

**2006 ASIAN REGIONAL FORUM ON AID EFFECTIVENESS:
IMPLEMENTATION, MONITORING AND EVALUATION**

**SECTOR BUDGET SUPPORT FOR SOCIAL SERVICE DELIVERY: THE PUNJAB
DEVOLVED SOCIAL SERVICES PROGRAMME (PDSSP)**

*Country Assessment for Case Study No. 1: How have countries established effective leadership over
development assistance?*

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ACRONYMS AND ABBREVIATIONS

ADB	Asian Development Bank
ADP	Annual Development Programme
BHU	Basic Health Unit
CBO	Community Based Organisation
CCB	Community Citizen Board
CIDA	Canadian International Development Agency
DCO	District Coordination Officer
DFID	Department for International Development
DG	District Government
DO	District Officer
DOE	Department of Education
DOH	Department of Health
DOSE	Department of Special Education
DSP	Decentralisation Support Programme
EDO	Executive District Officer
ESR	Education Sector Reform
GDP	Gross Domestic Product
GoPunjab	Government of Punjab
HUD&PHED	Housing and Urban Development and Public Health Engineering Department
LGO	Local Government Ordinance
MDG	Millennium Development Goal
MTDF	Medium Term Development Framework
NFC	National Finance Commission
NGO	Non Government Organisation
NRB	National Reconstruction Bureau
P&DD	Planning and Development Department
PDF	Pakistan Development Forum
PDSSP	Punjab Devolved Social Services Programme
PbDF	Punjab Development Forum
PESRP	Punjab Education Sector Reform Programme
PFC	Provincial Finance Commission
PLGO	Punjab Local Government Ordinance, 2001
P-PRSP	Punjab Poverty Reduction Strategy Paper
PRMP	Punjab Resource Management Programme
PRM	Pakistan Resident Mission
PRSP	Poverty Reduction Strategy Paper
PSC	provincial steering committee
PSU	program support unit
RHC	Rural Health Centre
SMC	School Management Committee
TA	Technical Assistance
TMA	<i>Tehsil</i> (town) Municipal Administration
TMO	<i>Tehsil</i> (town) Municipal Officer
TO	<i>Tehsil</i> (town) Officer
VDO	Village Development Organisation
WASA	Water and Sanitation Agency

Executive Summary

1. This country assessment is one of twelve based on initiatives within Asia that demonstrate good practice and lesson learning with respect to the Paris Declaration. Together these country assessments inform the five thematic case studies which will be used as the basis for discussion at the Regional Forum.
2. This particular assessment reviews the Punjab Devolved Social Services Programme (PDSSP) one of a series of programmes at national and provincial level supporting the Government of Pakistan's (GoP) policy of devolution. Together with assessments of sector support in primary education in India and budget support in Vietnam this assessment informs the thematic case study looking at leadership and ownership of development assistance by Government.
3. The context in terms of Pakistan's economy, aid relationships and policy orientation are summarised. Pakistan has relatively low dependence on aid but large performance and financial gaps in meeting the Millennium Development Goals (MDGs). The pattern of aid has changed and continues to be influenced by domestic and international politics. In this context devolution was embraced as part of the present government's reform agenda and supported by donors as a means to achieving the MDGs.
4. PDSSP is described as an example of donor support that has been responsive to a strong policy lead from the Provincial Government of Punjab (GoPunjab). GoPunjab has a vision, policy, and strategy for devolution that is clear and positive. They have also learnt from experience to take an assertive approach to donor support that has ensured alignment with their policy framework and harmonisation amongst the donors concerned. This alignment and harmonisation extends not just to PDSSP but also to the related sector reform programmes. Strong intellectual support from donors and strong policy leadership from GoPunjab have combined to produce effective support to devolution that manifests Paris principles though pre-dating the Paris Declaration.
5. In terms of costs and benefits the assessment concludes that the programme is cost effective for both Government providing predictable performance based annual tranche investments through the budget and for the donors. However to date there is no evidence of extensive savings in transaction costs and the assessment suggests that the depth of relationship and the more effective policy dialogue requires inputs that do not reduce transaction costs markedly.
6. It is too early for there to be a major impact and monitoring and results based management are areas for improvement that will ensure tracking of the expected improvements. The impact on Government/donor relationship at Province and Federal level are clear and the experience from such practical examples is informing the aid effectiveness debate in more appropriate ways that focus on policy and impact rather than processes and administrative aspects of aid management.
7. The assessment concludes by identifying the lessons learnt from PDSSP with respect to the Paris Declaration and aid effectiveness. The most significant being:
 - Ownership and leadership by Government is the most important objective in achieving aid effectiveness
 - (Provincial) Government strategy and direction provide a strong basis
 - Budget support can strengthen policy led programming in an atmosphere of political turbulence
 - Government can promote alignment of donors and donor investments despite institutional resistance.

1. Introduction

1. Following the military coup in 1999 the new regime in Pakistan led by President Musharraf embarked on a major programme of reform. Within the parameters of this 7-Point Agenda declared by the Government of Pakistan (GoP) in October 1999, the National Reconstruction Bureau (NRB) formulated recommendations for reconstruction of Local Governments which were approved in August 2000 by the National Security Council and the Federal Cabinet. These were further transformed into separate legal instruments through an intensive consultative process with the Provincial Governments. The Local Government Ordinance (LGO), 2001 was promulgated by the four Provincial Governments in August, 2001. The rationale and structure of the new local government system is outlined in Annex 1.

2. The intention was to devolve social service delivery, in particular health, education and water, to District level with increased public accountability and improved services especially to the poor. The devolution process is receiving strong intellectual and practical support from a number of donors, including the Asian Development Bank (ADB), the World Bank and DFID. Donors are provided financial support for investments, service delivery and technical assistance (TA). There is a joint policy dialogue with Federal and Provincial Governments. The assistance is programme based and delivered through government financial systems. Management for results and mutual accountability is supported with joint monitoring and annual reviews.

3. Devolution is seen as a key strategy in poverty reduction and has strong national level leadership. The synergies with donor support reflect the objectives of the Paris Declaration. This is further echoed by the fact that the devolution process and the donor support for it has regularly been a major item at the Pakistan Development Forum (PDF), the annual occasion when the GoP engages with its development partners. In 2003 and again in 2004 devolution was discussed. Five separate agenda items related to reports on progress at the 2005 PDF and a further three items in May this year.

4. Whilst there is donor support at national level primarily through the Decentralisation Support Programme (DSP) supported by the ADB the major focus of support for devolution is at the Provincial level. This assessment focuses on one of these key programmes the Punjab Devolved Social Services Programme (PDSSP). Again the lead donor is the ADB with co-financing from DFID. However there are parallel projects working in a complementary way with support from other donors notably the World Bank support in the education sector. Punjab is the Province which has taken the lead in promoting devolution and public private partnerships in social service delivery over a number of years. PDSSP builds on this experience and is an example of strong Provincial as well as national leadership in which the Government of Punjab (GoPunjab) has requested donor support through its budget and aligned closely with its policies.

5. This assessment takes PDSSP as an example of a programme that is based directly on Paris Declaration principles and explores their relevance and impact at Provincial and Federal level. In particular the nature of the leadership role of the Federal and Provincial Governments is examined in terms of its impact on aid effectiveness and on the quality of donor support. Here Pakistan provides insights into the application of the Paris objectives within a Federal context.

6. Whilst the aid effectiveness agenda is at an early stage of development in Pakistan there is considerable experience of joint approaches to programme based support over the last 15 years from which lessons are evident in current practice. There is more continuity amongst the senior bureaucrats within the Pakistan administration than is often the case on the donor side of the dialogue. This experience appears to be

informing the development of leadership and ownership in ways that can only be understood within the domestic context. Here PDSSP has lessons for the wider approach to aid effectiveness in Pakistan as well as demonstrating the conditions for and benefits of leadership by governments and their ownership of the processes of the development discourse.

7. Internal political changes can disrupt policy consistency and continuity. Similarly the diverse interests of donors can create tensions from the outside. Firm strategic leadership in the case of PDSSP shows evidence of moderating the potential dissonance consequent on such pressures. The assessment identifies how aid effectiveness is evident not only in improved administrative systems and the related transaction costs but in building shared understandings of the strategic approaches being pursued, a common knowledge base for change, and a policy partnership that has longer term sustainability.

2. Context

8. During the four decades following independence Pakistan enjoyed steady economic growth starting from a low base, yet outpacing its neighbours. Efforts were made to address the structural and deep seated poverty complemented by external donor support. During the 1990's progress slowed as did external support culminating in the suspension of much assistance to GoP at the time of the military coup. Pakistan entered the new millennium as a low income country (LIC) having a gross national income (GNI) per capita of \$520 (2003) with relatively low dependence on aid but large performance and financial gaps in relation to the Millennium Development Goals (MDGs).

9. Today aid constitutes approximately 2% of Pakistan's Gross Domestic Product (GDP) and about 6% of government expenditures. However 80-90% of aid received is provided by the five largest donors¹ operating under different mandates and pursuing different national and institutional interests. The ADB and the World Bank by themselves provide 60-70% of the aid.

10. Between 1968 and 2005 the ADB provided some \$15billion of support; of this \$1.5 billion is accounted for in 2005 itself and the 2006 to 2008 programme plans to provide a further \$4.4billion. The World Bank has seen a similar growth in lending most recently rising from \$300million in 2003 to \$1.5billion in the current year.

11. Bilateral support has also grown. After a seven-year pause due to US-imposed nuclear non-proliferation sanctions, USAID reopened its Mission in Pakistan in July 2002. In all, the United States, through USAID, is providing more than \$1.5 billion in development assistance to Pakistan over the next five years to improve education, health, governance and economic growth. In addition, the United States has pledged a total of \$510 million in earthquake relief and reconstruction efforts to assist the people of Pakistan and to support GoP relief and reconstruction efforts. Other bilateral support has grown less dramatically though again with significant earthquake related additions.

12. Thus whilst official development assistance (ODA) is still relatively low it has become much more significant and potentially influential in reinforcing or detracting from key policy commitments, notably in relation to poverty reduction and governance where there is strong donor interest.

13. The Pakistan Government has signed up to the MDGs. However with little progress achieved during the 1990's Pakistan has some of the worst poverty indicators in Asia and on present progress will not achieve many of the MDG targets by 2015. More broadly

¹ Asian Development Bank, France, Japan, United States, and World Bank

Pakistan's progress in reform and reframing its policy orientation is being to see results. Its strategy for economic growth and poverty reduction is articulated in its Poverty Reduction Strategy Paper (PRS 2003). The PRSP is based on four pillars: accelerated economic growth, improved governance and devolution, investing in human capital, and targeting the poor and vulnerable.

14. There is broad donor support for the PRSP and already evidence of investments aligning with its key themes notably economic growth, governance and devolution. This is setting a context for alignment but harmonisation is less evident with the larger investors tending to operate independently and synergies often being confined to complementary technical assistance (TA) provided as grant support alongside large loans. Paradoxically some smaller donors are also disinclined to collaborate fearing that as small partners they will lose identity and presence.

15. The political turbulence has disrupted partnership development with a lack of continuity of alliances and joint working from the 1990s and contemporary international agendas tending to dominate donors national interests. Overall the scale of investment and the attention required has pushing the larger donors apart and it has only been the response to the earthquake where a genuine joint effort has emerged.

16. Nevertheless there is an interest in aid effectiveness amongst donors and the Informal Donor Poverty Reduction Working Group (D-PRWG) has established a sub group on aid effectiveness which was instrumental in commissioning an issues paper "*Improving Aid Effectiveness in Pakistan*" prior to this year's Pakistan Development Forum (PDF). The sub group is working closely with the Donor Coordination Cell established by GoP within the Economic Affairs Division (EAD) of the Ministry of Economic Affairs and Statistics which is taking a lead on the government side.

17. Since 1998 when the PDF replaced the Aid-to-Pakistan Consortium which had focused on the annual pledges of commitment from donors it has developed as the key occasion when GoP shares its development strategy with donors, civil society and other stakeholders. The Government used the 2001 PDF to explain its plans for the country to donors, and to allay their concerns about the transition of 1999. Subsequent PDFs have focused on the reform programme, as well as on key national planning documents like the 2003 PRSP and the 2005 Medium-Term Development Framework (MTDF).

18. The success of the PDF has led some Provincial Governments to hold their own provincial development forums. The Government of Punjab (GoPunjab) has held three Punjab Development Forums (PbDF) since 2003 and in 2006 there was the first North West Frontier Province (NWFP) Development Forum. The PDFs, Provincial and Federal, enable a sharing of information but they are not designed for decision making. The next step will be for GoP to put in place mechanisms for regular dialogue and decision making with donors to progress the Paris principles.

3. The initiative

19. Pakistan has re-established its earlier pattern of economic growth. GDP growth in 2005/06 is projected to be lower than the previous year but still robust at 6.0 – 6.5%. This is enabling GoP to implement its PRSP and MTDF commitments with donor support. Consolidated expenditure grew by 26.1% in the first half of 2005/06 with 22.9% increase in current expenditure and 57.2% increase in development expenditure – Federal expenditures rising by 64.7% and Provincial by 47.2%. Punjab increased development expenditure by 63.9% accounting for over 80% of provincial development expenditure increase.

20. GoPunjab uses these resources to implement its development strategy. Intellectual e.g. the donor supported *Punjab Economic Report*, as well as financial support from a range of donors is aligned with both national (PRSP and LGO) and Provincial policies and the Annual Development Programme (ADP). Support is well harmonised with the World Bank utilising the ADB supported Punjab Resource Management Programme (PRMP) for its fiduciary assessment and under GoPunjab leadership ensuring synergies between its Education Sector Policy Credit in support of GoPunjab's Education Sector Reform Programme (PESRP) and PDSSP. GoPunjab requested that all three programmes are funded through the budget. PESRP is an \$850million annual tranche operation and PDSSP releases its \$200million in annual tranches. GoPunjab has thus developed a comprehensive reform programme covering health (resourced from its own funds), education, resource management and devolution with this sector based support.

21. The devolution programme is only one element of this reform strategy. PDSSP is the second of four Provincial Devolved Social Service Programmes (DSSPs). The first in Sindh started in 2003, Punjab followed in 2004 and Balochistan in 2005. NWFP is due to begin implementation this year. The DSSPs are programme loans that move away from traditional project funding modalities. Their designs incorporate different provincial priorities and are aligned with provincial governance structures. However they follow a similar pattern of conditional grants from the Province to local government effectively providing sector budget support at District level.

22. PDSSP itself a multi-sectoral developmental initiative with interventions in the health, education, special education and water supply and sanitation sectors. It is jointly funded by the ADB and DFID. It aims to support local government in improving service delivery standards through better and systematic planning. The release of funds to the 35 Districts the 34 Tehsil Municipal Administrations (TMAs) is based on a formula related to population and poverty. There is also a TA component of US \$ 20 million. The policy matrix for PDSSP is attached as annex 2.

23. The Programme does not explicitly link its interventions and policy actions with the Paris objectives. However as noted above the whole donor support to devolution is predicated on the leadership and ownership of Government at Federal and Provincial level. PDSSP was initiated at the invitation of GoPunjab and incorporates its policies and strategies within its policy matrix. PDSSP was designed with GoPunjab's education and health sector reform programmes in mind and is closely harmonised with the World Bank support for the former. There is also alignment and harmonisation with District level planning and budgeting systems such that Paris principles are reflected at Federal, Provincial and local government levels.

24. PDSSP works through the Provincial budget and is administered by the Planning and Development Department. There is a Programme Support Unit (PSU) for coordinating Programme related activities and TA and for monitoring the Policy Matrix. At local government level annual sector plans which take account of all resources are the basis for agreeing the conditional grants. Policy decisions are taken at the level of the Provincial Steering Committee headed by the Chairman Planning & Development Board.

25. The one area where more traditional approaches pertain is the monitoring and review arrangements which follow the usual ADB monitoring mission model. Communication is however more extensive and the joint missions include DFID as co-financier as well as GoPunjab. The conditional grants are results based being linked directly to performance against approved plans and a programme wider monitoring system could be developed from this. It is too early for major impact but a results based approach to monitoring would ensure aid effectiveness and the achievement of GoPunjab's vision.

26. Whilst PDSSP is moving towards a model of budget support based on Paris principles it is at the administrative and operational level that elements of the older culture re-emerge in both donor behaviours and those of GoPunjab. One of these is the TA component. PDSSP has a huge, unprecedented TA budget of \$ 20 million. The T.A. is intended to provide the external knowledge and skills required to develop stronger local government with demand-based studies for each of the four sectors. Discussions over contracting and management models are delaying delivery of the TA and there is a tension between the undoubted political commitment of GoPunjab and the need for innovative technical inputs to address the fiscal and management needs of devolved service delivery. This is a situation where high quality international TA can support GoPunjabs desire for change if appropriately designed and delivered.

27. In all other respects PDSSP and other programme support to GoPunjab are operating as sector based budget support. Financial management, audit and reporting systems and a common approach to fiduciary risk have been developed by the PRMP and tranche releases are performance based. Though not integrated in the Provincial budget cycle the presence of this guaranteed donor support and policy alignment is contributing to the confidence which has encouraged GoPunjab to increase its development budget substantially. This public endorsement of change the sector reform programmers and the steps to devolve and privatise service delivery are high profile and politically sensitive. Impact is important to maintain popular commitment and information sharing at local and provincial level is seen as a critical part of the process.

4. The process

28. GoPunjab has strong political and bureaucratic leadership. The Chief Minister's 2020 Vision sets a clear direction that is supported by economic analysis (*Punjab Economic Report*, Provincial MTFD) and by a sound assessment of the current social situation (2003 Survey and Baseline provided by Federal and Provincial Bureau of Statistics with UNICEF support). Alignment with national policies and lessons from within the Province has been well articulated at the PbDFs and are translated into strategies in the Annual Development Programmes (ADPs).

29. There is a tradition of independent and radical thinking within the Province. The lessons learnt from the Social Action Programme in the late 1990's are quoted as the basis for wishing to avoid the transaction costs of national vertical programmes and the discontinuities caused by turbulent political process and transfers of power. GoPunjab was also concerned that social service delivery was hampered by serious problems. Social sector expenditure was also much lower than the desired level. Also, it was felt that post devolution, local government was really struggling to improve service delivery.

30. With this strong policy base and operational concerns GoPunjab invited donor engagement based on budgetary support linked to policy development. This applied not just to PDSSP but to the other social sector and fiscal reform programmes resulting in a cohesive package of harmonised budget and policy support. The strategy and its basis in principles similar to those in the Paris Declaration was evident during the interviews on which this assessment is based. Senior voices within GoPunjab understood that their leadership was essential to ensuring a harmonised approach - "Do the donors talk to themselves or not?" appreciated the value of alignment and consistent policy commitment - "Budget support minimises the negative political influence on policy making;" and saw the limitations of earlier models - "Projects mean you have to leave your own process behind." Key informants on the donor side confirmed the strength of this approach - "In the case of Punjab we were led by government and (our) institutional priorities could not dominate."

31. The process has continued to be led and managed by GoPunjab. The authority of the Planning and Development Board has ensured a coordinated approach across departments. The Secretary Planning and the Secretary Finance support the Chair of the Planning Board in the policy dialogue with the donors leaving operational issues to the senior government officers who have been placed in the PSU.

32. At province level the management and leadership capacity is strong but there is a need for technical skills and models for improving performance and management at local government level. It is at District level where there is a serious lack of capacity. The understanding of planning, budgeting and policy implementation is deficient and so is the overall understanding of decentralization principles. The provincial line departments are also hampered by capacity issues though not as seriously as local government. Planning is an area where the PDSSP is focusing seriously but participative local level planning is a new approach and like the other areas of capacity weakness the TA inputs are expected to make a major contribution.

33. PDSSP is relatively young and along with the sector programmes and PRMP the early lessons are all positive. Donor synergies are strong and aside from the delays in the PDSSP TA component no major obstacles have been encountered. Mutual confidence seems strong and the dialogue at policy and operational level open and frank. Success breeds success and all informants spoke with confidence and enthusiasm. Because of the national linkages through the network of ADB DSSPs and wider donor interest the lessons from PDSSP are already informing developments in other Provinces. The key to devolution is achieving change at the centre not just at the periphery. Punjab has demonstrated this with the leadership coming from Lahore. Paradoxically the area of greatest risk to this budget support approach to devolution is going to come from the Federal level. Information flows from Province to Federation and less clear and despite political and legislative support there is a need for Federal Ministries to appreciate the changes taking place and provide complementary support.

5. Costs and Benefits

34. Donor support for devolution evolved after extensive consultations with the Federal, Provincial, and local governments; with civil society; and amongst the donors themselves. It developed over a number of years and began with Federal level policy dialogue and jointly sponsored studies (*Devolution in Pakistan Volumes 1, 2 and 3* ADB, DFID & The World Bank 2004). The expectations were related to the achievement of the MDGs - poverty, gender, education, health, and water supply and sanitation. In addition the interest of some donors in partnership working (a precursor to broader harmonisation) reinforced the common interest. Reduced transaction costs and more general aid effectiveness were not explicit at that stage. Indeed it is the success of the principles of government leadership, alignment, and harmonisation within the devolution programmes that has encouraged interest in the Paris principles rather than vice versa.

35 To date there has being little noticeable saving in transaction costs for donors. Supervision and monitoring though shared involve all partners. In some areas, e.g. monitoring, the sophistication of devolved service delivery and public accountability more time has been required to develop appropriate systems. Over time the concept of a lead donor may reduce inputs and time. However policy dialogue and client contact puts new demands on donors to maintain links with GoPunjab and to do so at a deeper level. Overall the argument that sector programmes and budget support reduce transaction costs is not supported and the experience of PDSSP supports the view that the benefits realised relate in a more fundamental way to aid effectiveness and government leadership and ownership, both of which are worth the additional investment of time and resources.

36. GoPunjab informants were particularly strong in identifying the improvements in the quality of the policy dialogue. They felt their policies and strategies were being taken seriously and supported rather than donors imposing their solutions. This in turn reinforced ownership and commitment. Working together on the strategically difficult aspects of devolution had led to increases in mutual respect and consequently the dialogue is more open and direct. Previous experience of a dialogue that focused on conditionality and fund release has been replaced by honest dialogue focused on policy in practice. Donors shared these views but were less aware of the changes that had taken place possibly because of weaker institutional memory. The strength of the policy dialogue at Provincial level seems to be detracting from policy dialogue related to devolution at Federal level where now the legislation has been enacted interlocutors are less aware and less concerned.

37. As with transaction cost savings the argument that systems alignment is a major benefit appears somewhat simplistic. DFID are accepting ADB systems in the case of PDSSP and both they and the World Bank are more confident in using GoPunjab systems for fiscal management. This suggests that rather than systems alignment there is a movement towards using government systems as in a true budget support arrangement and leaving donor processes to the lead donor.

38. Overall GoPunjab were very positive about the gains for them and for programme impact. They have long advocated devolution to District level and were frustrated but the lack of interest earlier. Donor support is reinforcing their resolve and enabling them to capitalise on the national commitment. To date the benefits have outweighed any costs. Donor support ensures consistency and enables resistance locally, provincially and at national level to be managed. Donors are similarly optimistic though they were aware that it is too early to make judgements. The policy dialogue needs to go even deeper and the improved coordination and donor synergies were quick wins that also need to go further. In some areas there is pressure to ‘recentralise’ (reinforcement of vertical programmes) and adopt project style management rather than full devolution. To date the costs have been manageable and the benefits seem substantial but time will tell.

6. Impact Assessment

39. The move to devolve services and empower District level political leadership was a key part of the reform programme adopted in 2000. It is still closely associated with the present national leadership and concerns have been voiced as to whether it is capable of sustaining a major change. Local level politicians and administrators are only just getting the full set of responsibilities and have to learn and adjust to the new demands on them. It is too early for substantive impact to be evident in social indicators. The first set of annual sector plans suggest that Districts view the grant income as supplementary to their main programme rather than an incentive to institutional change. Donors rightly cautioned against confusing economics with institutional change. Nevertheless this debate suggests that the institutional structures and development partnerships around PDSSP are robust and have the confidence of all involved.

40. At District and Tehsil level PDSSP is seen in terms of social service delivery and Paris concepts are not articulated or relevant. For those involved in the day to day management of PDSSP (the PSU) there is a surprising awareness of the linkages between PDSSP and Paris objectives.

“Although assessment with respect to the Paris Declaration objectives has not been done and is more appropriate at Federal Government level, we would make the following observations:

- PDSSP implementation can have positive impact on broad-based ownership of the development agenda.
- PDSSP has a poverty focus and, therefore, provides for aligning external assistance behind country priorities and strategies like the PRSP and the attainment of the MDGs.
- Country and provincial systems are being used for the delivery of assistance; nothing extraneous has taken place.
- ADB and DFID are jointly funding PDSSP. They seem to be working in harmony though the TA issue took a long time to resolve.
- Monitoring of results was planned to begin in the 2nd year of the Programme (within a few months through specialist input).
- There is no institutionalized mechanism for assessing mutual accountability between the government and the donors.

41. At a political level GoPunjab clearly sees Paris objectives as relevant to their position. Leadership and ownership by the Province; the alignment of donor support behind Provincial policies; the use of Provincial systems for the delivery of assistance; and joint working and harmonisation with donors are all seen as major benefits and there is a positive view of 'Paris in the Punjab Province'. PDSSP and the other social sector programmes reviewed in this assessment have strengthened mutual understanding and mutual accountability. To date there has been little impact on monitoring and results based management though GoPunjab and focused on achieving their vision of improved services with the Province.

42. The Federal/Provincial relationship is a critical factor in making the connections between the impact of PDSSP, the devolution process overall and the Paris objectives at national level. The full set of DSSPs cover all four Provinces and the related DSP and other donor support continues to provide support nationally. The policy lead for devolution continues to be the NBR rather than any Federal Ministry. However the policy dialogue continues as part of the PDF discussions. Further harmonisation across the social sectors is taking place as donors appreciate the linkages between the devolution programme and other Federal and Provincial support. The major impact appears to be in providing both Government and donors with a practical example of Paris Principles rather than seeing them as theoretical objectives. This has enabled the discussions at Federal level to move beyond savings in transaction costs and the alignment of administrative systems towards a more comprehensive understanding including monitoring and managing for results which remain the underdeveloped areas.

43. PDSSP and the wider support for devolution is seen by Government and donors alike as part of the strategy to achieve the MDG targets. PDSSP is clearly more effective as a programme as a result of the ownership and leadership of GoPunjab. These and the other Paris objectives that are being given priority – alignment and harmonisation in particular – are contributing to this goal and ensuring more effective use of the aid. This is however a case of good practice developed over a number of years prior to the Paris Declaration affirming the Paris objectives rather than the Paris Principles being adopted. This may appear to be an academic chicken and egg argument but what is evident from PDSSP is that Government/Donor relationships develop over time and the process depends on confidence, openness and continued dialogue. The Paris Declaration spells out what is required but examples like PDSSP demonstrate the process that is required to reach these objectives.

7. Lessons Learned

44. The most significant lesson demonstrated by PDSSP is that Government ownership and leadership is the single Paris objective that is both necessary and sufficient to achieve improved aid effectiveness. Policy alignment depends on an effective policy dialogue led by Government and harmonisation can be counter productive if it is donor based harmonisation that does not engage effectively with Government. Punjab has had experience of this in the past and has learnt that it has to have clarity and direction itself if it is to ensure donors respond. When this happens the programme is more effective and there are wider benefits.

45. The other lesson related to the objectives is that monitoring and results based management are not always evident even where leadership, alignment, harmonisation and mutual accountability are present. Working well together around an agreed Government policy framework does not necessarily lead to improved aid effectiveness unless inputs are effectively managed and monitoring is focused on outputs and outcomes such that progress is evident and corrections are possible. PDSSP is still at the early stages of implementation and would benefit from more attention to results based management at all levels and to the development of a monitoring system that gives effective feedback at local and Provincial level as well as to Government and donors.

7.1 Punjab Devolved Social Services Programme (PDSSP)

46. The key lessons learnt from the design and implementation of PDSSP are:

- Provincial strategy and direction well articulated provide a sound basis for donor alignment and harmonisation. An assertive lead from Government can be the necessary first step in building new ways of relating.
- The use of budget support to strengthen policy led programming in an atmosphere of political turbulence makes it a relevant strategy even where other preconditions are absent. Punjab requested budget support in a non aid dependent context where it had seen the benefits of earlier project modalities. The fiscal benefits of an efficient tranche based system have been an advantage but the more significant benefit has been the reinforcement and consolidation of the devolution policy and the related sector reform policies by the donors.
- Alignment of donors and donor investments has been achieved despite institutional pressures within donor agencies. This is perhaps the most important institutional lesson. When donor rhetoric about government leadership is put into practice and in turn forces donors to change their own behaviour then ownership and alignment are really taking effect.

47. The remaining challenges for PDSSP are:

- Maintaining alignment within and between donors needs continued vigilance especially from Government. Institutional cultures and practices are still heavily informed by project management requirements. Aid effectiveness requires attention at operational levels and activity based monitoring as well as at the level of policy dialogue and higher order monitoring.
- Ensuring implementation achieves policy targets is the missing objective. Policy led aid and Government ownership sets the direction but progress in that direction is still the neglected aspect of much donor support.
- Tensions between vertical investments and holistic devolution remain. This is where Federal level policy dialogue needs to focus and care needs to be taken to avoid donor investments that are not congruent with the devolution process.

7.2 Aid effectiveness in Pakistan

48. The lessons from this example of aid effectiveness in Pakistan that may inform replication are:

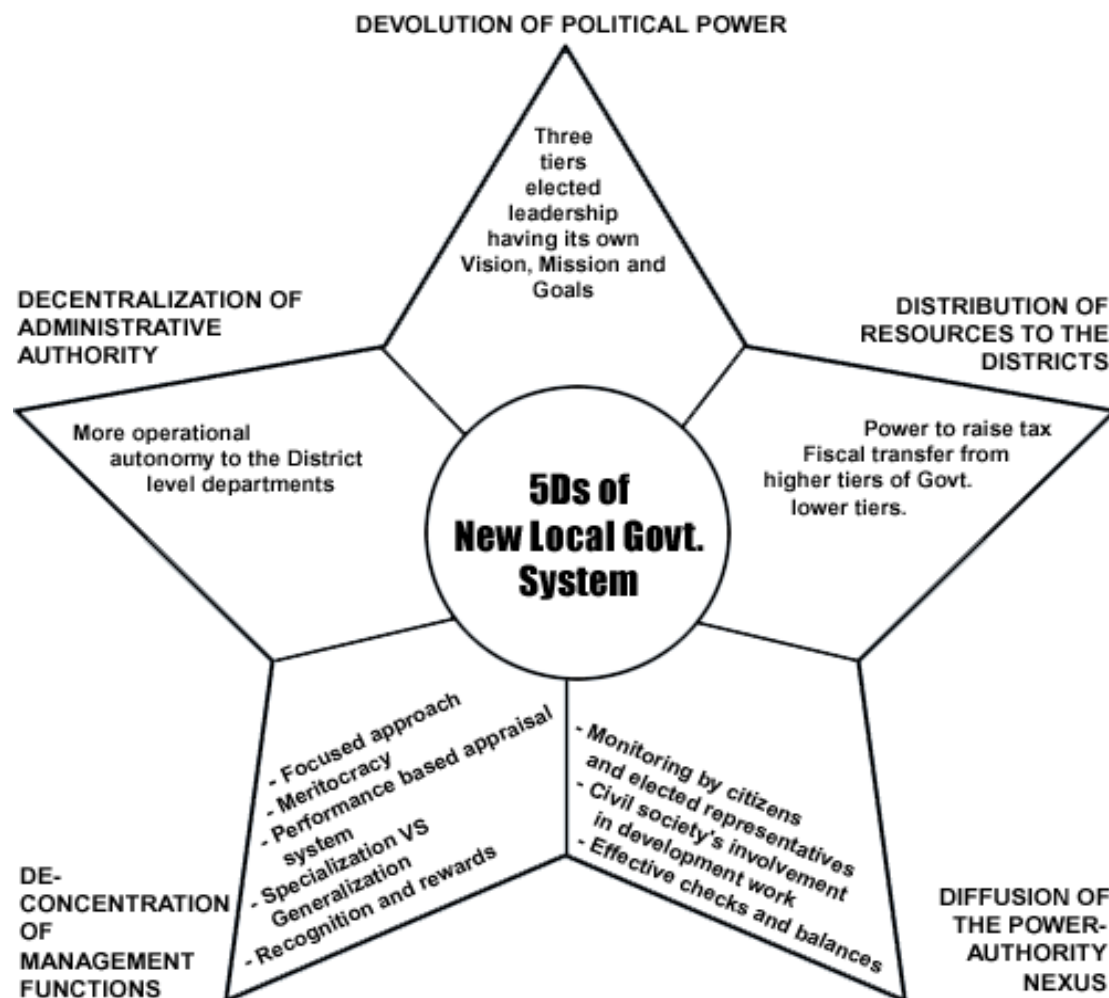
- Transaction costs should not be seen as a major benefit from implementing the Paris principles. Policy dialogue needs more attention if it is to be effectively owned and led by Government. Building and maintaining relationships that can ensure alignment and harmonisation are resource intensive. Time may be saved in managing fund flows and TA support and in the long term supervision and monitoring may reduce but this is not the main advantage – aid effectiveness does not equate to cheaply delivered aid.
- Trust and personal relationships are key to the process. PDSSP and the aid effectiveness discourse in Pakistan both depend on the contribution of individuals within Government and amongst the donors who bring the knowledge and understanding but in particular have been prepared to give the time to develop the relationships on which progress has been built.
- Moving to the next step.....The aid effectiveness debate must not stand still. Paris is but one step on a journey which has never been easy. PDSSP suggests that after policy based programming the next step is results based management.
- Paris Principles need to be reflected in the process – Government Leadership, Alignment, Harmonisation, Management by Results, mutual accountability – in relation to the emerging dialogue about aid effectiveness itself. If the principles are not part of the process then they will not be present in the outcome.

49. Evaluation of the Paris Declaration should be Government led and should be results based. Focusing on the processes of alignment and harmonisation is important for implementation of the objectives but not for evaluation. PDSSP suggests that the evaluation framework should take a long term view of change and be based on monitoring of policy based programming and results based management of programmes that focuses on outputs and outcomes. Process based evaluation has a contribution but aid effectiveness is ultimately about policy impact.

THE LOCAL GOVERNMENT SYSTEM IN PAKISTAN - 2001

The four Provincial Governments promulgated the Local Government Ordinance, 2001 to install a new integrated Local Government System with effect from 14th August 2001 to function within the provincial framework and adhere to the Federal and Provincial laws. The new system, which is illustrated by the 5Ds Local Government System 2001 in Figure 1, reorients the administrative system to allow public participation in decision-making. The essence of this system is that local government is accountable to citizens for all their decisions. It enables the proactive elements of society to participate in community work and development related activities. It has also removed the rural-urban divide.

Figure 1

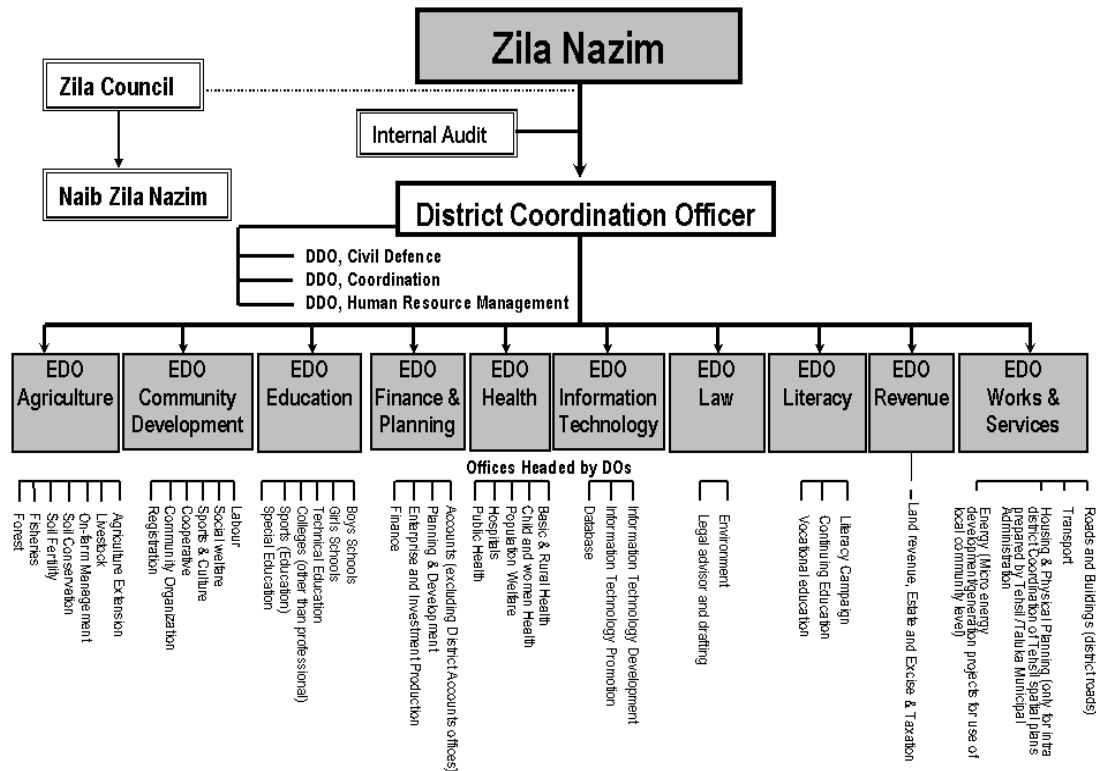


The new system provides a three-tier local government structure in which there is one line of authority in the district and the district bureaucracy is responsible to the elected representatives. More operational autonomy is ensured to the district level offices. Administrative and financial powers of the defunct divisional offices have been, by & large, delegated to the District level.

At the District level, there is a single integrated local government called District Government (See organogram in Figure 2). The district government consists of Zila Nazim and District Administration. The District Administration, which comprises

district offices including sub-offices at tehsil level. The Provincial Government departments decentralized to the District Government, are responsible to the Zila Nazim. The administration is now responsible to serve the people. Adequate checks and balances have been introduced in the System. The new System effectively addresses the specific needs and problems of large cities. In addition to declaration of four provincial headquarters as City Districts, the System has provisions to declare a city/tehsil as City District and Towns when it becomes urbanized and fulfills the criteria of a City District. Government of the Punjab has declared Rawalpindi, Multan, Gujranwala and Faisalabad as City Districts in June 2005.

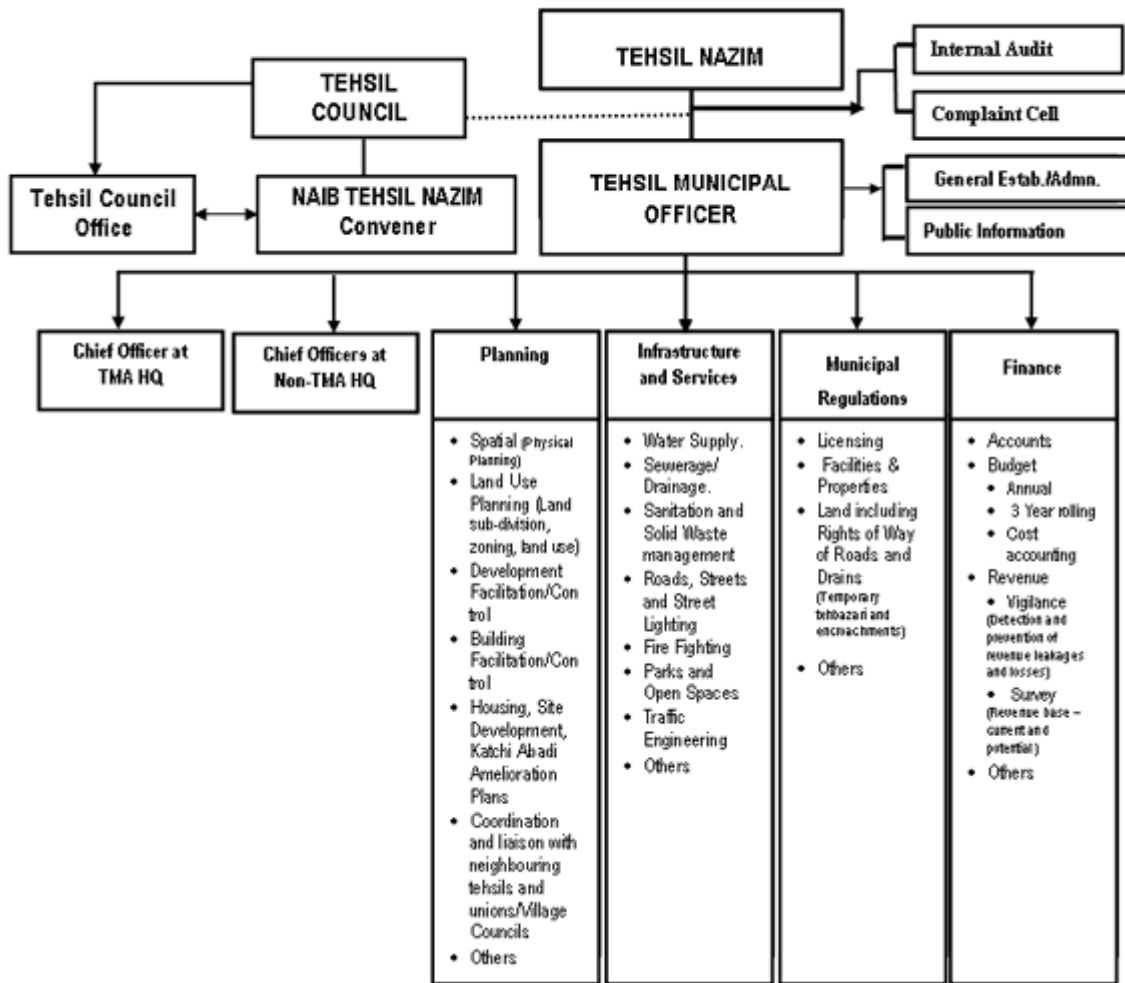
Figure 2



The middle tier, the Tehsil, has Tehsil Municipal Administration headed by the Tehsil Nazim. The Tehsil Municipal Administration includes the offices and sub-offices of the Urban Local Councils established under the repealed Local Government Ordinance 1979, offices and sub-offices of Local Government & Rural Development, Public Health Engineering and Housing & Physical Planning Departments of Provincial Government entrusted to it for administrative and financial management. The organizational structure of a Tehsil Municipal Administration is shown in Figure-3. In a City District, a Town Municipal Administration is organized more or less on the same pattern as Tehsil Municipal Administration in a common District.

Figure 3

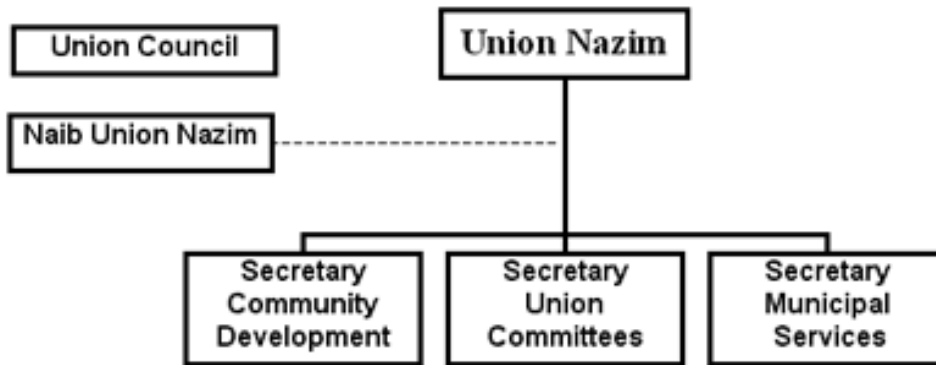
TEHSIL MUNICIPAL ADMINISTRATION ORGANIZATION



At the lower tier, the Union Administration, which is a body corporate, covers the rural as well as urban areas across the whole district. It consists of Union Nazim, Naib Union Nazim and three Union Secretaries and other ancillary staff (Figure 4).

Figure 4

UNION ADMINISTRATION



The coordination between the three tiers is ensured through the following arrangements:

The Zila Council in a common district or in a city district, apart from reserved seats for women, peasants & workers and minorities, consists of Union Nazims of all the unions in the district or the city district. Similarly the Tehsil/Town Council, apart from reserved seats for women, peasants & workers and minorities, consists of Naib Union Nazims of all the unions in the tehsil in a common district or in the town in a city district. This provides vertical linkages between the three tiers of the local governments i.e. the Union, Tehsil, and District. Union Nazim and Naib Union Nazim are elected as joint candidates to the Union Council, which consists of thirteen elected members against general and reserved seats including the Union Nazim and Naib Union Nazim.

The new Local Government System envisages formula-based fiscal transfers to the districts through Provincial Finance Awards. In addition, local governments are allowed to levy local taxes/fees from a specified list (Table-1). To promote trade and commerce in the country there will be no import/export tax or tax on movement of goods through a district. According to the new Local Government System, local governments are not allowed to incur any debt to finance their expenditures.

Table 1: LOCAL TAXES/FEEES

I. Zila Council

- (1) Education tax
- (2) Health tax
- (3) Any other tax authorized by Government.
- (4) Local rate on lands assessable to land revenue.
- (5) Fees: educational and health facilities established or maintained by the District Government.
- (6) Fees for licenses or permits and penalties or fines for violations.
- (7) Fees for specific services rendered by a District Government.
- (8) Collection charges for recovery of tax on behalf of the Government, Tehsil Municipal Administrations and Union Administrations as prescribed.
- (9) Toll on roads, bridges, ferries maintained by the District Government.
- (10) Rent for land, buildings, equipment, machinery and vehicles.
- (11) Fee for major industrial exhibitions and other public events organized by the District Government.

II. Zila Council in City District.

- (1) Education tax.
- (2) Health tax
- (3) Any other tax authorized by Government.
- (4) Local rate on lands assessable to land revenue.

- (5) Fees: educational and health facilities established or maintained by the City District Government.
- (6) Fees for licenses or permits and penalties or fines for violations.
- (7) Fees for specific services rendered by City District Government.
- (8) Toll on roads, bridges, ferries maintained by the City District Government.
- (9) Rent for land, buildings, equipment, machinery and vehicles.
- (10) Fee for major industrial exhibitions and other public events organized by the City District Government.
- (11) Fee on advertisement.
- (12) Collection charges for recovery of any tax on behalf of the Government, Town Municipal Administration, Union Administration or any statutory authority as prescribed.
- (13) Fee for approval of building plans, erection and re-erection of buildings.
- (14) Charges for execution and maintenance of works of public utility like lighting of public places, drainage, conservancy and water supply operated and maintained by City District Government.

III. Tehsil Council.

- (1) Local tax on services as prescribed.
- (2) Fee on sale of animals in cattle markets.
- (3) Market fees.
- (4) Tax on the transfer of immovable property.
- (5) Property tax rate as specified in section 117.
- (6) Fee on advertisement other than on radio, television and bill boards.
- (7) Fee for fairs, agricultural shows, cattle fairs, industrial exhibition, tournaments and other public events.
- (8) Fee for approval of building plans and erection and re-erection of buildings.
- (9) Fee for licenses or permits and penalties or fines for violations.
- (10) Charges for development, betterment, improvement and maintenance of works of public utility like lighting of public places, drainage, conservancy, and water supply by Tehsil Municipal Administration.
- (11) Fee on cinemas, drama and theatrical shows, and tickets thereof, and other entertainments.
- (12) Collection charges for recovery of any tax on behalf of the Government, District Government, Union Administration or any statutory authority as prescribed.
- (13) Rent for land, buildings, equipment, machinery and vehicles.
- (14) Fee for specific services rendered by a Tehsil Municipal Administration.
- (15) Tax on vehicles other than motor vehicles registered in the tehsil.

IV. Town Council.

- (1) Local tax on services as prescribed.
- (2) Fees on sale of animals in cattle markets.
- (3) Market fees.
- (4) Tax on transfer of immovable property.
- (5) Fees for fairs, agricultural shows, cattle fairs, tournaments, industrial exhibitions and other public events organized by the Town Municipal Administration.
- (6) Fees for licenses or permits and penalties or fines for violations.
- (7) Collection charges for recovery of any tax on behalf of the Government, City District Government, Union Administration or any statutory authority as prescribed.
- (8) Fees on cinemas, drama and theatrical shows, and tickets thereof, and other entertainments.
- (9) Rent for land, buildings, equipment, machinery and vehicles.
- (10) Fees for specific services rendered by a Town Municipal Administration.
- (11) Property tax rate as specified in section 117.
- (12) Tax on vehicles other than motor vehicles registered in the town.
- (13) Fee for approval of building plans, erection and re-erection of buildings with the approval of the City District Government.

V. Union Council

- (1) Fees for licensing of professions and vocations as prescribed.

- (2) Fees for registration and certification of birth, marriages and deaths.
- (3) Charges for specific services rendered by the Union Council.
- (4) Rate for remuneration of Village and Neighbourhood guards.
- (5) Rate for the execution or maintenance of any work of public utility like lighting of public places, drainage, conservancy and water supply operated by Union Administration.
- (6) Rent for land, buildings, equipment, machinery and vehicles.
- (7) Collection charges for recovery of any tax on behalf of the Government, District Government, Tehsil Administration or any statutory authority as prescribed.

PUNJAB DEVOLVED SOCIAL SERVICES PROGRAMME (PDSSP) POLICY MATRIX

Policy Outcome 1: Realign inter-governmental relations to support devolved social services				
Policy Objectives	FIRST TRANCHE ACTIONS	Second Tranche Actions	Third Tranche Actions	Implementation Milestones
1.1 Five-year strategic plans for social sectors in line with P-PRSP to achieve MDGs	1.1 P&DD notifies guidelines on, <i>inter alia</i> , situation analysis, managerial and functional restructuring, and medium - term expenditure frameworks to facilitate PLDs in developing 5-year strategic plans 1.2. DGs and TMAs develop and the respective local councils approve sector plans	2.1 PLDs develop their 5year strategic plans in accordance with the P&DD guidelines and the ministers concerned present such plans for consideration of the Provincial Cabinet. 2.2 At least 75% of Districts and 50% of programme TMAs develop and the respective local councils approve comprehensive annual sector plans	3.1 Cabinet to approve 5year strategic plans developed by PLDs. 3.2 t least 75% of Districts and 50% of programme TMAs develop 3-year sector rolling plans consistent with five-year strategic plans and the respective local councils approve such plans	T1.1: Notified guidelines T1.2: Approved sector plans T2.1: Draft strategic plans and minutes of cabinet meeting T2.2: Approved annual sector plans T3.1: Final 5-year strategic plans and decision of Cabinet T3.2: Approved 3year rolling plans
1.2 Implement devolved administrative and financial powers in line with PLGO.	LG&RD develops a compendium of existing laws, rules, regulations, notifications, directives and orders relating to devolved administrative and financial powers.	2.1 LG&RD maps the implementation of the devolved administrative and financial powers in the social sectors to identify gaps and develops a time bound action plan to achieve full implementation. 2.2 HUD&PHED devolves administrative and technical sanctioning powers to % of TMAs	3.1 PG approves time bound action plan and PLDs, S&GAD and Finance Department implement the same. 3.2 HUD&PHED devolves administrative and technical sanctioning powers to % of TMAs.	T1: Copy of compendium T2.1: Copy of proposed action plan T2.2: HUD&PHED notifications T3.1: Copy of approved action plan T3.2: HUD&PHED notifications

1.3 Use of the conditional grants to articulate and implement provincial policies, priorities and institutional arrangements for the devolved social services.	1.1 The PFC approves and announces the conditional grant, including distribution formula, institutional arrangements and the accountability mechanism for programme funds to be transferred to DGs and programme TMAs. 1.2 PG enters into MOUs, acceptable to ADB, with DGs and Programme TMAs to access programme funds	2.1 PFC reviews implementation of conditional grant for programme funds, and approves and announces PFC Award, introducing a conditional grant system for devolved social services. 2.2 PG enters into MOUs, acceptable to ADB, with DGs and Programme TMAs to access programme funds.	3.1 PFC approves and announces PFC Award, and continues with conditional grant system for devolved social services. 3.2 PG enters into MOUs, acceptable to ADB, with DGs and Programme TMAs to access programme funds	T1.1: PFC supplementary grant T1.2 Signed MOUs T2.1: PFC Award T2.2 Signed MOUs T3.1: PFC Award T3.2 Signed MOUs
Policy Outcome 2: Rationalize and set minimum standards for social services				
Policy Objectives	First Tranche Actions	Second Tranche Actions	Third Tranche Actions	Implementation Milestones
2.1 PLDs set pro-poor and gender sensitive minimum service package and standards, guide, and monitor DGs and programme TMAs in rationalizing social sector services.	Each PLD consolidates and produces a compendium of existing service package and standards	HUD, PHED & DoH, in consultation with DGs & Programme TMAs, analyze existing technical & service standards, identify the lack of standards & implementation gaps & develop new agreed technical & service standards.	HUD&PHED, DoH, DGs and programme TMAs commence implementation of technical and service standards	T1: Compendium T2: Approved technical and service standards. T3: LG&RD confirmation
2.2 Rationalization of staff in PLDs and strengthening of employer functions of DGs and TMA level.	S&GAD notifies guidelines to facilitate dgs and the programme tmas to fill essential vacant positions, preferably females, on contractual and facility specific basis	DGs and the programme TMAs fill 50% of essential vacant positions in accordance with S&GAD guidelines.	DGs & programme TMAs fill half of the remaining essential vacant positions in accordance with S&GAD guidelines and LGC reports on transparency of the recruitment process	T1: Notified guidelines T2: Status reports. T3: Status reports and LGC report.

Policy Outcome 3: Strengthen public accountability mechanisms and promote public private partnership				
Policy Objective	First Tranche Actions	Second Tranche Actions	Third Tranche Actions	Implementation Milestones
3.1 Strengthened social sector monitoring systems and enhanced public disclosure on social services delivery	1.1 Each PLD, in consultation with DGs & TMAs, develops & P&DD approves a monitoring framework with linkages between sub-systems; identifying operational efficiencies; advising on collection, reporting & use of gender disaggregated data; & mechanisms for increased public access to information. 1.2 PG implements a BCC campaign informing citizens about reasons for poor social indicators with reference to MDGs, & programme contribution towards progress on MDGs	2.1 Each PLO develops, in consultation with DGs & programme TMAs, & PG approves a costed monitoring strategy. 2.2 PG continues to implement its behaviour change communication campaign	3.1 PLDs, DGs & programme TMAs implement the monitoring strategies 3.2 PG continues to implement its behaviour change communication campaign	T1.1: Approved Frameworks T1.2: P&DD confirmation T2.1: Approved monitoring strategy T2.2: P&DD confirmation T3.1: P&DD report T3.2: P&DD confirmation
3.2 Effective functioning of Local Council monitoring committees	LG&RD develops & disseminates draft byelaws for Local Council monitoring committees	Local Councils approve the byelaws & monitoring committees observe the byelaws	LGC reports on the effective functioning of the monitoring committees	T1: Draft by-laws T2: Approved byelaws T3: LGC report
3.3 Promotion of public/private partnerships focusing on innovative alternative service delivery & public accountability mechanisms	P&DD prepares a white paper on PPPs	Cabinet approves & PG announces policy on PPPs	PLDs, DGs & programme TMAs implement policy on PPPs	T1: White paper T2: Approved policy T3: P&DD & LGC progress report

PEOPLE MET AID EFFECTIVENESS MISSION PAKISTAN - PDSSP

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Yusuf Samiullah	Head of office	DFID Pakistan
Richard Martini	Deputy head of Office	DFID Pakistan
David Johnson	Senior Governance Adviser	DFID Pakistan
Jane Edmondson	Health Adviser	DFID Pakistan
Wajahat Anwar	Deputy Programme Manager	DFID Pakistan
Tahseen Sayeed	Lead Education Specialist	World Bank Pakistan
Inaam ul Haq	Senior Health Specialist	World Bank Pakistan
Hannid Mukhtar	Senior Economist	World Bank Pakistan
Peter Fedon	Country Director	ADB Pakistan
Safdar Parvez	Officer in Charge Country Policy Operations Unit	ADB Pakistan Resident Mission
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Farrukh Moriani,	DSSP Coordination Team Leader	ADB Pakistan Resident Mission
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Yukihiro Shiroishi	Health Specialist	ADB Manila
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Eriko Murata	Economics Adviser	Embassy of Japan
Ubaid Rubbani Qureshi	Joint Secretary	Economic Affairs Department Govt of Pakistan
Najma Siddiqui	Joint Secretary	EAD Govt of Pakistan
Abdur Rauf Khan	Deputy Secretary	EAD Govt of Pakistan
Imran Habib Ahmad	Director Donor Coordination Cell	EAD Govt of Pakistan
Suleman Ghani	Chairman P&D	GoPunjab
Sohail Ahmad	Secretary	GoPunjab
Hassan Nasir Jamy	Project Director PSU PDSSP	GoPunjab
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Fauzia Yazdani	Programme Officer	Royal Norwegian Embassy
John Moore	First Secretary	CIDA
Jonathan Addleton	Mission Director	USAID

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Decentralisation Support Program: <http://www.decentralization.org.pk/>

DFID Pakistan Country Profile: <http://www.dfid.gov.uk/countries/asia/pakistan.asp>

Government of Punjab Official Website: <http://www.punjab.gov.pk>

National Reconstruction Bureau Government of Pakistan Official Website: <http://www.nrb.gov.pk/>

Pakistan Development Gateway Website: <http://pdg.org.pk/national/Governance.asp>

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The United Nations in Pakistan: <http://www.un.org.pk/>

USAID Pakistan: <http://www.usaid.gov/pk/>

World Bank Pakistan Country Brief: <http://web.worldbank.org/wbsite/external/countries/southasia>