



Progress Report on Tranche Release

Program Number: 32264
Loan Number: 2144/2145
October 2007

Pakistan: Punjab Devolved Social Services Program Release of the Second Tranche

CURRENCY EQUIVALENTS

(as of 8 October 2007)

| | | |
|---------------|---|----------------------------|
| Currency Unit | – | Pakistan rupee/s (PRe/PRs) |
| PRe1.00 | = | \$0.016 |
| \$1.00 | = | PRs60.74 |

ABBREVIATIONS

| | | |
|----------|---|--|
| ADB | – | Asian Development Bank |
| ADF | – | Asian Development Fund |
| ASP | – | annual sector plan |
| CIET | – | Centro de Investigación de Enfermedades Tropicales |
| DFID | – | Department for International Development, United Kingdom |
| DG | – | district government |
| DOH | – | Department of Health |
| FDI | – | foreign direct investment |
| DTCE | – | Devolution Trust for Community Empowerment |
| FY | – | fiscal year |
| GDP | – | gross domestic product |
| GoPb | – | Government of Punjab |
| HUD&PHED | – | Housing and Urban Development and Public Health Engineering Department |
| IMR | – | infant mortality rate |
| LG | – | local government |
| LG&RD | – | Local Government and Rural Development Department |
| M&E | – | monitoring and evaluation |
| MDGs | – | Millennium Development Goals |
| MICS | – | Multiple Indicators Cluster Survey |
| MOU | – | memorandum of understanding |
| MTDF | – | Medium Term Development Framework |
| OCR | – | ordinary capital resources |
| P&DD | – | Planning and Development Department |
| PDSSP | – | Punjab Devolved Social Services Program |
| PFC | – | Provincial Finance Commission |
| PLD | – | provincial line department |
| PLGO | – | Punjab Local Government Ordinance |
| PMU | – | project management unit |
| PPP | – | public-private partnership |
| PSC | – | Program Steering Committee |
| PSU | – | Program Support Unit |
| RRP | – | Report and Recommendation of the President |
| TA | - | technical assistance |
| TMA | – | tehsil/town municipal administration |
| UK | – | United Kingdom |
| WSS | – | water supply and sanitation |

NOTES

- (i) The fiscal year (FY) of the Government ends on 30 June. FY before a calendar year denotes the year in which the FY ends, e.g., FY2007 began on 1 July 2006 and ends on 30 June 2007.
- (ii) In this report, "\$" refers to US dollars, and ¥ refers to Japanese yen.

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I. INTRODUCTION

1. Pakistan introduced sweeping devolution reforms in 2001. One key objective of the devolution is to improve social service delivery. Poor social service delivery and the resultant lack of human development have been a major cause of poverty. Cross-country analysis¹ consistently pointed out Pakistan's lagging social indicators compared with those in countries of similar income levels. Devolution was intended to significantly enhance service delivery by bringing service providers and governments closer to citizens than they had been under a centralized system.

2. Responding to devolution across the country, the Government of Punjab (GoPb) promulgated the Punjab Local Government Ordinance (PLGO) on 14 August 2001. As in other provinces, devolution resulted in the creation of a three-tiered local government structure consisting of district governments (DGs), tehsil/town municipal administrations (TMAs), and union administrations (Appendix 1), each with its own nazim (mayor) and naib nazim (deputy mayor), elected council, and administrative structure. Following devolution, GoPb transferred many social service delivery functions to the local governments (LGs). The DGs have been made responsible for delivery of health and education services, whereas TMAs have become responsible for providing municipal services, such as water supply, sanitation, street lighting, and local recreational facilities.

3. The loans for the Punjab Devolved Social Services Program (PDSSP) were designed within this broad context. The Program comprises \$75 million from the Asian Development Bank's (ADB) ordinary capital resources (OCR, Loan 2144-PAK) and \$75 million equivalent from ADB's Special Funds resources, the Asian Development Fund (ADF, Loan 2145-PAK). In addition to the ADB resources, the Government of the United Kingdom (UK), through the Department for International Development (DFID), provided an assistance grant, to be administered by ADB, consisting of an amount equivalent to \$30 million (TA 4505) and an associated technical assistance (TA) grant of \$20 million equivalent (TA 4504). The Program was approved on 20 December 2004, the Loan Agreement was signed on 10 January 2005, and the first tranche of \$80 million equivalent was released on 26 December 2005. The second tranche of \$55 million equivalent, consisting of \$25 million of ADB's ADF, \$20 million of ADB's OCR, and \$10 million of the DFID grant is now due for release. The DFID grant shares the same policy matrix as that of the ADB, and will be released together with the ADB financing. This cofinancing arrangement is thus cemented through common objectives.²

4. The PDSSP is a multisector and multidimensional governance reform program. It seeks to assist GoPb to achieve the Millennium Development Goals (MDGs) in poverty reduction, gender equality, and improvements in education, health, and water supply and sanitation (WSS). These objectives are to be achieved by strengthening the devolved social services for more equitable, efficient, effective, and sustainable delivery of social services in line with the PLGO (2001). The Program is to be implemented over a 3-year period, and the TA (TA 4504) is to be implemented over a 4-year period starting from the release date of the first tranche.

5. This report presents the status of compliance with the second tranche release conditions of the PDSSP. Progress has been monitored through ADB and DFID joint missions, and regular

¹ See ADB. 2003. *The Pakistan Poverty Reduction Strategy Paper*. Manila, for details.

² The third, which is also the final, tranche consists of \$25 million ADF, \$15 million OCR, and \$5 million DFID grant.

coordination and frequent communication between ADB and GoPb.³ On the basis of confirmed progress in overall compliance with second tranche release actions, there is justification for the release of the second tranche of \$55 million.⁴ A detailed description of compliance with the second tranche policy actions is presented in Appendix 2.

II. MACROECONOMIC PERFORMANCE AND SOCIAL SECTOR DEVELOPMENT⁵

6. Punjab is the largest provincial economy of Pakistan, accounting for about 58% of the country's gross domestic product (GDP). It is also the most populous province. Its 87 million inhabitants account for about 56% of the country's population. The economic performance of Punjab thus plays a critical role in the overall economic strength of Pakistan. At the same time, national policies have a significant impact on economic conditions in Punjab.

7. **Pakistan.** The economy of Pakistan has experienced a drastic turnaround since 2001. The growth rate has averaged 7.4% from 2004 to 2007, a far cry from the 1.8% recorded in 2001. The rapid expansion in consumer credit and higher remittance flows from overseas' workers have boosted private consumption, while investment spending has been buoyed by improved business confidence, rising foreign direct investment (FDI) inflows, and increased official aid. One particular positive development is the substantial increase of FDI inflow from \$483 million in FY2002 to \$3,451 billion in FY2006. The strong economic growth has enabled the Government of Pakistan to significantly increase development spending, particularly in pro-poor sectors, from 3.8% of the GDP in FY2002 to 5.6% in FY2006. This strong growth and increase in pro-poor spending have significantly reduced poverty incidence from 34.5% in FY2001 to 23.9% in FY2005. The number of poor people fell from 49 million to 37 million. This high growth rate and poverty reduction allowed Pakistan to exit the Poverty Reduction and Growth Facility of the International Monetary Fund in 2004.

8. The experience of Pakistan over the past few years demonstrates the important relationships between structural reforms, economic growth, and poverty reduction. Clearly, Pakistan is poised to make further progress in each of those areas. At the same time, however, the economy is also exposed to a number of major challenges. First, fiscal management needs to be strengthened. The current overall fiscal deficit stands at 4.2% of the GDP. While justified by the reconstruction requirements of the post-October 2005 earthquake, the deficit needs to be brought down through stronger revenue generation and expenditure reforms. Second, the current account deficit has been creeping up. The current account deficit, excluding official transfers, more than tripled to \$5.7 billion, or 4.4% of the GDP in FY2006, from 1.6% of the GDP in FY2005. The moderation of export growth has particularly raised the structural issue of export competitiveness. Third, as recent economic growth has been driven partly by significant increases in capital inflow, its sustainability needs to be ensured. Pakistan needs to address the major task of making the country a favored investment destination by improving the investment climate for both domestic and foreign investors. Fourth, while pro-poor spending led to a 10 percentage point reduction in the incidence of poverty over the period 2002–2006, poverty incidence remained high at 23.9% in FY2005.

³ Three missions have been undertaken in February, May, and July 2007, respectively.

⁴ The second tranche consists of (i) ¥2,132,200,000; (ii) various currencies equivalent to SDR16,590,000; and (iii) \$10,000,000.

⁵ The data used in this section are from Government of Pakistan. 2006/07. *Pakistan Economic Survey*. Islamabad; Government of Punjab. 2007. *Punjab Economic Report*. Punjab; and ADB. 2007. *Asian Development Outlook 2007*. Manila, unless otherwise specified.

9. The key socioeconomic indicators for Pakistan have improved in recent years along with strong growth and development spending. For example, the provision of tap/piped water has substantially improved from 25% in 2000–2001 to 34% in 2005–2006. Over the same period, the gross school enrollment rate at the primary level (5–9 years) increased from 72% to 87%, the net enrollment rate from 42% to 52%, and the literacy rate from 45% to 54%. There has been noticeable improvement in some health sector indicators: immunization coverage rose from 53% in 2000–2001 to 71% in 2005–2006, and the infant mortality rate (IMR) declined from 82 per 1,000 to 70 per 1,000 over the same period.

10. Despite these improvements, Pakistan's social indicators still lag behind those of countries of comparable income levels. For example, the IMR at 70 and the mortality rate of 101 per 1,000 for under-5 year olds are still the highest in the South Asian region, while the gross primary school enrollment ratio at 87% is the lowest in the South Asian region.⁶ Cross-country comparisons illustrate that Pakistan's growth is associated with fewer improvements in key health and education outcomes than in comparable developing countries.⁷ Accelerating human development is therefore a key challenge facing the country.

11. **Punjab.** As reflected in the national trends, the economy of Punjab has also staged a major upturn from a contraction of 0.9% in FY2001 to strong growth of 7.1% in FY2006, despite the poor performance of the agriculture and crop sectors. On the back of strong economic growth, the per capita income in the province almost doubled in the past 5 years to around \$1,000 in 2007, while the poverty head count ratio has declined by about 11% since 2002. Through improved fiscal management, GoPb has been successful in creating fiscal space. As a result of strong growth and increased fiscal space, development expenditures in Punjab have increased substantially over the period 2003–2007 from 0.9% of gross provincial product to 2.2%, in relation to recurrent expenditures, which dropped from 4.5% to 4.0% over the same period. The total amount allocated to education, health, and WSS increased from PRs43.6 billion in 2002–2003 to PRs132.4 billion in 2006–2007. This general trend is expected to continue into the near future,⁸ with development expenditures projected to grow by 21%, far outpacing the 11% growth per year in current expenditures.

12. Despite the relatively sanguine performance of the economy, the province shares many challenges facing the country as a whole, including sustaining economic growth, reducing poverty, improving the investment climate, increasing export competitiveness, and accelerating social development. Furthermore, with the labor force growing at the rate of about 3% per annum, the creation of productive employment opportunities is a major task.

13. Punjab has also made significant progress in improving the quality of key social services and access to them over the last 5 years. School enrollment, especially at the primary level and, most importantly, the enrollment of girls have increased. The net enrollment rate at the primary level now stands at 57%, compared with 44% in FY1999. The gender parity index for tertiary education has improved from 0.78 in 2002 to 0.93 in 2007. The literacy rate in the province has increased from 47% in 2002 to 62% in 2007.⁹ Health sector indicators have also shown improvement. The IMR of 82 per 1,000 in 2002 has been reduced to 72 per 1,000 in 2007. The maternal mortality rate of 350 per 100,000 births in 2002 has done down to 257 per 100,000

⁶ World Bank. 2006. *Human Development Report*. Washington, DC.

⁷ ADB, DFID, and World Bank. 2004. *Devolution in Pakistan*. Islamabad.

⁸ Government of Punjab. 2007. *Medium Term Budgetary Framework, 2008–2010*. Punjab.

⁹ Pre-budget address of the Chief Minister, Government of Punjab, 13 June 2007. Available: <http://203.215.180.58/portal/docimages/12610CMPolicyAddress.pdf>.

births by 2007. Furthermore, immunization coverage rose from 57% in 2001/02 to 76% in 2007. Access to piped water has increased for 6% of the rural population in 2002 to 19% in 2007. Similarly, in 2002, 31% of the rural population had access to flush toilets; in 2007 this figure went up to 50%.

14. Despite these improvements, Punjab's social indicators fall short of its economic development, as reflected by low literacy rates; high infant, child, and maternal mortality rates; high susceptibility to communicable diseases; a very low proportion of deliveries being made by trained birth attendants; high disparity among income and gender groups in access to social services; and inadequate conditions of sanitation and solid waste management. For example, the literacy rate for children 10 years of age and above is 56% in Punjab, only marginally higher than the 54% in Pakistan. While the net enrollment ratio at 57% is higher than the 52% national average, it is still low in absolute terms compared with that in other countries.

15. GoPb is committed to transforming Punjab into a modern and affluent society in the coming decades. Punjab's development paradigm is encapsulated in its Vision 2020 (2004), which projects Punjab as "a fully literate, fully employed, highly educated, skilled, talented, tolerant, culturally sophisticated, internationally connected, and reasonably well-off healthy society by 2020."¹⁰ The realization of this vision will not be possible without rapid human development. Furthermore, Punjab is also undergoing structural transformation. The importance of the agriculture sector has declined significantly from 31% of the GDP in FY1999 to 21% in FY2006, while the importance of the manufacturing and services sectors has increased. Still, almost half of Punjab's labor force is employed by the agriculture sector. The strong growth of the manufacturing and services sectors is a key requirement for generating productive employment opportunities. This transformation also calls for increased human development.

16. GoPb is aware that lack of social development is a major hindrance to economic progress, as well as a source of social instability. It has demonstrated a strong willingness and commitment to advancing human development. For example, GoPb initiated the Punjab Health Sector Reforms Program. Supported by the World Bank, it has also implemented the Punjab Education Sector Reform Program since 2003 to improve access to, the quality of, and governance in education in the province. The PDSSP particularly seeks to support the improvement of service delivery, thereby fostering human development.

III. STATUS OF COMPLIANCE WITH THE SECOND TRANCHE CONDITIONS

A. Scope of the Program and Overview of Program Implementation

17. In support of the devolution that has taken place in Pakistan since 2001, the PDSSP sought to address governance, financing, and technical constraints in devolved service delivery in the health, education, special education, and WSS sectors. By building on the opportunities that the devolved system brings—especially in terms of enhanced public accountability and stakeholder engagement—the PDSSP seeks to improve access to and the quality of service delivery. The Program covers 35 DGs,¹¹ 34 Program TMAs,¹² and a number of provincial

¹⁰ This is based on the Chief Minister's *Punjab's Vision 2020: Pre-Budget Policy Address*, June 2004.

¹¹ At the time the Program was processed, there were 34 districts. The number of districts in Punjab has since been increased to 35, and the PDSSP has been implemented in all the 35 districts.

¹² ADB. 2004. *Report and Recommendation of the President to the Board of Directors on Proposed Program Loans and Technical Assistance Grant to the Islamic Republic of Pakistan for the Punjab Devolved Social Services*. Manila (Loans 2144/2145-PAK for \$150 million, approved on 20 December 2004). The Report and Recommendation of the President (RRP) states that the Program will cover up to 44 TMAs, except for TMAs

departments such as the Planning and Development Department (P&DD), and the Department of Health (DOH), the Department of Education, the Department of Special Education, Housing, Urban Development and Public Health Engineering Department (HUD&PHED), and Local Government and Rural Development Department (LG&RD). Program implementation has been supported by a TA grant of \$20 million (TA 4504), provided by the Government of the UK through DFID and administered by ADB.

18. The PDSSP policy matrix contains 12 conditions for the second tranche release, built around three principal policy outcomes:

- (i) realigning intergovernmental relations to support devolved social services (6 conditions);
- (ii) rationalizing and setting minimum standards for social services (2 conditions); and
- (iii) strengthening public accountability mechanisms and promoting public-private partnerships (4 conditions).

19. There has been substantial progress in complying with the second tranche release conditions, with full compliance for 10 conditions, substantial compliance with 1 condition, and partial compliance with 1 condition. The status of compliance is summarized in Table 1. More details on compliance with the second tranche release conditions are in Section III.B and Appendix 2.

Table 1: Status of Compliance with Second Tranche Conditions – An Overview

| Condition | Status of Compliance |
|--|----------------------|
| 1. Outcome 1: Realign Intergovernmental Relations to Support Devolved Social Services | |
| (a) PLDs shall have developed their 5-year strategic plans in accordance with the guidelines notified by P&DD, and the ministers concerned shall have presented such plans for consideration of the provincial cabinet. | Fully complied with |
| (b) At least seventy-five (75%) of the DGs and fifty percent (50%) of the Program TMAs shall have developed and the respective local government councils shall have approved comprehensive annual sector plans. | Fully complied with |
| (c) LG&RD shall have mapped the implementation of the devolved administrative and financial powers in the social sectors to identify gaps and shall have developed a time-bound action plan to achieve full implementation of devolved powers. | Fully complied with |
| (d) HUD&PHED shall have provided requisite support to the Program TMAs to enable them to exercise administrative and technical sanctioning powers, as envisaged under the PLGO. | Fully complied with |
| (e) PFC shall have reviewed the implementation of the conditional grant using the Program funds (\$25,000,000) and, unless the 3-year PFC award | Fully complied |

funded by the Water and Sanitation Authority and those receiving support from other ongoing projects funded by ADB. This has left the total TMA supported under the Program as 34.

| | |
|--|-----------------------------|
| shall have been approved and announced, shall have approved and announced the interim annual PFC award, in which a conditional grant system for devolved social services shall have continued. | with |
| (f) Punjab shall have entered into the MOUs, in form and substance acceptable to ADB, with DGs and the Program TMAs to access program funds, on the terms and conditions set out in the MOUs. | Fully complied with |
| 2. Outcome 2: Rationalize and Set Minimum Standards for Social Services | |
| (a) In consultation with DGs and the Program TMAs, HUD&PHED and DOH shall have analyzed existing technical and service standards, identified the lack of standards and implementation gaps and shall have developed new sets of technical and service standards, in agreement with DGs and the Program TMAs. | Fully complied with |
| (b) DGs and the Program TMAs shall have filled fifty percent (50%) of essential vacant positions in accordance with the guidelines notified by LG&RD. | Fully complied with |
| 3. Outcome 3: Strengthen Public Accountability Mechanisms and Promote Public-Private Partnership | |
| (a) In consultation with DGs and the Program TMAs, each PLD shall have developed and Punjab shall have approved a costed monitoring strategy. | Fully complied with |
| (b) Punjab shall have continued to implement its behavior change communication campaign. | Fully complied with |
| (c) Local government councils shall have approved and the local government monitoring committees shall have observed the by-laws. | Substantially complied with |
| (d) The Provincial Cabinet shall have approved and Punjab shall have announced the policy on public-private partnerships. | Partially complied with |

DG = district government, DOH = Department of Health, HUD&PHED = Housing and Urban Development and Public Health Engineering Department, LG&RD = Local Government and Rural Development Department, LG = local government, MOU = memorandum of understanding, P&DD = Planning and Development Department, PFC = Provincial Finance Commission, PLD = provincial line department, PLGO = Punjab Local Government Ordinance, TMA = tehsils (towns) municipal administration.

Source: Asian Development Bank.

B. Assessment of the Second Tranche Compliance Status

1. Outcome: Realign Intergovernmental Relations to Support Devolved Social Services

20. Policy conditions in this area seek to clarify and align roles and responsibilities at the provincial and local government levels through enhanced planning, financing, and strengthening of devolved powers.

(a) PLDs shall have developed their 5-year strategic plans in accordance with the guidelines notified by P&DD, and the ministers concerned shall have presented such plans for consideration of the provincial cabinet (condition 1(a), fully complied with).

21. Strategic planning is a key building block in defining the medium-term direction for moving forward in the devolved system. Since 2006, Punjab has achieved a major milestone in medium-term strategic planning and public financial management, i.e., the adoption of the Medium Term Development Framework (MTDF). The MTDF is a key fiscal pillar that institutes a longer term perspective in development budgeting and planning, helps to improve predictability in resource allocation, and enhances fiscal discipline. The MTDF also represents the crucial link between the annual budget formulation process and long-term fiscal objectives. Punjab is the first province in Pakistan that has developed the MTDF. It published its first MTDF for the period 2006–2009 in 2006, and the second for 2007–2010 has recently been developed. The MTDF covers strategic planning for all four sectors covered under the PDSSP. For each sector, it embodies a vision, a sector policy and strategy, performance targets, and details of ongoing and new development schemes, along with financial allocations.

22. The MTDF is prepared by the P&DD in conjunction with provincial line departments (PLDs), including all the PLDs that have direct relevance to the PDSSP. The MTDF is developed through extensive stakeholder consultation. Further, the MTDF has gone beyond the second tranche requirement in that it has been approved by the Provincial Cabinet. These strong institutional foundations have placed the MTDF on a firm and sustainable footing.

23. In light of the development of the MTDF, development of a parallel 5-year strategic plan for each line department will not yield significant benefits. While the MTDF is closely correlated with the strategic plans, it follows a planning cycle of 3 years, instead of 5 years. The 5-year time requirement under the PDSSP was designed without the MTDF in place. While the 3-year timeframe differs from the 5-year framework originally envisaged by the PDSSP, this deviation should not be seen as a compromise to the PDSSP policy condition that aims to institute a medium-term strategic direction into social sector planning. To be effective, strategic planning needs to be closely linked with budgeting, expenditure, and monitoring and evaluation (M&E). The MTDF has achieved this purpose. Indeed, the development of the MTDF has exceeded the requirements of the Program by fully aligning itself with the budget, planning, and M&E mechanisms in the province. Thus, imposing a 5-year planning framework will not be beneficial. Instead, attention needs to focus on strengthening the MTDF so that it serves as an effective tool to improve development outcomes, including service delivery.

(b) At least seventy-five (75%) of the DGs and fifty percent (50%) of the Program TMAs shall have developed and the respective local government councils shall have approved comprehensive annual sector plans (condition 1(b), fully complied with).

24. Poor planning prior to devolution was considered one factor that hindered effective service delivery. Planning was a top-down practice with little community involvement. The devolved system provides for more autonomy for LGs and makes planning closer to the beneficiaries of public services. The preparation of annual sector plans (ASPs) by LGs is thus an important policy action for the PDSSP.

25. The LGs that are involved in preparing the ASP include 35 DGs for the health sector, 12 most deprived districts DGs for the education sector, 8 DGs for the special education sector,

and 34 TMAs for the WSS sector. The 8 districts for special education were selected because most special education institutions are located in those districts. The 12 most deprived districts were chosen because the conditional grants will be disbursed to these districts that have higher needs.¹³

26. The sheer number of ASPs that had to be prepared and the limited planning capacity of the LGs posed a major challenge. To prepare detailed guidelines for developing ASPs, the Program Support Unit (PSU) of the PDSSP worked closely with executive district officers, TMA officials, and P&DD, LG&RD, and the four PLDs. Assisted by the PDSSP TA 4504, a series of workshops were held for the concerned staff of DGs and TMAs to acquaint them with the techniques and guidelines for preparing ASPs. The monthly meeting of district coordinating officers chaired by the chief secretary, also provided a venue for regular consultation and interaction on ASPs between the PSU and LGs. Due to the concerted efforts, the number of LGs that have developed and approved ASPs exceeded the requirement of the Program (Table 2).

Table 2: ASP Development and Approval by LGs

| Sector (Number of LGs) | ASPs Completed by LGs | ASPs Approved by Local Government Councils | Required Number of Approved ASPs under Second Tranche Action |
|-------------------------------|------------------------------|---|---|
| Health (35 DGs) | 33 (94.3%) | 31 (88.6%) | 26 |
| Education (12 DGs) | 12 (100.0%) | 11 (91.7%) | 9 |
| Special Education (8 DGs) | 8 (100.0%) | 6 (75.0%) | 6 |
| WSS (34 TMAs) | 34 (100.0%) | 32 (94.1%) | 17 |

ASP = Annual Sector Plan, DG = district government, LG = local government, TMA = tehsil/town municipal administration, WSS = water supply and sanitation.

Source: PSU, PDSSP.

27. The ASP is a tool for evidence-based sector planning. The preparation of comprehensive ASPs is a major achievement of LGs in institutionalizing transparent and regular planning. ASPs are developed by the LGs, approved by the elected local government council, and form part of the annual development program of the LGs for the particular sector. ASPs for FY2007–2008 are the second developed by LGs. An initial review of these ASPs, undertaken by the joint ADB/DFID Mission, indicated significant improvement in the ASPs relative to those of the previous year; and substantial involvement of the elected authorities in the planning and approval process. Due to the application of the ASP guidelines, ASPs are uniform across LGs. They also include a rich amount of information, such as in-depth situation analysis of the sector, finances available from various sources, key indicators of the sector, minimum technical and service delivery standards that prevail in the sector, development needs, and, above all, prioritization of these needs. Various performance targets were also laid down by the LGs. In the health sector, performance targets such as immunization coverage, gender mainstreaming,

¹³ These LGs coincide with those that receive conditional grants (see discussion of condition 1f for details).

private-public partnerships, school health programs, achievement of MDG, and epidemic and infection-control were spelled out.

28. Given that FY2007 is only the second year of preparing ASPs, they are still rudimentary in nature. TA 4504 under the PDSSP has been providing continued support to LGs for improving the quality of the ASPs, enhancing the guidelines, and developing the capacity of LGs for planning. In particular, much effort is required to enhance linkages between objectives, designing and prioritizing the interventions, the M&E framework, and required resources and time. Much work is also needed to enhance the synergy between the ASPs and provincial-level planning. It should be noted that these attributes of planning are also required at the provincial and federal levels. Within the broad framework of a medium-term budgetary framework, and performance-based budgeting, much remains to be done at all levels of government in Pakistan to strengthen the budget and planning process and outputs. Building on the ASP, the PDSSP will also support the development of the 3-year rolling plans by LGs. This will significantly enhance the synergy between annual and medium-term planning.

(c) LG&RD shall have mapped the implementation of the devolved administrative and financial powers in the social sectors to identify gaps and shall have developed a time- bound action plan to achieve full implementation of devolved powers (condition 1(c), fully complied with).

29. Devolution in Pakistan is designed to bring decision making closer to the beneficiaries of public services, ensure citizens' involvement and oversight in planning and implementation, and give a greater voice to marginalized groups including women. Devolution of administrative and financial powers, followed by the appropriate empowerment, staffing, and resource allocation to LGs, is expected to improve delivery of public services. The promulgation of PLGO (2001) and subordinate legislation since 2001 has enabled the devolution of administrative and financial powers to LGs. However, LGs face problems in implementing these powers. Much remains to be done to strengthen the capacity of LGs, clarify the roles and responsibilities within LGs, realign intergovernmental relations between the provincial governments and LGs, and ensure increased and predictable funding to LGs to finance social services needs. It is thus critical that the gaps in implementing devolution are identified and plugged to enable LGs to effectively perform their functions. This policy action attempts to serve this purpose.

30. To carry out this exercise, LG&RD set up a high-powered review committee headed by the secretary of LG&RD with representation from the key PLDs, LGs, and civil society. LG&RD also set up two working groups: one on implementation of the devolved administrative powers, and another on the devolved financial powers. Under the supervision of the review committee, the working groups are mandated to map the devolved powers, identify gaps, and prepare an action plan. The exercise has resulted in the development of a time-bound action plan. The development of the action plan is also the result of all-embracing consultation with a wide range of stakeholders. It is worth noting that the people on the review committee and the working groups were diverse and included all relevant stakeholders from GoPb as well as from LGs.

31. GoPb has issued a large number of rules, regulations, notifications, and administrative orders to facilitate the working of LGs through the complete transfer of administrative and financial powers to them in the light of PLGO (2001). Despite these efforts, the situation on the ground still demands greater rationalization of the devolved administrative and financial authorities for effective implementation of PLGO (2001). Some of the challenges include, among

others, lack of clarity in roles and responsibilities of LGs and provincial departments, dual control on appointments and transfers by provincial and local governments, restricted financial autonomy of the LGs, fiscal constraints, and capacity issues at local as well as provincial levels. There is an urgent need to rationalize and improve administrative and financial authority at the LG level, build up management and monitoring capacity, and craft partnerships with local communities. GoPb has a key role in supporting LGs and providing an enabling environment for the LGs to improve their functional, financial, and managerial autonomy in line with the PLGO.

32. In pursuance of its policy objective of implementing devolved administrative and financial powers in line with the PLGO, the PDSSP has developed a compendium of laws, rules, regulations, notifications, directives, and orders relating to devolved administrative and financial powers. The compendium, which was distributed to all PLDs and LGs free of charge, has facilitated the understanding of devolution. Mapping the implementation of the devolved administrative and financial powers in the social sectors so as to identify gaps and develop a time-bound action plan constitutes another important step in supporting devolution.

33. The action plan developed under the Program paid particular attention to identifying actions that can be fulfilled within one year, and those that require a longer time frame. The short-term actions generally involve issuance of notifications by the government; whereas longer term actions require fresh drafting of rules and regulations or amendments in existing rules and regulations, an activity that will need a substantially longer period of time to complete. For example, the powers of competent authority/appointing authority to approve the leave and transfer/posting from basic skills 1 to 4 can be delegated to DGs relatively easily, while amending LG rules of business will take longer than 1 year. To be effective, the action plans need to be reviewed and updated regularly, and to be backed up by firm implementation to deepen devolution. Concerted efforts from the provincial and local governments need to be sustained over the medium term, to help clarify and assign roles between provincial and local government offices.

(d) HUD&PHED shall have provided requisite support to the Program TMAs to enable them to exercise administrative and technical sanctioning powers, as envisaged under the PLGO (condition 1(d), fully complied with).

34. Administrative approval of a development scheme refers to the concept clearance to undertake such a scheme. On the other hand, technical sanctioning is the process of approving cost estimates for schemes. Administrative approval is granted by an administrative authority whereas technical sanction is granted by a technical person, i.e., an engineer. Granting sufficient financial autonomy, through administrative and technical sanction powers, is crucial in empowering TMAs to exercise their mandates without reference to superior authorities. For this reason, GoPb doubled the ceiling of the TMAs' technical sanctioning powers from PRs0.5 million to PRs1.0 million in March 2007. Supported by the Program, GoPb is also in the process of establishing a TMA Support Cell in HUD&PHED.

35. For administrative powers, the Tehsil/Town Municipal Administration (Works) Rules, 2003, empowers the tehsil/town development committees to grant administrative approval for each work or scheme up to PRs5 million. The District Development Committee will grant administrative approval for schemes costing more than PRs5 million and up to PRs20 million, while the approval of GoPb will be sought for mega schemes that cost more than PRs20 million. These powers granted to the TMAs for administrative approval of development schemes have been sufficient. A recent analysis conducted by the PDSSP for a sample of

randomly selected TMAs found that virtually all the schemes fall far short of the threshold that TMAs are empowered to approve, generally costing about PRs2 million. This indicates that the administrative powers in place are sufficient.

- (e) PFC shall have reviewed the implementation of the conditional grant using the Program funds (\$25,000,000) and, unless the 3-year PFC award shall have been approved and announced, shall have approved and announced the interim annual PFC award, in which a conditional grant system for devolved social services shall have continued (condition 1(e), fully complied with).**

36. The ADF part of the PDSSP has been channeled to LGs in the form of a conditional grant in the amount of \$25 million. The conditional grant serves three purposes. First, LGs generally face financial constraints, and the additional funds help to bridge their resource gaps. Second, conditional grants are offered as an incentive to encourage LGs to carry out the policy actions of the PDSSP. Third, conditional grants have also been used to encourage LGs to fulfill the broad policy objectives of improving social service delivery (see discussion on condition 1f, para. 43, for details on the conditions).

37. The conditional grants are channeled to LGs through the Provincial Finance Commission (PFC). In consideration of the funding availability, needs, and GoPb's priorities, the grant is distributed to health, education, and WSS in a ratio of 65:17:18. In the education sector, education receives 70% of the funds allocated to the sector, and special education receives the remaining 30%. Since education and health have been devolved to DGs, while WSS has been devolved to TMAs, DGs receive 82% and TMAs receive 18% of the total conditional grant. The \$25 million ADF from the first tranche release of the PDSSP has been fully disbursed to LGs based on the predetermined ratio between sectors.

38. Conditional grants have been transferred to LGs based on the criteria that give 70% of the weight to population, and 30% to the underdevelopment index derived from the Multiple Indicator Cluster Survey (MICS). In the health sector, PRs26.626 million on average was released to a district as a first tranche. The amount released ranged from a minimum of PRs14.137 million for Hafizabad to a maximum of PRs65.626 million for Lahore. Conditional grant from the PDSSP took up 13% of total available funds for DGs in primary and secondary health activities. This indicates a significant financial contribution for health sector activities at the district level. Similar distribution is earmarked as a conditional grant from the second tranche of the PDSSP for FY2007/08. Most of the funding (67%) will be used for construction/repair and maintenance. The second priority will be given to purchasing equipment, which will take up 13% of the proposed funding for health schemes. The third priority will be the purchase of vehicles, ambulances, and medicine (4%). The remaining is for other activities.

39. For the first tranche of the PDSSP, the amount of PRs217.9 million was released to 35 districts for education, and PRs24.8 million to 8 districts for special education. Similarly, funds were transferred based on a weighting of 70% for population and 30% for level of underdevelopment. An average of PRs6.2 million was released to a district as a first tranche for the education sector schemes. The releases ranged from a minimum of PRs3.697 million for Hafizabad to a maximum of PRs12.04 million for Lahore. Funds for special education were transferred to only 8 districts¹⁴ which are the only ones that have an administrative setup for special education.

¹⁴ These districts are Bhawalpur, D.G. Khan, Faisalabad, Gujranwala, Lahore, Multan, Rawalpindi, and Sargodha.

40. The Program Steering Committee (PSC) of the PDSSP is headed by the Chairman of P&DD and consists of secretaries for key PLDs as well as civil society representatives. For conditional grant for the education sector, the PSC decided to allocate the fund for the education sector to the 12 most deprived districts of the province, and to 8 districts where most special education facilities are located. This focus is warranted due to the greater needs in the 12 most deprived districts. For example, according to the Report and Recommendation of the President (RRP, see footnote 12) of PDSSP, gross enrollment rates are much lower in the most deprived districts than in other districts and there is also a serious gender imbalance, which requires focused intervention (p. 32). The more focused approach is also required to keep the resources from being spread too thinly as the PDSSP funds allocated to the education sector account for only 17% of the total allocation. This focus is also intended to strengthen aid coordination and reduce duplication as the World Bank has supported a comprehensive Punjab Education Reform Program since 2003. The second tranche for education is planned for release to only 12 districts of Punjab for upgrading girls' middle schools to secondary level. The funds for special education will be utilized for reactivating parent-teachers' associations, launching a mass awareness campaign, engaging staff on a temporary basis, purchasing teaching aids; and repairing buildings.

41. Funds for WSS schemes were transferred to 34 TMAs of GoPb, using similar predetermined criteria. An average PRs7.592 million was released to each tehsil as a first tranche for WSS schemes. The releases ranged from a minimum of PRs3.564 million for Dina-Jhelum to a maximum of PRs15.765 million for Jhang.

42. Thus, the PFC formula for conditional grants under the PDSSP is based on fiscal need (using population as a proxy for it) and a deprivation index for that particular sector. The PFC formula for FY2006 and FY2007 was that 70% of funds allocation is based on population, and 30% based on the deprivation indices developed using data from the MICS carried out in Punjab in 2003–2004. In addition to these quantitative indicators, a number of qualitative requirements need to be complied with by LGs in order to get the conditional grant. They include both PDSSP policy conditions such as developing ASPs, as well as conditions that facilitate broad policy objectives such as gender mainstreaming. These conditions are spelled out in detail in a memorandum of understanding (MOU) signed between GoPb and LGs (see discussion on condition 1(f)). Given the close link between the performance requirements and allocation of the grant, conditional grants pave the way for greater performance orientation in budget allocation within the province, and showcase the fact that robust performance criteria can be built into the PFC award.

(f) Punjab shall have entered into the MOUs, in form and substance acceptable to ADB, with DGs and the Program TMAs to access program funds, on the terms and conditions set out in the MOUs (condition 1(f), fully complied with).

43. The terms and conditions for using the conditional grants are set forth in a MOU signed between the provincial and the local governments. The conditions include both PDSSP-specific policy conditions as well as more general conditions. The major condition that relates to the PDSSP policy matrix includes preparation of the ASPs by LGs and approval by LG councils. The ASPs need to be prepared in accordance with guidelines, covering, among others, situation analysis, sector priorities, and a list of prioritized services/schemes/projects. The broad policy conditions include (i) improving social sector and development financing; (ii) supporting programs focusing on improving social service delivery; and (iii) formulating long-term strategies

for reducing poverty and gender inequities by improving governance and financing, rationalization of services, public-private partnership (PPP), community participation, and public accountability. In particular, LGs are required to demonstrate their commitment to gender mainstreaming by (i) giving priority to gender issues and needs in sector plans; and (ii) involving women in decision making by including at least two women councilors on budget, accounts, and district development committees.

44. The MOU requires that the conditional grants in the health sector be used to improve basic primary health care services; reduce under-5 child mortality and maternal mortality; invest in basic health units for district hospitals; training of midwives; recruitment of paramedic staff on a contractual and facility-specific basis; and support for community-led management through health boards and other community-led and PPP initiatives. The conditional grants are not be used for developing tertiary health care facilities. In the education sector, the grant is required to be mostly used for upgrading girls' middle schools to secondary level, encouraging PPPs in the education sector, supporting the selective provision of new multi-disability primary schools for handicapped children, and support for community-led and PPP initiatives. For WSS, conditional grants are required to be used for pro-poor and gender-sensitive initiatives targeting women, populations, and areas within the district, which have the lowest access to services and where the quality of services is demonstrably low; the operation of existing services/schemes/projects and rationalization of staff; improvement of access to WSS services; improvement of quality assurance; building the capacity of nongovernmental and community-based organizations in the sector; community mobilization and the organization of water user committees; and making rural sanitation an area of greater priority.

45. The review of the implementation of conditional grants by the PFC indicates that it has effectively encouraged LGs to fulfill the broad policy objectives outlined in the MOU. The PDSSP will also employ third-party evaluation and social audit methods and techniques to carry out the program review. Supported by careful M&E and the sound definition of performance indicators, conditional grants effectively encourage LGs to improve service delivery, especially for marginalized groups such as women. Conditional grants thus serve as a precursor for introducing performance orientation in mainstream budget allocation across the province.

2. Outcome: Rationalize and Set Minimum Standards for Social Services

- (a) In consultation with DGs and the Program TMAs, HUD&PHED and DOH shall have analyzed existing technical and service standards, identified the lack of standards and implementation gaps and shall have developed new sets of technical and service standards, in agreement with DGs and the Program TMAs (condition 2(a), fully complied with).**

46. The development and enforcement of technical and service standards are important instruments for improving the quality of services. Standards provide benchmarks for regulators, service providers, and service users. Setting technical and service standards is especially important in the post devolution era as GoPb becomes less directly involved with service delivery, while having assumed a more important role as a policy maker, regulator, and standard setter.

47. Supported by the PDSSP, draft technical and service delivery standards have been prepared for all four sectors through an extensive consultative process. TA 4504 supported this endeavor by providing a team of consultants. The team worked closely with PLDs, the PSU of

the PDSSP, LGs, and service providers. In addition to numerous meetings, 10 workshops were held to gain insights from stakeholders. The feedback from the workshops played a major role in shaping the technical and service standards developed. Indeed, GoPb's action has exceeded the tranche requirement; although the condition required development of standards only in the health and WSS sectors, GoPb has done so for all the four sectors.

48. While GoPb indicated a readiness to approve the standards, the joint ADB-DFID mission in July 2007 advised GoPb to defer approval. This advice was in recognition of the importance as well as challenges of developing comprehensive standards; soliciting full buy-in from both service regulators and service providers, undertaking a widespread communication campaign, and making standards workable in a devolved system. In addition to the development of the standards, realistic costing for implementing them is required to ensure that they can be financed and achieved. Experience from other countries suggests that preparation of technical and service delivery standards that are fully implementable and properly costed requires much time and resources¹⁵.

49. GoPb is fully committed to implementing the minimum technical and service standards. The MTFD that GoPb prepared clearly mentions that the minimum service delivery standards, once finalized, are to be followed, and progress would be monitored against them. The cost of achieving the minimum service standards will need to be reflected in the allocation of the PFC award. The ASP guideline also provides for a section in ASPs where LGS are required to report the extent to which they are meeting the minimum standards, once the standards are approved and notified.

50. GoPb expects to undertake further consultation, costing, approval, and dissemination in the next 5–6 months. Currently, an international consultant has been hired to further fine-tune the standards in the health sector. International consulting services are being sought to fine-tune the standards in the other sectors.

(b) DGs and the Program TMAs shall have filled fifty percent (50%) of essential vacant positions in accordance with the guidelines notified by LG&RD (condition 2(b), fully complied with).

51. Adequate human resources in social services are essential for quality service delivery. The existence of a large number of unfilled positions in institutions delivering services hinders service delivery. To improve human resource management, GoPb has developed two sets of recruitment guidelines: the Recruitment Policy (2004) and the Contract Appointment Policy (2004). A large number of employees, mainly technical staff, have been recruited on a contractual basis since 2004, resulting in the filling of more than 50% of essential vacant positions, thus significantly alleviating staff shortages in the four social sectors covered.

3. Outcome: Strengthen public accountability mechanisms and promote public-private partnerships

(a) In consultation with DGs and the Program TMAs, each PLD shall have developed and Punjab shall have approved a costed monitoring strategy (condition 3(a), fully complied with).

¹⁵ Notwithstanding the fact that tremendous work is still required to adopt and implement the minimum service and technical standards, this condition is fully complied with because the second tranche release only required the development of the standards.

52. The lack of accountability of public service providers is a major factor in causing the high level of absenteeism, poor service delivery, and false reporting in social sectors. Since 2001, government structures in Pakistan have undergone major changes. The role of the provincial government changed from being a service provider to becoming a regulator and facilitator, while LGs have been tasked with actually providing services. Furthermore, the size of the provincial annual development program has soared from PRs12.5 billion in FY1995 to PRs150 billion in FY2007.¹⁶ All these changes call for improved M&E strategy and systems to effectively improve service delivery. GoPb is also committed to achieving the MDG, which also necessitates enhanced M&E to both monitor progress and propel good performance in social service delivery. Consequently, there has been increased interest within GoPb in strengthening M&E.

53. In Punjab, several tiers and mechanisms have performed M&E. The first is provincial and local governments (for internal monitoring), the second is citizen participation, the third is independent inspectors,¹⁷ and the fourth is the specially set up project management units (PMUs) in the health, education, and WSS sectors. PMUs, housed outside the departments with better staffing, salaries, and equipment, constitute a special feature in Punjab for implementing reforms and strengthening M&E. The Project Management and Implementation Unit, created in 2003 to lead the Punjab Education Sector Reform Program, has been the most notable example. The Health Sector Reform Unit was created to lead the Health Sector Reform Program. One small M&E unit was set up in the Housing and Urban Development Program for WSS.

54. The purpose of this condition under the PDSSP is to carefully review the M&E mechanism in place, identify gaps, design a strategy to improve M&E, and estimate the costs of implementing the strategy. The strategy will in turn strengthen the monitoring mechanisms for improving service delivery. Following a comprehensive review of monitoring systems in the social sectors and widespread consultation, GoPb developed and approved a costed monitoring strategy for each of the four social sector departments covered by the PDSSP. In developing the strategy, GoPb carefully reviewed all existing sectoral monitoring strategies and systems, looked at problems faced by the sectors, and proposed ways forward, along with the costs required to implement the strategies. The strategy constitutes an important tool for improving monitoring of service delivery in the province. The implementation of recommendations, such as closely linking M&E with incentives, safeguarding the integrity of data, increasing citizen involvement, and using information technology, will go a long way toward developing effective M&E systems in Punjab. Other policy requirements under the PDSSP, such as the development and approval of minimum service and technical standards, will also contribute to M&E by providing benchmarks for assessments.

(b) Punjab shall have continued to implement its behavior change communication campaign (condition 3(b), fully complied with).

55. GoPb has carried out a wide-ranging behavior change communication campaign over the past 2 years. The campaign has been in the form of printed as well as electronic media, workshops, and training programs. The communication campaign aims to improve the behavior

¹⁶ The information is from the MTF abstract at [http://portal.punjab.gov.pk/portal/docimages/12554Abstrat-2007-08\(Finance\).pdf](http://portal.punjab.gov.pk/portal/docimages/12554Abstrat-2007-08(Finance).pdf).

¹⁷ For example, to strengthen independent field inspection, nearly 1,000 M&E assistants were fielded in 2006 for regular field inspection and verification of data in the education sector.

of both service providers and users. In particular, GoPb developed two documentaries on mother-child health and WSS, respectively. The documentaries were well-received at the Fourth Punjab Development Forum in April 2007. Three more documentaries on different themes relevant to the PDSSP will follow. The PDSSP supported the preparation of a report that documented the achievements and highlighted areas for improvement.

(c) Local government councils shall have approved and the local government monitoring committees shall have observed the by-laws (condition 3(c), substantially complied with).

56. Devolution in Pakistan has created a legal framework for community involvement in monitoring. Monitoring committees were established at all tiers of LGs to oversee the functioning of LGs. Specifically, section 138 of the PLGO (2001) authorizes the monitoring committees to monitor the functioning of DGs, TMAs, and union administrations. The committees play an important role in strengthening the accountability of LGs. One important means for enhancing the monitoring committees is to develop effective operating procedures. These are captured by the monitoring committee by-laws developed under the requirement for releasing the first tranche of the PDSSP. The by-laws have undergone a consultation and review process, and were approved over the past year according to the requirements of the Program.

57. The LG monitoring committees are an integral part of the M&E system in Punjab. The costed monitoring strategy (condition 1a) discussed the role of the committees in strengthening M&E. The monitoring committees' by-laws provide a regulatory framework governing the working of LG monitoring committees. The approval of the by-laws by the LG council, the elected body of the LG, marks a major step forward in institutional enhancement to enable the committees to fulfill their roles.

58. The ASPs contain a section where LGs are required to report on the working of monitoring committees. Overall, LGs have reported substantial progress in the activities of the committees, including increased monitoring committee meetings, and visits to supervise and monitor development activities. This indicates that LG monitoring committees are observing the by-laws. However, the observation is not comprehensive. For example, monthly follow-up reports have not yet been produced regularly. Strengthening the monitoring committee capacity, including the reporting capacity, is an activity that will be supported by TA 4504. Acquainting committee members with the new by-laws and the monitoring formats and procedures is a major aspect of capacity building.

(d) The Provincial Cabinet shall have approved and Punjab shall have announced the policy on public-private partnerships (condition 3(d), partially complied with).

59. The development of PPPs holds the promise of increasing the pool of resources, mitigating risks through risk sharing, and enhancing the efficiency of service delivery. In Punjab, private participation in the health and education sectors has become increasingly significant. A number of PPP projects have been developed recently, e.g., the partnership between the City District of Lahore and the Cooperation for Advancement, Rehabilitation and Education for managing 165 public schools, which have so far enrolled over 90,000 students. A PPP has also been signed by the Fatima Memorial System in Lahore to train public sector nurses. This service contract will assist DOH to upgrade and meet the shortage of staff in 45 existing

general nursing schools. With the increased interest in PPPs, Punjab urgently needs a comprehensive PPP policy and regulatory framework to guide the practice.

60. While the PDSSP condition requires the development of a PPP policy, GoPb later believed that it would be more beneficial to develop a PPP strategy for guiding PPP practice on the ground. ADB concurred with this decision. The lack of domestic expertise in developing a PPP strategy in social sectors necessitated the recruitment of international consultants. However, the process of finding suitable consultants proved lengthy, and the consultants could only be mobilized in June 2007. A first draft PPP strategy has been prepared and is being reviewed by ADB and GoPb. In addition to developing a PPP strategy, GoPb indicated a strong desire to put in place a comprehensive PPP policy and regulatory framework, including policies, rules, procedures, protocols, and standards. In light of GoPb's strong commitment; as well the time required for developing, adopting, and disseminating a full-fledged PPP strategy, it is recommended that full compliance with this condition be deferred until the third tranche.

IV. IMPLEMENTATION OF THE TECHNICAL ASSISTANCE

61. The PDSSP includes a TA grant (TA 4504) of \$20 million equivalent from the Government of the UK, through DFID. The objective of TA 4504 is to support reforms and capacity building to improve devolved social services in Punjab. TA 4504 seeks to employ a flexible mechanism to fully respond to the needs of GoPb, LGs, and other stakeholders. Thus, instead of predetermining specific projects, the TA aims to identify and develop subprojects through close cooperation and collaboration with stakeholders. This modality is warranted because (i) the TA fund is large, making it difficult to pinpoint each specific subproject up-front; (ii) the TA is intended to support multiple and diverse TA subprojects based on PLD and LG needs; as such, subprojects must be identified and developed through a demand-driven process, instead of the traditional supply-driven mechanism; and (iii) the TA aims to reflect the evolving nature of PLD and LG reforms and capacity-building requirements over time.

62. The TA has effectively supported program implementation, and provided resources for GoPb to undertake reforms. Major program outputs, such as the PPP strategy, the costed monitoring strategy, and the mapping of the devolved financial and administrative powers, have all benefited from the support of TA 4504. The TA scope has gone well beyond assisting the government to achieve the second tranche conditions. This is necessary as the Program covers only a small subset of issues confronting the implementation of devolved social services.

63. The TA in particular has supported LG capacity building in three key functions: (i) planning and budgeting, (ii) supporting community participation and awareness campaigns in managing service delivery improvements, and (iii) monitoring and reporting. A large number of TA initiatives have been implemented, some of which are listed below:

- (i) extensive training of LG officers in planning and budgeting;
- (ii) development and wide circulation of a compendium of LG laws, rules, regulations, notifications, office orders, office memos and the like, amounting to over three volumes;
- (iii) development of minimum technical and service delivery standards for the health, education, special education, and WSS sectors;
- (iv) strengthening of M&E of social services in the province; and
- (v) development of two documentaries for communication and behavior change in the sectors of interest to the PDSSP, and work is under way on the development of three more documentaries.

64. Some of the important TA assignments being implemented and in the pipeline are listed below:

- (i) public expenditure tracking survey;
- (ii) supporting the second MICS;
- (iii) supporting the establishment of a LG support group;
- (iv) carrying out social auditing;
- (v) studying the potential and strategies for promoting medical tourism in Punjab;
- (vi) assessing the needs of tehsil headquarter and district headquarter hospitals and preparing a master plan for future developments;
- (vii) studying the establishment of trauma and stroke centers at devolved levels;
- (viii) studying the development of maintenance and repair protocols in the devolved health sector;
- (ix) aligning the functions of district and provincial governments;
- (x) studying the referral system in the devolved health care system in Punjab;
- (xi) building the capacity of LG monitoring committees;
- (xii) developing technical and service delivery standards for autonomous hospitals; and
- (xiii) formulating a strategy for restructuring the Punjab Health Foundation.

65. These TA activities are expected to significantly benefit GoPb, LGs, and the people of Punjab.

V. PROGRAM AND TECHNICAL ASSISTANCE IMPLEMENTATION ARRANGEMENT

66. The Executing Agency for the PDSSP is P&DD of GoPb. A PSC has been established to oversee Program and TA implementation. It is headed by the chairman of the Planning and Development Board, and comprises all concerned PLD secretaries, nazims from DGs and TMAs, and civil society members. A TA management committee headed by the Secretary of P&DD is responsible for approving TA work plans and other initiatives. The PSC has met regularly to provide strategic guidance for PDSSP implementation. A PSU, which was established to serve as the secretariat for the PSC, has coordinated program activities with provincial agencies and LGs. This structure has provided an effective arrangement for implementing the PDSSP.

VI. CONCLUSION

67. Implementation of the PDSSP has strengthened the devolved social services by providing necessary financial, technical, and policy support to provincial and local governments to enable them to effectively fulfill their service delivery functions. Substantial progress has been made in achieving the second tranche release requirements. Some key achievements are highlighted below:

68. *Clarifying Devolution.* LGs initially faced huge problems in comprehending devolution. They lacked understanding of devolved financial and administrative powers. To facilitate the working of devolution, a compendium of LG laws, rules, and regulations was prepared and published by the PDSSP. The document has been circulated free of cost to all LGs. It has greatly helped in explaining devolution to provincial and local governments.

69. *Developing a Road Map for Devolution.* With the promulgation of the PLGO (2001) and subordinate legislation since 2001, administrative and financial powers have been devolved to LGs. However, LGs still face problems in implementing these powers. It is thus critical that the gaps in implementing devolution are identified and plugged to enable LGs to effectively perform their functions. The development of an action plan for enhancing devolved administrative and financial powers has produced a road map for advancing devolution.

70. *Instituting Annual and Medium-Term Planning.* LG planning capacity was practically nonexistent before the implementation of the PDSSP. Under the PDSSP, LG planning has received tremendous impetus from the annual sector planning process. Through intensive capacity building, as well as by strictly enforcing the requirement to prepare ASPs, the PDSSP has introduced guidelines for planning, initiated the annual planning process, and instituted planning practice at the LG level. In addition to ASPs, the PDSSP also supported strategic planning over the medium term. The development of the MTDf fully articulates medium-term development strategic directions for the four social sectors covered by the PDSSP. The MTDf serves as a key instrument for linking expenditure with improvements in service delivery.

71. *Bridging Financing Gaps and Introducing Evidence-Based Resource Allocation.* Conditional grants under the PDSSP have made possible timely and assured transfers of funds to LGs in a transparent manner, helped bridge financing gaps, and assisted LGs to improve delivery of social services. More importantly, the implementation of conditional grants has introduced the concept of linking budget allocation with performance requirements. This concept will eventually pave the way for greater performance orientation in budgeting in the province.

72. *Addressing Human Resource Constraints.* In accordance with the requirements of the PDSSP, GoPb has filled a large number of vacancies in the four social sectors, thus alleviating the capacity constraints on service delivery.

73. *Setting Technical and Service Delivery Standards.* Technical and service standards have been developed for social services in the health, education, special education, and WSS sectors in the province. The development and subsequent refinement and enforcement of technical and service standards in the near future will deliver important instruments for improving the quality of services. They will do so by providing benchmarks for regulators, service providers, and users. Setting technical and service standards is especially important in the post devolution era as the provincial government becomes less directly involved with service delivery, after having assumed the more important role of policy maker, regulator, and standard setter.

74. *Strengthening Monitoring.* The development of service standards has been coupled with the development of a comprehensive monitoring strategy for provincial and local governments. These measures have helped improve the accountability mechanisms of both levels of government. The approval of monitoring committee by-laws equips monitoring committees with clearly defined operating procedures.

75. *Enhancing PPP.* The development of PPP has the potential to increase the pool of resources, mitigate risks through risk sharing, and enhance the efficiency of service delivery. With the increased interest in PPPs, the province urgently needs a comprehensive PPP policy and regulatory framework to guide PPP practice. The PDSSP supported the development of a well-defined PPP strategy. It has also gone a long way toward institutionalizing PPPs, augmenting resources for public service delivery, as well as improving efficiency.

76. *Improving Service Delivery.* Although very limited data is currently available on the important objective of improving service delivery, there is tentative evidence to suggest that social service delivery has improved since devolution in 2001. For example, the ADB-DFID-World Bank report, *Devolution in Pakistan* (footnote 7), notes that the efforts of the monitoring committee have resulted in improved attendance of staff working in social sectors. Furthermore, health sector employees are more likely to be present in health facilities after devolution compared with the pre-devolution period. The Social Audit of Governance and Delivery of Public Services by the Devolution Trust for Community Empowerment/Centro de Investigación de Enfermedades Tropicales (DTCE/CIET, 2005)¹⁸ found that overall satisfaction with government health facilities registered an increase of 5 percentage points in 2004/2005 to reach 70%, compared with the 2001/02 figure. More rigorous empirical analysis is required to assess the impact of devolution on service delivery. Supported by TA 4504 under the PDSSP, Punjab is in the process of undertaking a second MICS. This will help generate the necessary data for assessing the changes in service delivery. The citizens' reporting cards and social auditing that will be implemented during the third tranche release will also yield valuable outcome information.

77. Overall, GoPb has made considerable progress in complying with the second tranche release conditions. Of the 12 second tranche policy conditions, 10 have been fully complied with, 1 has been substantially complied with, and 1 partially complied with. The measure substantially complied with (local government monitoring committees observing by-laws) and the one partially complied with (development of the PPP strategy) are planned to reach full compliance along with other third tranche release conditions.

78. The PDSSP has helped lay a broad foundation for advancing devolution and improving service delivery in Punjab. Given that devolution is a complex process involving institutional as well as cultural changes, achieving its goals in the third tranche period requires continued efforts, close monitoring, and regular reviews. More importantly, concerted and persistent efforts are required to advance devolution and improve service delivery in Pakistan much beyond the initiatives under the PDSSP. It is thus critical that the PDSSP be viewed as a continuum of reforms and investments and not a one-off program. To ensure sustainability, the Program has also put in place institutional development measures such as developing guidelines for developing ASPs and minimum service standards. These will effectively support devolution as outlined in the PLGO (2001).

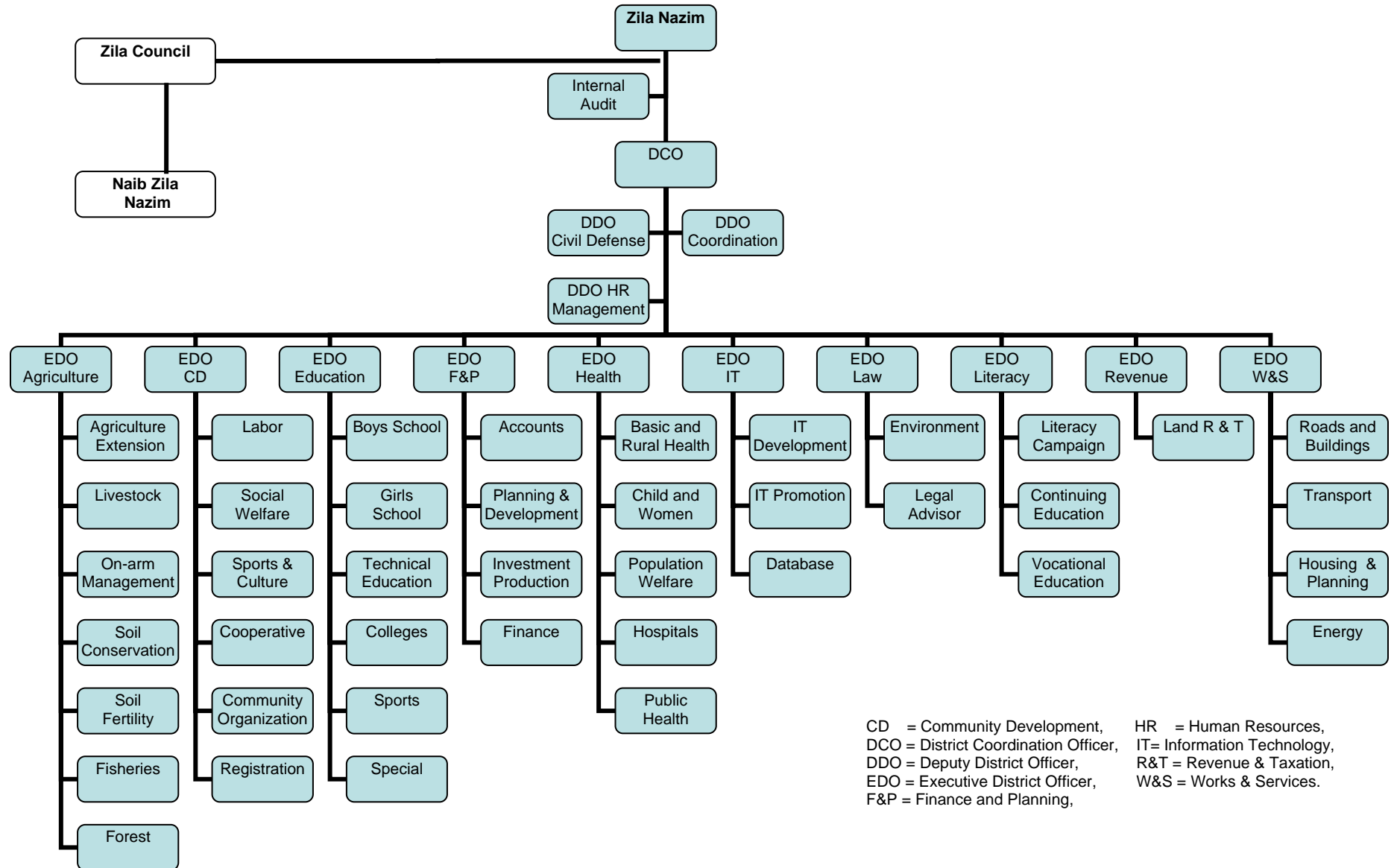
VII. RECOMMENDATION

79. In view of the substantial progress made in implementing the Punjab Devolved Social Services Program, as evident from (i) full compliance with 10 tranche release conditions, (ii) substantial compliance with 1 tranche release condition, and (iii) partial compliance with 1 tranche release condition, the President recommends that the Board approve, on a no-objection basis,

- (i) the waiver of full compliance with tranche release conditions 3(c) and 3(d), which shall be fully complied with by the release of the third tranche; and
- (ii) the release of the second tranche for the Punjab Devolved Social Services Program, consisting of (a) ₹2,132,200,000, (b) various currencies equivalent to SDR16,590,000, and (c) \$10,000,000.

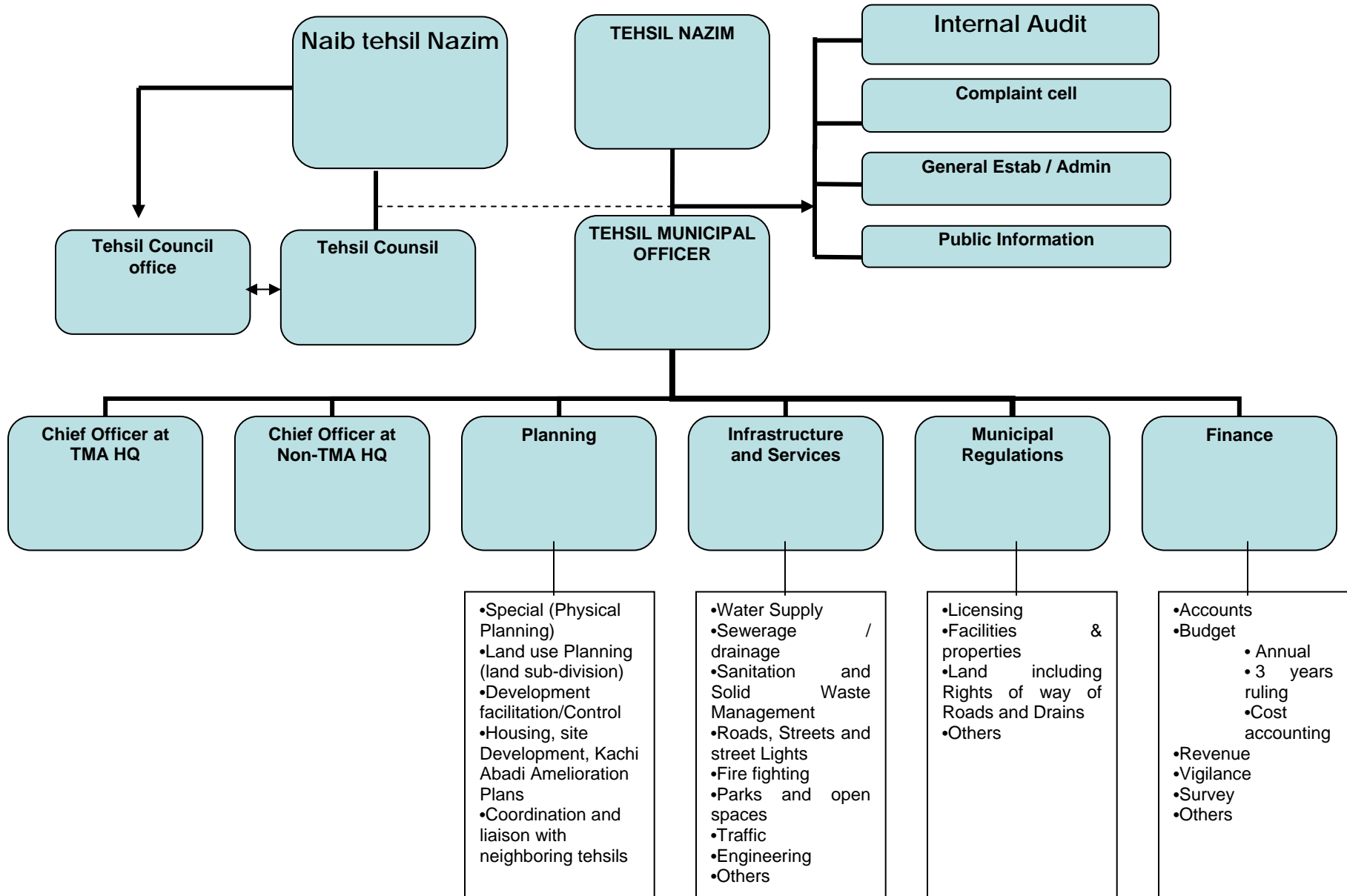
¹⁸ DTCE/CIET: Social Audit 2004/05 (2005), *Social Audit of governance and delivery of public services, Pakistan 2004/05*, National Report, Islamabad, September 2005. The report is available on http://www.ciet.org/en/documents/projects_library_docs/200622417568.pdf.

FIGURE A1.1: ORGANIZATIONAL STRUCTURE OF LOCAL GOVERNMENT AS ENVISAGED UNDER THE LOCAL GOVERNMENT ORDINANCE (2001) - DISTRICT GOVERNMENTS



Source: National Reconstruction Bureau, Government of Pakistan. Available: www.nrb.gov.pk

FIGURE A1.2: ORGANIZATIONAL STRUCTURE OF LOCAL GOVERNMENT AS ENVISAGED UNDER THE LOCAL GOVERNMENT ORDINANCE (2001) - TMA5



POLICY MATRIX

Punjab Devolved Social Services Program: Status of Compliance with the Second Tranche Conditions

(Policy conditions are based on Attachment 3 to Schedule 3 of the loan agreement (p.16): Conditions for Release of the Second Tranche and the Second DFID Tranche)

| Policy Conditions | Progress Assessment | Documents Provided |
|--|---|--|
| | 1. Realign Inter-Governmental Relations to Support Devolved Social Services | |
| <p>(a) PLDs shall have developed their 5-year strategic plans in accordance with the guidelines notified by P&DD, and the ministers concerned shall have presented such plans for consideration of the provincial cabinet.</p> | <p style="text-align: center;">Fully complied with.</p> <p>1. This tranche release condition requires the PLD to develop 5-year strategic plans. Since 2006, however, under the concerted efforts of the federal and Punjab provincial governments, Punjab became the first province in Pakistan to develop and adopt a comprehensive MTDf. The MTDf employs a 3-year strategic planning framework. The GoPb considers that sector strategic planning needs to be a part of the MTDf as it is closely linked with planning, budgeting, expenditure, and the overall institutional set-up of medium term strategic planning and public financial management. The GoPb thus considers that a stand alone 5-year strategic plan, in light of the development of the MTDf, will not yield significant additional benefits in the province. The 3-year MTDf is also used at the federal level, and has been developed in other provinces in Pakistan. The MTDf follows the guidelines notified by P&DD, is approved by the Provincial Cabinet, and contains strategic plans for all the sectors under PDSSP. It is a detailed document prepared after extensive consultation within government, as well as with civil society.</p> <p>2. As mentioned, the MTDf follows a 3-year planning cycle rather than a 5-year one. The 5-year time requirement for this PDSSP condition was designed without the MTDf in place. Given the specific coverage and institutional set-up of MTDf, it is considered that it can sufficiently replace the 5-year strategic plan originally envisaged under PDSSP. Indeed, the strong institutional foundation of MTDf has surpassed the requirements of the 5-year strategic plan.</p> | <p>1. Pages of MTDf: Scanned the Education Sector as an example.</p> <p>2. Three sets of relevant meeting minutes.</p> <p>3. Description of the relationship between MTDf and the guidelines notified by P&DD.</p> <p>4. Guidelines Notified by the P&DD for development of Strategic Plans under PDSSP for all sectors.</p> |

| Policy Conditions | Progress Assessment | Documents Provided |
|--|---|---|
| <p>(b) At least seventy-five (75%) of the DGs and fifty percent (50%) of the Program TMAs shall have developed and the respective local government councils shall have approved comprehensive annual sector plans.</p> | <p>Fully complied with</p> <p>4. The services of health, education, and special education have been devolved to the DGs, while WSS has been devolved to TMAs. The preparation of ASPs includes 34 TMAs for WSS and 35 DGs for the health sector. For the education sector, the PDSSP support for LGs is focused on the 12 most deprived districts given their higher need. As pointed out in the RRP, the gross enrollment rates are much lower in the most deprived districts than in other districts. There is also a serious gender imbalance which requires focused intervention (RRP. P.32).</p> <p>5. The PSC reflected these considerations and has allocated the PDSSP funding accordingly. A decision to focus on the deprived districts for education was made in the 4th PSC Meeting held on 3 September 2005. Similarly, a decision was made in the 3rd PSC meeting on 4 June 2005 to develop ASPs in 8 districts for the special education sector given that most special education facilities are located in 8 districts. Thus, the ASP preparation includes 12 districts for education, 8 districts for special education, 35 districts for health, and 34 TMAs for WSS (see also discussion on condition 1f).</p> <p>6. The preparation of ASPs is a challenging task given the existing low capacity at the LG level. The PSU organized a series of training workshops for the concerned staff of DGs and TMAs to acquaint them with the procedures and techniques for preparation of ASPs. Additionally, through the forum of monthly meeting of DCOs held under the chairmanship of the Chief Secretary, the PSU established a high level regular channel to communicate with the LGs. The capacity-building and facilitation role played by the PSU of PDSSP helped the LGs to develop their ASPs. As a result, the number of DGs and TMAs that have prepared ASPs exceeded the Program requirement (Table 2).</p> | <p>1. One set of approved ASPs for the four sectors as a sample.</p> <p>2. A complete set of letters of approval for ASPs from LGs and TMAs.</p> <p>3. Documents indicating the basis of selecting 12 districts for the education sector and 8 for the special education sector.</p> <p>4. Lists of names of local governments which approved the ASPs.</p> |
| <p>(c) LG&RD shall have mapped the implementation of the devolved administrative and financial</p> | <p>Fully complied with</p> <p>7. This policy action attempts to examine the devolved administrative and financial powers, identify gaps and impediments to their implementation, and determine if there is a need for further decentralization of financial and administrative powers. In order to meet this tranche action,</p> | <p>1. Report asses-sing devolved financial and administrative powers, and incorporating</p> |

| Policy Conditions | Progress Assessment | Documents Provided | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|---|---|--------------------|----------|-------------------------------|--|---------------------|--------|----------|--------|----------------|--------|------------------|--------|---------------------------|--------|-----------------------------------|--------|--------------------------|--------|------------------------------|--------|--|--------|----------------------------------|--------|--------------------------|--------|-------------------------|-------|----------------|--------|--------------------------|--------|--------------------------|--------|-----------------------------|--------|--------------------------|--------|--------------------------|-------------------|---------------|--------|-------------------|-------|----------------|--------|----------------------------------|--------|------------------------------|--------|-------------------------------|--------|---|--------|------------------------------|--------|---|
| <p>powers in the social sectors to identify gaps and shall have developed a time-bound action plan to achieve full implementation of devolved powers.</p> | <p>led by the LG&RD, the Punjab Government has set up a high powered 'Review Committee' to oversee this exercise. Under the Review Committee, two working groups: one for mapping the implementation of the devolved administrative powers; and another for mapping the implementation of devolved financial powers were established in LG&RD.</p> <p>8. The composition of the Review Committee is as follows:</p> <table data-bbox="440 600 1143 1066"> <tr> <td>Secretary LG&RD</td> <td>Chairman</td> </tr> <tr> <td>One member of the LGC Members</td> <td></td> </tr> <tr> <td>Two District Nazims</td> <td>Member</td> </tr> <tr> <td>Two DCOs</td> <td>Member</td> </tr> <tr> <td>One Town Nazim</td> <td>Member</td> </tr> <tr> <td>One Tehsil Nazim</td> <td>Member</td> </tr> <tr> <td>Two Civil Society Members</td> <td>Member</td> </tr> <tr> <td>Chief Economist P&D / Rep. of P&D</td> <td>Member</td> </tr> <tr> <td>Additional Secretary DoE</td> <td>Member</td> </tr> <tr> <td>Additional Secretary LGF/PFC</td> <td>Member</td> </tr> <tr> <td>Additional Secretary (Development) DoH</td> <td>Member</td> </tr> <tr> <td>Additional Secretary, Regulation</td> <td>Member</td> </tr> <tr> <td>Additional Secretary PHE</td> <td>Member</td> </tr> </table> <p>9. The composition of the Working Groups is as follows:</p> <p style="text-align: center;">Working Group (Administrative Powers)</p> <table data-bbox="440 1236 1227 1539"> <tr> <td>Special Secretary LG&RD</td> <td>Chair</td> </tr> <tr> <td>DCO Rawalpindi</td> <td>Member</td> </tr> <tr> <td>Additional Secretary DoE</td> <td>Member</td> </tr> <tr> <td>Additional Secretary DoH</td> <td>Member</td> </tr> <tr> <td>Additional Secretary SGA&CD</td> <td>Member</td> </tr> <tr> <td>Additional Secretary LGD</td> <td>Member</td> </tr> <tr> <td>PD, DSP (or rep) member)</td> <td>Member (co-opted)</td> </tr> <tr> <td>Rep. of PDSSP</td> <td>Member</td> </tr> </table> <p style="text-align: center;">Working Group (Financial Powers)</p> <table data-bbox="440 1608 1227 1871"> <tr> <td>AS Regulation, LG</td> <td>Chair</td> </tr> <tr> <td>DCO Faisalabad</td> <td>Member</td> </tr> <tr> <td>Chief Economist P&D /or Rep. P&D</td> <td>Member</td> </tr> <tr> <td>Additional Secretary LGF/PFC</td> <td>Member</td> </tr> <tr> <td>Additional Secretary (Dev) LG</td> <td>Member</td> </tr> <tr> <td>Additional Secretary, DoE (co-opted member)</td> <td>Member</td> </tr> <tr> <td>Additional Secretary, Health</td> <td>Member</td> </tr> </table> | Secretary LG&RD | Chairman | One member of the LGC Members | | Two District Nazims | Member | Two DCOs | Member | One Town Nazim | Member | One Tehsil Nazim | Member | Two Civil Society Members | Member | Chief Economist P&D / Rep. of P&D | Member | Additional Secretary DoE | Member | Additional Secretary LGF/PFC | Member | Additional Secretary (Development) DoH | Member | Additional Secretary, Regulation | Member | Additional Secretary PHE | Member | Special Secretary LG&RD | Chair | DCO Rawalpindi | Member | Additional Secretary DoE | Member | Additional Secretary DoH | Member | Additional Secretary SGA&CD | Member | Additional Secretary LGD | Member | PD, DSP (or rep) member) | Member (co-opted) | Rep. of PDSSP | Member | AS Regulation, LG | Chair | DCO Faisalabad | Member | Chief Economist P&D /or Rep. P&D | Member | Additional Secretary LGF/PFC | Member | Additional Secretary (Dev) LG | Member | Additional Secretary, DoE (co-opted member) | Member | Additional Secretary, Health | Member | <p>the proposed action plan.</p> <p>2. Notification of working groups, and the Review Committee, along with a note from the Chief Secretary indicating approval of the framework for carrying out the mapping exercise.</p> <p>3. A letter from the PSU to PRM.</p> |
| Secretary LG&RD | Chairman | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| One member of the LGC Members | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Two District Nazims | Member | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Two DCOs | Member | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| One Town Nazim | Member | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| One Tehsil Nazim | Member | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Two Civil Society Members | Member | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Chief Economist P&D / Rep. of P&D | Member | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Additional Secretary DoE | Member | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Additional Secretary LGF/PFC | Member | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Additional Secretary (Development) DoH | Member | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Additional Secretary, Regulation | Member | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Additional Secretary PHE | Member | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Special Secretary LG&RD | Chair | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| DCO Rawalpindi | Member | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Additional Secretary DoE | Member | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Additional Secretary DoH | Member | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Additional Secretary SGA&CD | Member | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Additional Secretary LGD | Member | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| PD, DSP (or rep) member) | Member (co-opted) | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Rep. of PDSSP | Member | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| AS Regulation, LG | Chair | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| DCO Faisalabad | Member | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Chief Economist P&D /or Rep. P&D | Member | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Additional Secretary LGF/PFC | Member | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Additional Secretary (Dev) LG | Member | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Additional Secretary, DoE (co-opted member) | Member | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Additional Secretary, Health | Member | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |

| Policy Conditions | Progress Assessment | Documents Provided |
|---|---|--|
| | <p>EDO (F&P) Lahore Member PD PRMP (or rep) Member (co-opted) Rep. of PDSSP Member</p> <p>10. These working groups worked under the supervision of a high-powered Review Committee headed by the Secretary of LG&RD with representation from all the key PLDs, policy reform programs under implementation in the province, LGs, and civil society. Based on numerous meetings, field visits, and stakeholder consultation, a report has been prepared identifying gaps in implementation of devolved administrative and financial powers along with a proposed time bound action plan for achieving full implementation of devolved powers. The report is currently being reviewed by relevant departments. Approval of the assessment and the action plan is required by the third tranche release condition of PDSSP.</p> | |
| <p>(d) HUD&PHED shall have provided requisite support to the Program TMAs to enable them to exercise administrative and technical sanctioning powers, as envisaged under the PLGO.</p> | <p>Fully complied with</p> <p>11. Under the PLGO (2001), three independent tiers of local administration have been created: DGs, TMAs, and Union Administrations. The DGs are largely responsible for social service delivery in health and education, and TMAs are responsible for municipal service delivery.</p> <p>12. An essential step in empowering TMAs is to increase their financial autonomy. For this purpose, a decision was reached in a meeting chaired by the Chairman of P&DD and attended by the Secretaries of Finance, HUD&PHED, and LG&RD, to increase the technical sanctioning powers of TMAs from PRs0.5 million to PRs1.0 million. The notification was issued on 28 March 2007, enhancing technical sanctioning powers of TMAs by 100%.</p> <p>13. The administrative approval refers to the concept clearance to undertake a development scheme. On the other hand, technical sanctioning is the process of approving cost estimates for schemes. The size of</p> | <p>1. Copy of HUD&PHED Notification.</p> |

¹⁹ The analysis is available upon request.

| Policy Conditions | Progress Assessment | Documents Provided |
|---|---|---|
| | <p>administrative powers is defined in the Punjab Tehsil/Town Municipal Administration (Works) Rules (2003). These rules empower the Tehsil/Town Development Committee to grant the administrative approval of each work or scheme up to PRs5 million included in the approved budget. For scheme costing above PRs5 million but not exceeding PRs20 million, the administrative approval is granted by the District Development Committee; and for mega schemes costing more than PRs20 million, the approval of the provincial government is required. The size of development schemes approved in the Annual Development Program of TMAs (available in ASP) shows that the size of schemes approved by the TMAs is far less than PRs5 million, i.e., the threshold by which the TMAs are empowered to grant administrative approval. This indicates that that the current administrative powers are sufficient for TMAs. The PSU of PDSSP analyzed the size of a randomly selected sample of TAM development schemes and found that most of them are around PRs2 million, far below the PRs5 million ceiling¹⁹.</p> | |
| <p>(e) PFC shall have reviewed the implementation of the conditional grant using the Program funds (\$25,000,000) and, unless the 3-year PFC award shall have been approved and announced, shall have approved and announced the interim annual PFC award, in which a conditional grant system for devolved social services shall have continued.</p> | <p>Fully complied with</p> <p>14. The PDSSP conditional grants are channeled to LGs through the PFC. In consideration of funding availability, needs, and the GoPb's priorities, the conditional grant is distributed in health, education, and WSS at a ratio of 65:17:18. In the education sector, education receives 70% of the fund, while special education receives 30%. The DGs receive 82%, and the TMAs receive 18%. The more focused approach in the education and special education sectors is also to avoid resources being spread too thinly as education only receives a small share of PDSSP conditional grant.</p> <p>15. PFC approved a 3-year award for the FY 2006–FY2009 which included conditional grants for health and WSS sectors. However, the award did not include the conditional grants on the education and special education sectors. In order to meet the PDSSP requirement, the PFC convened a meeting on 31 March 2007 which approved the conditional grants for education and special education sectors. A review of implementation of the conditional grant was also conducted. The review indicates that the conditional grants helped to bridge financing gaps of LGs and encouraged them to undertake policy initiatives required by PDSSP.</p> | <ol style="list-style-type: none"> 1. A letter from the Provincial Finance Department/PFC Secretariat. 2. PFC conditional grant review report. 3. PFC notification. 4. PFC meeting minutes. |

| Policy Conditions | Progress Assessment | Documents Provided |
|--|--|---|
| (f) Punjab shall have entered into the MOUs, in form and substance acceptable to ADB, with DGs and the Program TMAs to access program funds, on the terms and conditions set out in the MOUs. | <p style="text-align: center;">Fully complied with</p> <p>16. The MOUs signed between the provincial and local governments, including DGs and TMAs, spell out the terms and conditions for LGs to access and use PDSSP funds. The amended MOU was sent to ADB for review. Upon receiving ADB's agreement the MOUs were signed by all the DGs and Program TMAs. The Secretary of P&DD signed the MOUs on behalf of the EA/provincial government.</p> | <p>1. Email from ADB PRM to the PSU indicating the acceptance of MOU.</p> <p>2. One set of signed MOUs (DG and TMA each).</p> <p>3. A letter from P&DD indicating that MOUs have been signed.</p> |
| | <p>2. Rationalize And Set Minimum Standards for Social Services</p> | |
| (a) In consultation with DGs and the Program TMAs, HUD&PHED and DOH shall have analyzed existing technical and service standards, identified the lack of standards and implementation gaps and shall have developed new sets of technical and service standards, in agreement with DGs and the Program TMAs. | <p style="text-align: center;">Fully complied with</p> <p>17. Although the tranche release condition required the development of technical and service standards in WSS and the health sectors, Punjab has gone one step further by developing the standards in all four sectors.</p> <p>18. Supported by TA 4504, consultants were hired to assist relevant departments in analyzing the existing technical and service delivery standards, identifying deficiencies in standards, and developing new technical and service delivery standards. The technical and service delivery standards have also been developed in close coordination with the Provincial Finance Department and LGs to ensure that they are realistic and 'affordable' for the province. About 10 consultative workshops were held to solicit views from stakeholders.</p> <p>19. The ADB/DFID Joint Review Mission in July 2007 observed that while the standards are comprehensive, they are more focused on technical aspects of service delivery than other aspects. Given the importance of these standards in guiding service delivery, the Mission advised the GoPb to</p> | <p>1. Four reports on minimum technical and service standards.</p> |

| Policy Conditions | Progress Assessment | Documents Provided | | | | | | | | | | | | | | | | | | | | | | | | |
|--|--|--|--------------------------|---|----------|-----------|--------|--------|----|--------|-------|------|----|-------------------|------|------|----|-----|-----|-----|----|--|--|--|--|--|
| | defer the approval of the standards. The GoPb has agreed to further fine tune the standards, undertake more consultations, carry out costing of the standards, as well as to widely disseminate the standards. TA 4504 will provide requisite support for this exercise. | | | | | | | | | | | | | | | | | | | | | | | | | |
| <p>(b) DGs and the Program TMAs shall have filled fifty percent (50%) of essential vacant positions in accordance with the guidelines notified by LG&RD.</p> | <p>Fully complied with</p> <p>20. The GoPb has issued two set of guidelines for recruitment: the Recruitment Policy (2004) and Contract Appointment Policy (2004). Government recruitments taking place since 2004 have been carried out in accordance with the provisions of these two policies.</p> <p>21. Table A1 below presents the information on filling essential vacant positions in the four social sectors. The data indicates that more than 50% of essential vacant positions have been filled by the LGs in accordance with the Recruitment Policy (2004) and Contract Appointment Policy (2004).</p> <p>Table A1.1: Filling of Essential Vacant Positions</p> <table border="1" data-bbox="483 1073 1187 1495"> <thead> <tr> <th data-bbox="483 1073 704 1276">Department</th> <th data-bbox="704 1073 873 1276">Total Positions (No.)</th> <th data-bbox="873 1073 1042 1276">Filled Positions as by 15th of June 2007 (No.)</th> <th data-bbox="1042 1073 1187 1276">% filled</th> </tr> </thead> <tbody> <tr> <td data-bbox="483 1276 704 1310">Education</td> <td data-bbox="704 1276 873 1310">362140</td> <td data-bbox="873 1276 1042 1310">309128</td> <td data-bbox="1042 1276 1187 1310">85</td> </tr> <tr> <td data-bbox="483 1310 704 1344">Health</td> <td data-bbox="704 1310 873 1344">13624</td> <td data-bbox="873 1310 1042 1344">9215</td> <td data-bbox="1042 1310 1187 1344">68</td> </tr> <tr> <td data-bbox="483 1344 704 1411">Special Education</td> <td data-bbox="704 1344 873 1411">3748</td> <td data-bbox="873 1344 1042 1411">2799</td> <td data-bbox="1042 1344 1187 1411">75</td> </tr> <tr> <td data-bbox="483 1411 704 1444">WSS</td> <td data-bbox="704 1411 873 1444">206</td> <td data-bbox="873 1411 1042 1444">190</td> <td data-bbox="1042 1411 1187 1444">92</td> </tr> <tr> <td data-bbox="483 1444 704 1495"></td> <td data-bbox="704 1444 873 1495"></td> <td data-bbox="873 1444 1042 1495"></td> <td data-bbox="1042 1444 1187 1495"></td> </tr> </tbody> </table> <p>Source: The GoPb.</p> | Department | Total Positions (No.) | Filled Positions as by 15 th of June 2007 (No.) | % filled | Education | 362140 | 309128 | 85 | Health | 13624 | 9215 | 68 | Special Education | 3748 | 2799 | 75 | WSS | 206 | 190 | 92 | | | | | <p>1. Letters indicating numbers of positions filled from the four social sector departments.</p> <p>2. Recruitment Policy (2004) and Contract Appointment Policy (2004).</p> <p>3. Comments to ADB Aide Memoir on essential posts which indicate that there is no legal definition of the term 'essential positions'.</p> |
| Department | Total Positions (No.) | Filled Positions as by 15 th of June 2007 (No.) | % filled | | | | | | | | | | | | | | | | | | | | | | | |
| Education | 362140 | 309128 | 85 | | | | | | | | | | | | | | | | | | | | | | | |
| Health | 13624 | 9215 | 68 | | | | | | | | | | | | | | | | | | | | | | | |
| Special Education | 3748 | 2799 | 75 | | | | | | | | | | | | | | | | | | | | | | | |
| WSS | 206 | 190 | 92 | | | | | | | | | | | | | | | | | | | | | | | |
| | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | <p>3. Strengthen Public Accountability Mechanism and Promote Public-Private Partnership</p> | | | | | | | | | | | | | | | | | | | | | | | | | |
| <p>(a) In consultation with DGs and the Program TMAs, each PLD shall have developed</p> | <p>Fully complied with</p> <p>22. Based on the MTFD and existing monitoring strategies and in consultation with the concerned social sector departments, a costed monitoring strategy was prepared for</p> | <p>1. Costed monitoring strategy report.</p> <p>2. Approval of the Strategy by</p> | | | | | | | | | | | | | | | | | | | | | | | | |

| Policy Conditions | Progress Assessment | Documents Provided |
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| and Punjab shall have approved a costed monitoring strategy. | each of the four social sectors. The strategy has been approved by P&DD. A report has been prepared that covers the existing sectoral monitoring strategies, looks at the challenges and problems faced and the way forward, along with the cost required for implementing the strategies. | P&DD. |
| (b) Punjab shall have continued to implement its behavior change communication campaign. | <p>Fully complied with</p> <p>23. BCC campaigns are being implemented in all social sector departments. In order to document this, a resource person was hired to prepare a report on behavior change communication campaigns adopted by various social sector departments during the last few years. The report covers behavior change communication campaigns implemented in the province by social sector departments, and highlights areas for further improvement. In order to augment the existing behavior change campaigns, the provincial government has recently developed two documentaries on mother-child health and WSS issues respectively. The documentaries were very well received in the 4th Punjab Development Forum in April 2007. These will be followed with three more documentaries on themes relevant to PDSSP. The GoPb is planning to broadcast these documentaries in the country.</p> | <p>1. BCC report</p> <p>2. A letter from P&DD confirming the continuance of BCC campaign.</p> <p>Sample of communication campaign materials.</p> |
| (c) Local government councils shall have approved and the local government monitoring committees shall have observed the by-laws. | <p>Substantially complied with</p> <p>24. Under Section 138 of the PLGO (2001), monitoring committees have been formed to monitor the functioning of the LGs. Under the policy requirements for release of the first tranche of PDSSP, model by-laws for monitoring committees were developed. These model by-laws have been approved recently after being circulated and revised. LGs have reported substantial progress in the activities of the committees and observation of the by-laws. However, the observation is not comprehensive. For example, monthly follow up reports have not been produced regularly yet. Strengthening the monitoring committee capacity, including their reporting capacity, is an activity that will be undertaken by TA4504. Acquainting committee members with the new by-laws and the monitoring formats and procedures is a major aspect of capacity building.</p> | 1. Letters from local government councils showing approval of by-laws |
| (d) The | Partially complied with | 1. PPP |

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| <p>Provincial Cabinet shall have approved and Punjab shall have announced the policy on public-private partnerships.</p> | <p>25. This condition requires the approval of a PPP policy. In light of increasing PPPs in the province, the GoPb considers that it is more urgent to develop a PPP strategy rather than a policy. Based on communication with the GoPb, ADB concurred with the change from developing a PPP policy to a PPP strategy.</p> <p>26. The lack of domestic expertise in developing a PPP strategy in social sectors necessitated the search for international consultants. The process of finding a suitable team of consultants, however, took much longer than anticipated, and the consultants could only be mobilized in June 2007. The consultants had two missions to Punjab. The first draft PPP strategy has been prepared and is currently under review by ADB and the GoPb.</p> <p>27. The GoPb has shown a strong commitment to promote PPP. A number of PPP projects have been initiated. Upon developing the PPP strategy, the GoPb is also planning to develop related rules, procedures, standards, and protocols. Given that a substantial amount of time is needed to prepare a high quality PPP strategy and to ensure full ownership of the strategy by various stakeholders, as well as in light of the strong commitment of the GoPb to promote PPP, it is proposed that the approval of a fully fledged PPP strategy be postponed to the implementation period of the 3rd tranche actions.</p> | <p>consultant contracts.</p> <p>2. Email from PPP consultants.</p> <p>3. Draft PPP strategy report by consultants.</p> <p>3. ADB letter and Aide Memoir indicating agreement to change from developing a PPP policy to a PPP Strategy (27th October, 2006).</p> <p>4. Write up on existing social sector PPP projects in Punjab.</p> |

ADB = Asian Development Bank, ASP = Annual Sector Plan, BCC = Behavior change communication, DCO = district coordinating officer, DFID = Department for International Development, DG = district government, DOH = Department of Health, FY = fiscal year, GoPb = government of Punjab, HUD&PHED = Housing and Urban Development and Public Health Engineering Department, LG&RD = Local Government and Rural Development Department, LG = local government, MOU = memorandum of understanding, MTFD = Medium Term Development Framework, P&DD = Planning and Development Department, PDSSP = Punjab Devolved Social Services Program, PFC = Provincial Finance Commission, PLD = provincial line department, PLGO = Punjab Local Government Ordinance, PPP = private-public partnership, PSU = Program Support Unit, PSC = program steering committee, RRP = report and recommendation of the President, TMA = tehsils (towns) municipal administration, WSS = water supply and sanitation.

Source: ADB based on information provided by GoPb.