DONORS, DEVOLUTION & DEVELOPMENT
THE MDGs CHALLENGE IN PAKISTAN

Presentation by
Mr. Riaz Khan, Member-NRB

April 28, 2007 - Islamabad
1. The MDGs Challenge
2. Governance Reforms to meet the MDGs challenge in Pakistan
3. Issues facing Local Governments
4. Donors support to MDGs and Local Governments
5. Way forward
### THE MDGs CHALLENGE - 2015

<table>
<thead>
<tr>
<th>Goal</th>
<th>Description</th>
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</thead>
<tbody>
<tr>
<td>Goal 1</td>
<td>Eradicate Extreme Poverty and Hunger</td>
</tr>
<tr>
<td>Goal 2</td>
<td>Achieve Universal Primary Education</td>
</tr>
<tr>
<td>Goal 3</td>
<td>Promote Gender Equality and Empower Women</td>
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<td>Goal 4</td>
<td>Reduce Child Mortality</td>
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<td>Goal 5</td>
<td>Improve Maternal Health</td>
</tr>
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<td>Goal 6</td>
<td>Combat HIV/AIDS, Malaria and Other Diseases</td>
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<td>Goal 7</td>
<td>Ensure Environmental Sustainability</td>
</tr>
<tr>
<td>Goal 8</td>
<td>Develop a Global Partnership for Development</td>
</tr>
</tbody>
</table>

**Targets** 18  

**Indicators** 48  

**Pakistan Specific Targets**  
**Pakistan Millennium Development Goals Report 2006.**
THE MDGs CHALLENGE
GOVERNANCE REFORMS TO MEET THE MDGs CHALLENGE
LOCAL GOVERNMENT SYSTEM - 2001
## MDGs AND LOCAL GOVERNMENTS

<table>
<thead>
<tr>
<th>Area</th>
<th>Responsibility</th>
</tr>
</thead>
<tbody>
<tr>
<td>Primary Health</td>
<td>Local Governments</td>
</tr>
<tr>
<td>Preventive Health</td>
<td>Local Governments</td>
</tr>
<tr>
<td>Population</td>
<td>Local Governments</td>
</tr>
<tr>
<td>Primary Education</td>
<td>Local Governments</td>
</tr>
<tr>
<td>Literacy</td>
<td>Local Governments</td>
</tr>
<tr>
<td>Water supply</td>
<td>Local Governments</td>
</tr>
<tr>
<td>Sanitation</td>
<td>Local Governments</td>
</tr>
<tr>
<td>Environment (Forest, land conservation, transport)</td>
<td>Local Governments</td>
</tr>
<tr>
<td>Gender equality and women empowerment</td>
<td>Local Governments</td>
</tr>
<tr>
<td>Poverty and hunger</td>
<td>Local Governments</td>
</tr>
</tbody>
</table>
LOCAL GOVERNMENT - GOVERNANCE DESIGN

1. Political, administrative and financial empowerment
2. Making officials responsible to elected representatives
3. Ensuring transparency in decision making
4. Expenditure efficiency through better local prioritization
5. Sustainability through local ownership
6. Involving citizens in development process through CCBs
7. Checks and balance mechanisms
8. Separation of executive from judiciary
9. Improving police functions through Safety Commissions under Police Order, 2002
LGO - LEGAL FRAMEWORK

PROVINCIAL GOVERNMENT

UN DEVOLVED (PROVINCIAL)

PLGC PFC

DEVOLVED OFFICES

LOCAL GOVTS. (DISTRICT GOVTS. / TMAs/UAs)
NAZIM (EXECUTIVE HEAD OF ADMINISTRATION)
COUNCIL (NAIB NAZIM / MEMBERS)
INSTITUTIONAL FRAMEWORK - LGO

LOCAL GOVERNMENT FUNCTIONS

PRE DEVOLUTION (IN A DISTRICT)
- URBAN
- RURAL

POST DEVOLUTION (IN A DISTRICT)
- TMAs
- CITY / DISTRICT GOVT.s

UNION ADMINISTRATIONS
DISTRICT GOVT. SERVICE DELIVERY STRUCTURE

COUNCIL NAIB NAZIM & MEMBERS

ZILA NAZIM

District Coordination Officer

MUNICIPAL OFFICE
In City District

Agriculture
Education
Health
Law
Revenue
Community Development
Finance & Planning
Information Technology
Literacy
Works & Services
UNION ADMINISTRATION STRUCTURE

Union Nazim

Secretary Community Development

Secretary Union Committees

Union Council Nazim Naib Union Nazim & Members

Secretary Municipal Services
## LOCAL AREAS

<table>
<thead>
<tr>
<th>Provinces</th>
<th>City District</th>
<th>District</th>
<th>No. of Tehsil</th>
<th>No. of Town</th>
<th>No. of Union Council</th>
</tr>
</thead>
<tbody>
<tr>
<td>Punjab</td>
<td>5</td>
<td>30</td>
<td>106</td>
<td>38</td>
<td>3,464</td>
</tr>
<tr>
<td>Sindh</td>
<td>1</td>
<td>22</td>
<td>101</td>
<td>18</td>
<td>1,108</td>
</tr>
<tr>
<td>NWFP</td>
<td>1</td>
<td>23</td>
<td>50</td>
<td>4</td>
<td>986</td>
</tr>
<tr>
<td>Balochistan</td>
<td>1</td>
<td>28</td>
<td>76</td>
<td>2</td>
<td>567</td>
</tr>
<tr>
<td>Total</td>
<td>8</td>
<td>103</td>
<td>333</td>
<td>62</td>
<td>6,125</td>
</tr>
</tbody>
</table>
PROVINCIAL FINANCE COMMISSION

TOTAL MEMBERSHIP 10

PROVINCIAL FINANCE COMMISSION COMPOSITION

GOVERNMENT
- MINISTER FINANCE
- SCERTARY FINANCE
- SECRETARY LG&RDD
- SECRETARY PLANNING

NAZIMS

PRIVATE SECTOR
- MEMBER 1
- MEMBER 2
- MEMBER 3

ZILA
- TEHSIL
- UNION
PROVINCIAL CONSOLIDATED FUND

PROVINCIAL RETAINED (Provincial Functions)

PROVINCIAL ALLOCABLE (PFC AWARD)

DISTRICT GOVT.S

TEHSILS

UNIONS

2.5% GST
CONSOLIDATION OF LOCAL GOVERNMENTS
1. New institutions under LGO to be strengthened.

2. District Service under section 140(A) to be created.

3. Efficiency & Disciplinary powers of the Nazims and Naib Nazim to be notified under section 30A of LGO.

4. Provincial restructuring in accordance with section 133-A of LGO to be implemented.

5. The Chapter on enforcement of local and special laws to be operationalized.

6. Vertical programs to be aligned to LGO

7. Financing to be through PFC
LIST OF DONOR PROJECTS/PROGRAMS

(Source EAD website (Million US$)

Asian Development Bank

Decentralized Elementary Education Program  (76 - closing date 2009)
Sindh Devolved Social Services Program  (219 - closing date 2007)
Middle School Project  (48 - closing date 2005)
Women Health Project  (46 - closing date 2005)
NWFP Urban Development  (20 – closing date 2008)
Balochistan Resource Management Program  (134 - closing date 2006)
Southern Punjab Basic Urban Service Project  (93 – closing date 2009)
Punjab Community Water Supply & Sanitation Project  (51 – closing date 2007)
Bahawalpur Rural Development project  (36.8 – closing date 2005)
Dera Ghazi Khan Rural Development Project  (35.7 – closing date 2006)
Sindh Rural Development project  (52 – closing date 2010)
Malakand Rural Development Project  (41.7 – closing date 2006)
NWFP Barani Area – II  (50 - closing date 2008)
Decentralization Support Program  (300 - closing date 2006)
Access to Justice  (330 - closing date 2005)
Punjab Devolved Social Services Program  (152 - closing date 2006)
Second Girls Primary School  (43 - closing date 2006)
# LIST OF DONOR PROJECTS/PROGRAMS

*Source EAD website (Million US$)*

## The World Bank

<table>
<thead>
<tr>
<th>Project Name</th>
<th>Funding</th>
</tr>
</thead>
<tbody>
<tr>
<td>Punjab Education Sector Adjustment Credit</td>
<td>100 – disbursed</td>
</tr>
<tr>
<td>Second NWFP Community Infrastructure Project</td>
<td>37 – closing date 2009</td>
</tr>
<tr>
<td>Poverty Alleviation Fund I</td>
<td>88 – closing date 2004</td>
</tr>
<tr>
<td>Poverty Alleviation Fund II</td>
<td>249.7 – closing date 2008</td>
</tr>
<tr>
<td>NWFP SAC II</td>
<td>90 – disbursed</td>
</tr>
<tr>
<td>SINDH SAC</td>
<td>100 – disbursed</td>
</tr>
<tr>
<td>PIFRA</td>
<td>29 - closing date 2005</td>
</tr>
<tr>
<td>Poverty Reduction Support Credit</td>
<td>301 disbursed</td>
</tr>
<tr>
<td>Public Sector Capacity Building Project</td>
<td>53.7 – closing date 2009</td>
</tr>
</tbody>
</table>

## Others

<table>
<thead>
<tr>
<th>Project Name</th>
<th>Funding</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strengthening Decentralized LG at Faisalabad – DFID</td>
<td>20.8 – closing date 2007</td>
</tr>
<tr>
<td>Strengthening of Livestock-EU</td>
<td>20.027 – closing date 2011</td>
</tr>
<tr>
<td>Education Sector Reform Program USAID</td>
<td>100 – closing date 2008</td>
</tr>
<tr>
<td>Girls Primary Education WFP</td>
<td>52 – closing date 2009</td>
</tr>
<tr>
<td>National Health and Population Facility</td>
<td>93.7 – closing date 2007</td>
</tr>
<tr>
<td>Community Development Program IFAD</td>
<td>22.3 – closing date 2012</td>
</tr>
<tr>
<td>Second Family Health Program Germany</td>
<td>24.5 – closing date 2008</td>
</tr>
</tbody>
</table>
“the process of decentralization represents a significant break from the past, one that potentially can contribute to better social outcomes.”

*ADB – Sector Assistance Program Evaluation for the Social Sectors in Pakistan (1985-2004)*
“The country has made remarkably swift progress in establishing new legal and administrative structures at the local level, and in establishing the framework for devolving service functions.” - May 2006

“The Government's 2001 flagship Devolution of Power Program done away with some of the institutional fragmentation in urban service investment and operations.”

“The Punjab Local Government Ordinance, 2001 provides a comprehensive list of regulations for local governments in the province.”
“1. The national PRSP’ which includes human development as an integral part of the Government’s reform strategy of which education is a key sector, and which recognizes that the responsibility for service delivery implementation rests with the districts; and

2. the national devolution plan which, through the Local Government Ordinance (LGO) 2001, has devolved decision making and finances to districts.”
WORLD BANK & ADB EVALUATION OF THEIR PROGRAMS & PROJECTS IN PAKISTAN
1. **Lack of a clear strategy** to address the roots of poverty, and poor program implementation.

2. In governance the Bank had difficulty defining a clear strategy. In early Bank strategy documents, governance was raised as a problem but **there were no actions or projects planned**.

3. Outcomes of Bank assistance were **unsatisfactory** in poverty reduction and social sector development.

4. Overall outcomes of the Bank’s assistance program are rated **moderately unsatisfactory**.
1. The performance of ADB’s social sector operations has been poor.

2. According to this evaluation, only 8% of 24 projects assessed were rated as successful, with 58% judged as partly successful and 33% as unsuccessful.

3. The persistent poor performance shows that a new approach is needed.
DONOR’S ASSESSMENT OF CURRENT PROGRAMS AND PROJECTS IN PAKISTAN
“for local governments, highly vertical programs not only undermine accountability and operational efficiency additionally, they create an environment in which funding in the key sectors is largely determined elsewhere. In some cases, the programs can create incentives for recentralization.

Governments at all three levels need to find ways to bring vertical programs under local government planning and budgeting systems and to lay the ground now for a shift to the kinds of formula-based grant systems envisaged in the Local Government Plan 2000.”.
“Frequently, the project aid modalities sidestep local policymakers through parallel institutional arrangements.

A large share of donor project aid is effectively outside the influence of the elected leaders responsible for planning and delivering services in their jurisdiction. This separation creates great difficulties in planning and budget processes so that a fair and equitable distribution of resources is ensured and exacerbates the problems of local ownership and long-term recurrent financing of the facilities and services created.”.
## ASSESSMENT BY DONORS

<table>
<thead>
<tr>
<th>S #</th>
<th>Project / Program</th>
<th>Planning &amp; Operational Design</th>
<th>Budgeting &amp; Financing</th>
<th>Expenditure Control</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Sindh Education Reform Program</td>
<td>M</td>
<td>M</td>
<td>M</td>
</tr>
<tr>
<td>2.</td>
<td>Punjab Community Water Supply and Sanitation Program (PCWSSP)</td>
<td>L</td>
<td>M</td>
<td>M</td>
</tr>
<tr>
<td>3.</td>
<td>Education Sector Reform Program (ESR)</td>
<td>M</td>
<td>H</td>
<td>M</td>
</tr>
<tr>
<td>4.</td>
<td>Punjab Education Sector Reform Program (PESRP)</td>
<td>N</td>
<td>M</td>
<td>L</td>
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<tr>
<td>5.</td>
<td>Sindh Devolved Social Services Program (SDSSP)</td>
<td>N</td>
<td>M</td>
<td>L</td>
</tr>
<tr>
<td>6.</td>
<td>Southern Punjab Basic Urban Service Project</td>
<td>N</td>
<td>M</td>
<td>L</td>
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“The provincial Governments continue to influence the performance of the local governments by retaining authority over the postings and transfers of the senior staff of local governments, and by controlling fiscal transfers.

Provinces will need to shift their focus from the direct provision of urban services and direct capital investments towards development of the policy and financial frameworks that allow local governments to succeed.”
MAIN PROBLEMS IN DONOR PROGRAMS AND PROJECTS SUPPORTING DEVOLUTION IN PAKISTAN
**PROBLEMS WITH DONOR PROGRAMS / PROJECTS**

**STEERING COMMITTEES** *(control with Provincial Government)*

Each project/program relating to local government functions sets up a Steering Committee under the control of the Provincial Government. The local governments are either not represented on the Committees or they are included as a formality.

**EXECUTING AGENCY** *(Provincial Government)*

The Executing Agency / Implementing Agency are almost always the Provincial Line Departments thus vesting control with provincial governments for local government functions.

**PMUs/LOCAL SUPPORT OFFICES** *(create layers/centralize functions)*

The project/program implementation arrangements create too many layers through PMUs & Local offices. They centralize the financial and administrative powers, introduce parallel systems & procedures of donors, and dilute accountability.
PFC APPROVAL (Donor funds excluded)

The donor funds although provided as budget support are excluded from the divisible pool of the PFC.

The terms and conditions are presented to PFC as donor conditionalities.

The proceeds of loans are under the control of the provincial Governments.

The donor funds are not directly transferred into local government’s bank account, rather project accounts are opened.
APPROVAL OF SCHEMES (not with council)

The final approval of identification of schemes lies with the provincial government or steering committees.

The local government council is not involved. MOUs are not approved by the Councils.

PUBLIC PRIVATE PARTNERSHIP (not promoting CCBs)

The Public Private Partnership being promoted starts a parallel system of service delivery for local government functions through NGOs, RSP, CBOs etc using government funds instead of assisting local governments and improving existing facilities.
The tranche conditionalities are sometimes vague and ignored when releases are held up. The expenditure targets agreed between the Provincial Government and Donors are communicated to the local governments for compliance.

The grants undermine the PFC awards as much more funds flow through donors rather than the PFC system. Conditional grants create disjoints in local governments budgets. Too many donors and too many conditionalities create confusion. Such grants lack ownership and are not sustainable.
COMPLEX DESIGN
The poor performance of projects is due to the complex design of the projects and non compliance with LGO. It bypasses the legal and notified system and creates additional layers. The project activities are sometimes too many and too ambitious. Sustainability is very low as the focus is on development activities and not on the recurring costs.

COUNTRY STRATEGIES (not fully aligned to devolution)
The country strategies are not fully aligned with the priorities of the local governments.
PROBLEMS WITH DONOR PROGRAMS / PROJECTS

BYPASSING LOCAL GOVERNMENT SYSTEM
(bypasses notified rules)

1. Council Approvals, oversight and public accountability
2. Monitoring Committees of the Councils
3. Accounts Committees
4. Audit through the Auditor General of Pakistan.
5. Special Audits
6. Oversight by Local Government Commission
7. PFC Award
WAY FORWARD
RECOMMENDATIONS OF DONORS
<p>| | |</p>
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<tbody>
<tr>
<td><strong>1.</strong> <strong>Align</strong> donors’ support with partner countries’ priorities, systems, and procedures.</td>
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<td><strong>2.</strong> <strong>Avoid duplicate structures</strong> to manage aid-financed activities.</td>
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<tr>
<td><strong>3.</strong> <strong>Strengthen</strong> partner countries’ institutions and systems.</td>
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<tr>
<td><strong>4.</strong> <strong>Implement common arrangements</strong> for planning, funding, disbursements, monitoring, evaluating and reporting to Government on donor activities and aid flows.</td>
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<tr>
<td><strong>5.</strong> <strong>Reduce</strong> the number of separate, duplicative missions to the field and diagnostics reviews.</td>
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1. Disbursement actions/triggers and indicators should be incorporated in a single performance assessment framework / matrix (PAF).

2. Actions/triggers and monitoring indicators in the PAF should be limited in number.

3. Triggers should be specific, credible, & easily monitorable.

4. Rely on the country’s own systems for financial management & procurement and monitoring & evaluation.
WAY FORWARD UNDER LGO
1. The existing programs / projects must be restructured and aligned to the devolved structures.

2. Programs supporting local governments must be steered by LGC at the provincial level and local government representatives at the local level. PLGC should hold the review of the progress.

3. Program prior actions and triggers need to be defined in consultation with the local governments, Local Government Commission and the Provincial Finance Commission.

4. Progress report be sought from the local governments and other stakeholders before releasing a tranche.
5. Donors to harmonize their support through the PFC Award (Provincial Allocable Amount).

6. Conditional grants to be used only to resolve a specific problem. Structural, financial, administrative, governance and other issues cannot be solved through conditional grants.

7. Capacity building to be integrated into donor programs for local government functions.
THANK YOU