - poor state of the province's roads.



# The Drivers of Growth: Construction

*Construction* merits particular attention by the government

- it is an important industry in the province
  - extensive links with other industries
  - generates considerable employment
- an important part of construction demand is public works projects

Issues:

- collusion, cost overruns, low quality and corruption
- these hamper the development of a competitive private sector

Recommendations for the provincial government:

- Improve procurement rules and process as detailed in report
- All agencies that hire construction firms for civil works should use a standard set of contracts
- Simplified, unified registration
- Monitor performance of private contractors
- Only award new contracts to contractors with past top performance
- Capacity development of public sector clients



# The Drivers of Growth: Energy

Two broad possibilities to tap the province's large hydel potential:

1. The province can earn revenue by selling electricity on the national grid.
2. Sell electricity to industry within the province
  - sell at a lower rate than the power provided on the national grid
  - subject to NEPRA's tariff determination and wheeling and distribution charges
  - this could offset some of the transport cost disadvantages arising from the province's geographical location.

Improving performance in the hydel sector:

- Remove inconsistencies between the two policy frameworks of SHYDO and of the Pakistan Private Power and Infrastructure Board
- Strengthen SHYDO's institutional capability on policy issues and on dealing with domestic and international private investors



# The Drivers of Growth: Tourism

In the long run, tourism offers a source of employment and income generation

but

- appears to be no NWFP tourism policy
- little image building activity
- weak institutional structure for tourism

The provincial government needs to develop a tourism strategy

- to guide investments in
  - promotion,
  - skill development
  - infrastructure
  - environmental protection
- in consultation with the private sector



# Urban centers as growth engines

## The potential for growth in urban centers

- concentration of skills facilitates specialization and the division of labor
- conglomerations of large populations create markets
- population agglomerations require better delivery of at least basic services

## Strategy for urban centers as growth engines -- Peshawar

### Urban management problems that constrain Peshawar's development

- key reason: multiplicity of agencies responsible for different functions in the city
- lack of coordination of planning and implementation of development schemes

### Recommendations:

- establish a high-level apex steering committee
  - membership of all stakeholder groups
  - chaired by the Chief Minister
  - develop vision and policy on tapping the economic potential of cities
  - develop a strategic plan for each city
  - Implementation oversight to ensure that investments are aligned to the plan
- strengthen the technical capacity of the different agencies
  - hire suitably qualified personnel from the market



# Urban Land Markets

## Poor functioning of urban land markets in the NWFP

- costly and lengthy litigation between citizens
- without clear title of ownership can't offer the property as collateral for borrowing
- key reason: urban land management systems fail to establish unambiguous ownership of urban properties

## Measures to improve the functioning of land markets

- most important: put in place a system that determines title conclusively
  - consolidate the responsibility for determining title in one department
- compulsory registration of transactions related to properties
- dispose of government land in prime commercial locations that is used for less productive purposes
- raise the land non-utilization fee on plots that remain vacant in housing schemes
- narrow the differential in property tax paid on rented and owner-occupied properties



# The Drivers of Growth: Agriculture

Agriculture central in the growth and poverty reduction strategy

- economic potential
- the majority of the poor live off agriculture

Strategy to generate growth and employment in agriculture :

- move away from an emphasis on food self-sufficiency in cereals towards food security and rural income growth
- employing the province's scarcest resource, irrigated land, in activities that provide the highest returns
- by encouraging the movement of farmers towards high value activities
  - livestock (already increasingly rapidly production)
  - Horticulture



# The Drivers of Growth: Agriculture

In order to assist the move towards high value activities, the government will have to:

- establish key public infrastructure to reduce post-harvest losses of high-value products
  - transport links
  - cold storage facilities,
- create a research system that undertakes best-practice research of relevance to all farmers
- strengthen the linkages between agricultural research, extension and farmers
- develop partnership with farmers' organizations and the private sector
  - improve input and output market information
- build the capacity of small farmers by developing farmers' organizations
  - revise the remit and expand the coverage of Farmers' Service Centers



# Environment

The government should pay special attention to conserving forests, rangelands and other natural resources in the province

This will require the government to:

- clarify incentives for communities for sustainable management of their natural resources
  - establish ownership and/or user rights that encourage joint management
- strengthen institutional capacities for rangeland management
- support provincial research in natural resource management
- promote eco-tourism
  - provides direct socio-economic benefits to local communities and incentives for nature conservation



# Delivery of public services

Accelerating economic growth and poverty reduction will require a major investment in human capital

The root cause for NWFP's poor health and education outcomes: deficiencies in the delivery of health, education and WSS services by the public sector

- systemic deficiencies:
  - **inadequate implementation of devolution** (administrative, functional and fiscal) to local governments
  - **weak management information systems**
  - **poor transport accessibility in rural areas**
- sector specific deficiencies (specific for health, education and WSS, respectively)



# Devolving administrative and fiscal powers

Deficient services are common:

- Teacher and health staff absenteeism, lack of medicines and other necessary supplies etc.

Devolution has possibilities for better service delivery through improved accountability

- strengthened managerial authority of local governments
- community involvement in service delivery

But:

the steps necessary for making devolution effective have yet to be implemented:

- Still weak accountability for poor service delivery
  - accountability of service-providing staff to policy maker
  - accountability of policy makers to citizens
  - limited local control over staff
  - unclear roles and responsibilities between different levels of government
- Acute staff shortages and lack of adequate skills in district governments and TMAs also constrain service delivery



# Devolution: main issues

## Increasing local authority over recruitment and career management:

- Now high degree of administrative and financial centralization *within* the district government
- the provincial government retains de facto control over decisions to create and eliminate sanctioned posts

## Recommendations

- In the short run, give the Public Service Commission oversight over recruitment of key service delivery staff in the districts
- involve the Public Service Commission in vetting certain requests of transferring senior staff

## Completing functional devolution

- Overlap in functional responsibilities is considerable
  - Leading to confusion in the roles and responsibilities for service provision, e.g., in water supply and sanitation sector
  - Recommendation: devolve the responsibility for the delivery of water and sanitation services to the TMAs, accompanied by the requisite transfer of PHED staff



## Devolution: main issues (2)

### Strengthening community involvement to reduce staff absenteeism:

- involve monitoring committees formally in the budget process in a consultative role
- provide them with adequate resources for facility inspections
- civil servants should report to the monitoring committees

### Furthering fiscal devolution

- Local governments do not have sufficient resources to implement their mandate adequately.
- The provincial government should increase transfers to local governments through the PFC mechanism



# Improve rural transport accessibility

## Road accessibility

- prerequisite for receiving education and health services
- can also contribute to faster economic growth by lowering firms' costs

## Priorities in the transport sector:

- Developing a provincial transport policy and strategy
- Rationalize the road investment program and give priority to road maintenance
- Put in place incentives to promote better and more participatory planning and accountability
  - road users should be represented in FHA board
  - involve communities in designing and implementing rural access and mobility improvement schemes
- Put in place a monitoring and evaluation system
  - assess the impact of sector policies
  - feedback to planners, decision-makers, and stakeholders



# Better systems to monitor performance

The Government should improve its monitoring systems (HMIS and EMIS) and use independent data to monitor education and health system performance

- strengthen the MIS units
  - can analyze data, assess performance and provide feedback
  - to high level decision-makers, line departments, district governments
- the units should
  - regularly disseminate to the public “league tables” of performance by district
  - help district governments analyze the performance of their own facilities (schools, clinics, hospitals etc.)
  - ensure systematic monitoring and evaluation of the new policy initiatives
  - ensure that the results are used to modify programs or policies
- Government should make better use of national-level data from FBS
  - PIHS, Labor Force Survey, PSLM/CWIQ survey
  - District data on key health and education outcomes and related factors
  - Satisfaction levels of government-provided services
  - Use these data to inform direction of future policies and decisions
  - Identify the districts where more government attention is needed



# Education services

## Unsatisfactory state of education in the NWFP

- too few children, especially girls, attend school
- school attendance in rural areas is much worse than in urban
- the lowest attendance is that of girls in rural areas
- these problems are further exacerbated by very high drop-out rates

## How can the province increase primary school enrolment substantially?

- improving *access* to education
- Improving the *quality* of education



## Education services (2)

### The Government can improve access to education by:

- expanding the number of secondary schools to meet the increased demand from students completing primary schools
- introducing a pilot stipend scheme to students in both public and private schools
- providing missing facilities to the remaining secondary schools for females
- subsidizing secure travel arrangements for female teachers and students in remote areas and increasing stipends for female students
- tailoring interventions to the specific binding constraints that vary between districts including lack of access to transport in remote areas
- engaging the private sector: make the two Education Foundations autonomous organizations (apex bodies)
  - their role: support and encourage private initiatives in education provision



## Education services (3)

A successful strategy to improve quality of education needs as a minimum to ensure that:

- schools are made accountable for their education results
- teachers are accountable for being present at school and teaching
- qualified teachers are available
- potential providers compete against each other
- indicators on educational outcomes, teacher attendance etc., are reliably monitored
- allocated non-salary funds reach the schools

Ensuring these principles requires a further set of detailed measures which is presented in the report



# Health services

**The public system for primary care services is ineffective. Why?**

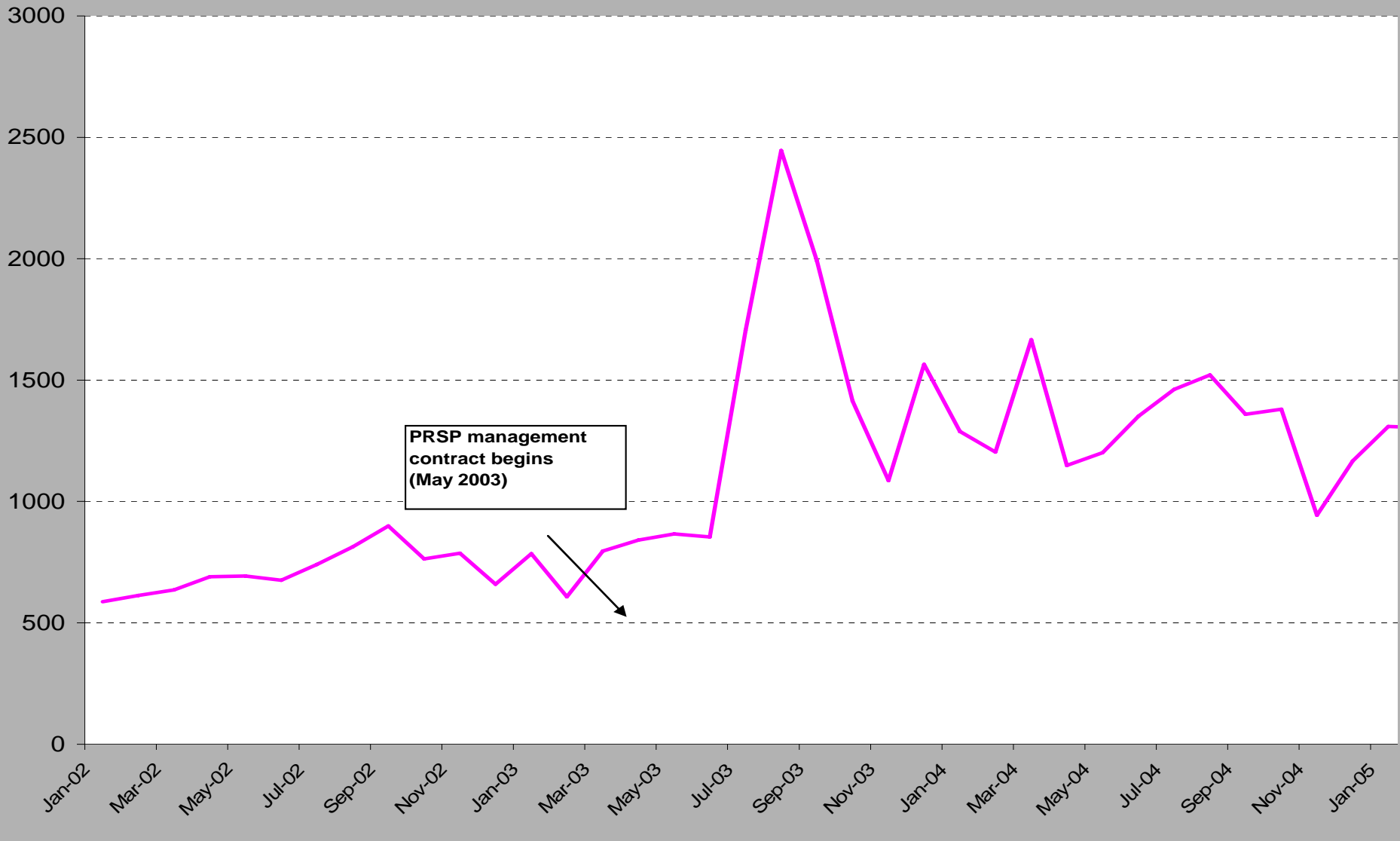
- **weak management**
- **inadequate staff motivation**
- **little emphasis on measurement of results**

A strategy for improving delivery of health services must encompass the following elements:

1. a willingness to undertake bold reforms and testing innovations in the delivery of publicly-financed preventive, promotive, and curative services
  - Select a few high priority actions based on good evidence or rigorous pilot-testing
2. pilot test contracting-in management of primary health care facilities
  - consider splitting financing and provision of health services
    - contracting out the management of health services
  - large scale pilot test in a few districts of contracting with an NGO to manage primary health care infrastructure (RHCs, BHUs, and LHWs)
  - Successful example in Rahim Yar Khan (RYK) District
    - the district government gave a management contract to the Punjab Rural Support Program to run all 104 BHUs



# Basic Health Unit Outpatient Visits in R.Y. Khan District Before and After NGO Management



# Health services

## 3. Make the system more results oriented, with the data to measure results

- establish an independent Monitoring and Evaluation Unit
  - high level analytical skills to assess health system performance
  - Better M&E by itself will likely improve performance by increasing accountability

## 4. Make more use of the private sector to improve quality of care

- begin testing participatory approaches in pilots such as:
- working with NGOs and professional organizations to improve tuberculosis and ARI case management among private providers
- fostering a hospital accreditation system among private hospitals
- a participatory approach to pharmacy regulation, including NGOs, academics, government, and pharmacists

## 5. Test real autonomy for DHQ/THQ hospitals

- The Government should conduct an independent evaluation of the NWFP hospital experience
- Design a pilot test of “real” autonomy in some 10 DHQ and THQ hospitals
- Based on an independent evaluation of actual results in the DHQ/THQ hospitals, make a decision on whether and how to expand the approach



# Water Supply and Sanitation

- Substantial gaps in coverage of clean drinking water supply and sanitation
- These gaps are partly responsible for the high infant and child mortality rates in the province

The report recommends that the provincial government:

- Provides TMAs with an incentive to take over the operation and maintenance (O&M) of WSS systems constructed by PHED
- Assumes all pre-devolution liabilities relating to the existing functional rural water supply/sanitation systems
- Transfers all funds allocated for O&M of these systems to the TMAs
- Assists TMAs in identifying and generating own funds

# Fiscal framework for the development strategy

High-investment / high-growth strategy requires:

- Stepping up infrastructure investments
  - government needs to increase returns to public investment
- Fiscal decentralization is also needed to improve delivery of social services
  - Local governments (service providers) need additional resources



# **Fiscal framework for the development strategy (2)**

## **High-investment / high-growth strategy**

- **Will require additional resources**
  - **Own provincial and local government resources**
    - **Need to improve tax administration**
    - **Remove exemptions and bring hitherto un-taxed areas into the tax base**
    - **Coordinate w. other jurisdictions re. harmonizing tax rates**
    - **Abolish taxes with little yield**
  - **Larger transfers from federal government (NFC award)**
  - **Net Hydel Profit payments from WAPDA**
    - **erosion in real value by 60 % since 1991/92**
  - **Prudent Borrowing**
    - **Prioritize grants over borrowing**
    - **Borrow on most concessional terms available**



# Public expenditures

Need to improve the composition and efficiency of spending

Composition:

- need more emphasis on investment and their Operations and Maintenance
- less emphasis on consumption

Efficiency:

- better management of investment projects



# Better managing public investment projects

- The public investment program is not aligned with the goals of growth, poverty reduction and human development set by the province
  - Implement a rolling medium-term budget framework in alignment with stakeholders
- Provide adequate overall O&M funding built into each project
- Need a strong Concept Clearance Committee (CCC) to ensure that chosen projects are high priority
- Established procedures and practices obstruct competition in selection of contractors and procurement of goods and services
  - align the Procurement Law with international best practices
  - enforce this law and the use of Standard Bidding Documents
- Monitoring of projects is insufficient – M&E activities should be adequately staffed and staffed with qualified personnel



# Furthering fiscal decentralization

Improving delivery of social services also requires additional resources to service providers (local governments) in addition to administrative and functional devolution

## Recommended measures in fiscal decentralization

- Pass on the wage bill of devolved departments through Account IV
- Larger transfers to districts
- Develop suitable formula for devolving the salary bill to enhance transparency
- Give local governments more autonomy in spending decisions
- Provide local governments with a stronger revenue base
- Ensure that own revenue mobilization by districts is not discouraged
- The provincial government should improve its M&E system for decentralized policy making
  - Key fiscal and socio-economic indicators at the local level



# Conclusions and prospects

**The NWFP government is at a cross roads. Choice:**

- to be proactive on reforms (economic, fiscal and institutional)
  - or not proactive
- 
- **If not, then the outcomes for income growth, job creation, poverty reduction, and human development are likely to stagnate or progress only very slowly**
  - **If it is proactive, it *can* achieve the higher growth path by undertaking economic and sectoral reforms**
  - **The set of reforms recommended in this report is comprehensive and, if implemented, can be expected to bring rapid progress to the province**

