



# Completion Report

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Project Number: 34328  
Loan Number: 1935, 1936, 1937, 1938  
December 2009

## Pakistan: Decentralization Support Program

## CURRENCY EQUIVALENTS

Currency Unit – Pakistan rupee (Pre/PRs)

		<b>At Appraisal</b>	<b>At Program Completion</b>
		21 October 2002	7 July 2009
PRe1.00	=	\$0.0166	\$0.01227
\$1.00	=	PRs60.15	PRs81.52

## ABBREVIATIONS

ADB	–	Asian Development Bank
ADF	–	Asian Development Fund
AGP	–	Auditor General of Pakistan
APR	–	annual performance review
BLGO	–	Balochistan Local Government Ordinance
CGA	–	Controller General of Accounts
CIET	–	Centro Investigacion de Enfermedades Tropicales
DFID	–	Department for International Development, United Kingdom
DSP	–	Decentralization Support Program
GGM	–	Gender and Governance Mainstreaming
GRAP	–	Gender Reform Action Plan
GST	–	general sales tax
IA	–	implementation agency
LGC	–	Local Government Commission
LGO	–	Local Government Ordinance
LGPE	–	Local Government Performance Enhancement
MOF	–	Ministry of Finance
NFC	–	National Finance Commission
NRB	–	National Reconstruction Bureau
NPSC	–	National Program Steering Committee
NPSO	–	national program support office
NWFP	–	North West Frontier Province
OCR	–	ordinary capital resources
PAG	–	Pakistan Auditor General
PFC	–	Provincial Finance Council
PIFRA	–	Project on Improvement on Financial Reporting and Auditing
PPSO	–	provincial program support office
PSO	–	program support office
PPP	–	public–private participation
RRP	–	report and recommendation of the president
SWM	–	solid waste management
TA	–	technical assistance
TMA	–	tehsil municipal administration

## NOTES

- (i) The fiscal year (FY) of the Government of Pakistan and the provincial governments ends on 30 June. FY before a calendar year denotes the year in which the fiscal year ends, e.g., FY 2007 ends on 30 June 2007.
- (ii) In this report, "\$" refers to US dollars.

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## BASIC DATA

### A. Loan Identification

1.	Country	Pakistan
2.	Loan Numbers	1935-PAK, 1936-PAK, 1937-PAK, 1938-PAK
3.	Program Titles	Decentralization Support Program (DSP); Local Government Performance Enhancement (LGPE); Gender and Governance Mainstreaming (GGM)
4.	Borrower	Islamic Republic of Pakistan
5.	Executing Agency	Ministry of Finance
6.	Amount of Loans	¥24,564,125,000 (\$205,000,000) SDR49,107,000 (\$65,000,000) SDR17,376,000 SDR 5,288,000
7.	Program Completion Report Number	1146

### B. Loan Data

1.	Appraisal	
	–Date Started	05 August 2002
	–Date Completed	16 August 2002
2.	Loan Negotiations	
	–Date Started	20 September 2002
	–Date Completed	23 September 2002
3.	Date of Board Approval	21 November 2002
4.	Date of Loan Agreement	23 January 2003
5.	Date of Loan Effectiveness	
	–In Loan Agreement	
	• DSP–OCR and SF	23 April 2003
	• LGPE	23 April 2003
	• GGM	23 April 2003
	–Actual	
	• DSP–OCR and SF	24 September 2003
	• LGPE	24 September 2003
	• GGM	18 August 2005
	–Number of Extensions	
	• DSP–OCR and SF	0
	• LGPE	0
	• GGM	2
6.	Closing Date	
	–In Loan Agreement	
	• DSP–OCR and SF	30 June 2006
	• LGPE	30 June 2007
	• GGM	30 June 2007
	–Actual	
	• DSP–OCR and SF	30 June 2006
	• LGPE	1 June 2009
	• GGM	7 July 2009

– Number of Extensions		
• DSP–OCR and SF		0
• LGPE		1
• GGM		0
7. Terms of Loan		
–Interest Rate		
• DSP		
- OCR		London interbank offered rate-based
- SF		Fixed
• LGPE		Fixed
• GGM		Fixed
–Maturity (number of years)		
• DSP		
- OCR		15
- SF		24
• LGPE		32
• GGM		32
–Grace Period (number of years)		
• DSP		
- OCR		3
- SF		8
• LGPE		8
• GGM		8

8. Disbursements  
a. Dates

i. Loan 1935 (OCR): DSP		
<b>Initial Disbursement</b>	<b>Final Disbursement</b>	<b>Time Interval</b>
24 September 2003	22 December 2004	15 months
<b>Effective Date</b>	<b>Original Closing Date</b>	<b>Time Interval</b>
24 September 2003	30 June 2006	33 months
ii. Loan 1936 (SF): DSP		
<b>Initial Disbursement</b>	<b>Final Disbursement</b>	<b>Time Interval</b>
30 September 2003	23 December 2005	27 months
<b>Effective Date</b>	<b>Original Closing Date</b>	<b>Time Interval</b>
24 September 2003	30 June 2006	33 months
iii. Loan 1937: LGPE		
<b>Initial Disbursement</b>	<b>Final Disbursement</b>	<b>Time Interval</b>
17 February 2004	1 June 2009	63.5 months
<b>Effective Date</b>	<b>Original Closing Date</b>	<b>Time Interval</b>
24 September 2003	30 June 2006	33 months



## iv. Loan 1938: GGM

<b>Initial Disbursement</b>	<b>Final Disbursement</b>	<b>Time Interval</b>
1 August 2006	7 July 2009	35 months
<b>Effective Date</b>	<b>Original Closing Date</b>	<b>Time Interval</b>
18 August 2005	30 June 2007	19.5 months

## b. Amount

## i. Loan 1935 (OCR): DSP - Yen (¥)

<b>Category</b>	<b>Original Allocation</b>	<b>Amount Cancelled</b>	<b>Net Amount Available</b>	<b>Amount Disbursed</b>	<b>Undisbursed Balance</b>
1	¥24,318,483,750 <sup>a</sup>	-	-	¥24,318,483,750	-
2	245,641,250 <sup>b</sup>	-	-	245,641,250	-
<b>Total</b>	<b>¥24,564,125,000</b>	-	-	<b>¥24,564,125,000</b>	-

<sup>a</sup> Released in two tranches—\$221,182,860.<sup>b</sup> Front-end fee - \$2,096,005.

## ii. Loan 1936 (SF): DSP - SDR

<b>Category</b>	<b>Original Allocation</b>	<b>Emergency Assistance<sup>a</sup></b>	<b>Net Amount Available<sup>b</sup></b>	<b>Amount Disbursed</b>	<b>Undisbursed Balance</b>
1	49,107,000	58,898,720	108,005,720	108,005,720	-

<sup>a</sup> This loan was used as a channel for emergency rehabilitation and reconstruction of earthquake-affected areas in Pakistan.<sup>b</sup> Released in three tranches equivalent to \$156,992.740.

## iii. Loan 1937 (SF): LGPE (SDR)

<b>Category</b>	<b>Original Allocation</b>	<b>Amount Cancelled</b>	<b>Net Amount Available</b>	<b>Amount Disbursed</b>	<b>Undisbursed Balance<sup>a</sup></b>
Consulting Services	8,310,000	6,632,518	1,677,482	1,677,482	-
Training and workshop	1,889,000	664,430	1,224,570	1,224,570	-
Public Awareness/Social Audit	3,777,000	3,696,273	80,727	80,727	-
Equipment	1,889,000	1,790,297	98,703	98,703	-
Interest Charge	453,000	380,290	72,710	72,710	-
Unallocated	1,058,000	1,058,000	0	0	-
<b>Total</b>	<b>17,376,000</b>	<b>14,221,808</b>	<b>3,154,192</b>	<b>3,154,192</b>	-

<sup>a</sup> All undisbursed balances had been cancelled.

iv. Loan 1938 (SF): GGM (SDR)					
Category	Original Allocation	Amount Cancelled	Net Amount Available	Amount Disbursed	Undisbursed Balance <sup>a</sup>
Consulting Services	907,000	828,966	78,034	78,034	-
Training and Workshop	378,000	377,099	901	901	-
Public Awareness Campaigns	151,000	150,625	375	375	-
Research and Education	75,000	75,000	0	0	-
Equipment	1,662,000	1,662,000	0	0	-
Support and Administration	75,000	75,000	0	0	-
Cost					
Interest Charge	53,000	50,021	2,979	2,979	-
Unallocated	476,000	476,000	0	0	-
Contingency	1,511,000	1,511,000	0	0	-
<b>Total</b>	<b>5,288,000</b>	<b>5,205,711</b>	<b>82,289</b>	<b>82,289</b>	<b>-</b>

<sup>a</sup> All undisbursed balances had been cancelled.

9.	Local Costs (Financed)	
a.	Loan 1937 (SF):LGPE	
	– Amount (US Dollars)	\$ 4.41
	– Percent of Local Costs	57.72
	– Percent of Total Cost	55.47
b.	Loan 1938 (SF): GGM	
	– Amount (US Dollars)	\$ 0.087
	– Percent of Local Costs	14.05
	– Percent of Total Cost	13.96

**C. Program Data**

## 1. Program Cost (\$)

<b>Cost</b>	<b>Appraisal Estimate</b>	<b>Actual</b>
Loan 1935 (OCR): DSP <sup>a</sup>		
Foreign Exchange Cost	205,000,000	223,278,865
Local Currency Cost	0	0
<b>Total</b>	<b>205,000,000</b>	<b>223,278,865</b>
Loan 1936 (SF): DSP <sup>b</sup>		
Foreign Exchange Cost	65,000,000	156,992,740
Local Currency Cost	0	0
<b>Total</b>	<b>65,000,000</b>	<b>156,992,740</b>
Loan 1937 (SF):LGPE		
Foreign Exchange Cost	6,000,000	307,333
Local Currency Cost	21,500,000	7,639,672
<b>Total</b>	<b>27,500,000</b>	<b>7,947,005</b>
Loan 1938 (SF): GGM		
Foreign Exchange Cost	2,900,000	4,531
Local Currency Cost	6,100,000	618,505
<b>Total</b>	<b>9,000,000</b>	<b>623,036</b>

<sup>a</sup> Total amount disbursed was \$223,278,864, which is the total tranche amount of \$221,182,860 and a front-end fee of \$2,096,005 (1% of loan amount).

<sup>b</sup> DSP (SF); the emergency assistance up to \$105 million was approved by the Board on 14 November 2005 for the emergency rehabilitation and reconstruction of the earthquake-affected areas in Pakistan.

## 2. Financing Plan (\$)

<b>Cost</b>	<b>Appraisal Estimate</b>	<b>Actual</b>
Loan 1935 (OCR) - DSP		
Implementation Costs		
Borrower Financed	0	0
ADB Financed	205,000,000	223,278,865
Other External Financing	0	0
<b>Total</b>	<b>205,000,000</b>	<b>223,278,865</b>
Loan 1936 (SF) - DSP		
Implementation Costs		
Borrower Financed	0	0
ADB Financed	65,000,000	156,992,740
Other External Financing	0	0
<b>Total</b>	<b>65,000,000</b>	<b>156,992,740</b>
Loan 1937 (SF) - LGPE		
Implementation Costs		
Borrower Financed	4,500,000	3,230,000
ADB Financed	21,600,000	4,717,005
Other External Financing	0	0
<b>Total</b>	<b>26,100,000</b>	<b>7,947,005</b>
IDC Costs		
Borrower Financed	0	0
ADB Financed	1,400,000	111,967
Other External Financing	0	0
<b>Total</b>		
Loan 1938 (SF) - GGM		
Implementation Costs		
Borrower Financed	2,000,000	532,000
ADB Financed	7,000,000	91,036

<b>Cost</b>	<b>Appraisal Estimate</b>	<b>Actual</b>
Other External Financing	0	0
<b>Total</b>	<b>9,000,000</b>	<b>623,036</b>
<b>IDC Costs</b>		
Borrower Financed	0	0
ADB Financed	82,388	4,530
Other External Financing	0	0

### 3. Cost Breakdown by Project Component (\$)

<b>Component</b>	<b>Appraisal Estimate</b>	<b>Actual</b>
DSP <sup>a</sup>		
LGPE		
Consulting Services	11.0	2.50
Training and Workshop	2.5	1.83
Public Awareness/Social Audit	5.0	0.12
Equipment	5.0	0.47
Counterpart Staff and Office	2.0	2.91
Interest Charge	0.6	0.11
Unallocated	1.4	0.00
GGM		
Consulting Services	1.2	0.085
Training and Workshop	0.5	0.001
Public Awareness Campaigns	0.2	0.001
Research and Education	0.1	0.000
Equipment	2.7	0.204
Support and Administration Cost	0.1	0.000
Counterpart Staff and Office	1.5	0.328
Contingency	2.0	0.000
Interest Charge	0.0	0.004
Unallocated	0.7	0.000

<sup>a</sup> No cost breakdown by program component.

### 4. Project Schedule

<b>Item</b>	<b>Appraisal Estimate</b>	<b>Actual</b>
<b>DSP<sup>a</sup></b>		
<b>LGPE</b> (See Table 1 for list of contracts)		
Date of contract with Consultants	24 March 2003 <sup>b</sup>	19 February 2002
Last date of contract with Consultants		19 December 2007
<b>GGM</b>		
Date of Contract with Consultants	24 March 2003 <sup>b</sup>	
1. Tehmina Rohi		14 February 2007
2. UM E ZIA		17 March 2007
3. Sofia Noreen		19 May 2007

<sup>a</sup> No program schedule.

<sup>b</sup> Based on original loan effectiveness date, as the RRP has no procurement plan.

**Table 1: List of Contracts Awarded for Loan 1937-PAK<sup>a</sup>**

	<b>Actual</b>
Pro Plan Associates Private Limited	19 February 2002
All Associates Chartered Accountants	19 June 2004
Resource Monitoring and Development Group	13 August 2004
Avaiz Hyder NAUMAN Rizwani Chartered Accountants	24 August 2004
Avaiz Hyder NAUMAN Rizwani Chartered Accountants.027	24 August 2004
Socio Engineering Consultants	7 September 2004
Socio Engineering Consultants	7 September 2004
Applied Excellence (PVT) Limited	9 September 2004
Applied Excellence (PVT) Limited	9 September 2004
Avais Hyder Nauman Rizwani Chartered	11 September 2004
Avais Hyder Nauman Rizwani (Chartered Accountants)	11 September 2004
M/S Fincon	1 October 2004
Avaiz Hyder Nauman Rizwani (AHNR) Chartered Accountants	1 October 2004
Ahman C Consulting Services (PVT) LTD.	1 October 2004
Institute of Management Sciences	17 January 2005
Pakistan Academy for Rural Dev.	28 January 2005
Saeed Methani Mushtaq & Co Chartered Accountants	2 February 2005
MS Semioitics Consultants PVT. Ltd	3 February 2005
W. Wien and Associates	25 February 2005
W. Wien and Associates	28 March 2005
A. F. Ferguson & Co.	18 April 2005
Avaiz Hyder Nauman Rizwanin Chartered Accountants	20 April 2005
M/S Jurisconsults	20 April 2005
Khalid Majid Rehman (PVT) Limited	21 April 2005
W. Wien and Associates	4 May 2005
Anjum Asim Shahid Rehman (Chartered Accountants)	5 May 2005
M/S Jurisconsults	7 May 2005
En Em and Associates	16 May 2005
Ijaz Tabasum & Co.	18 May 2005
Farukh Khan	24 May 2005
M/S. A.F. Ferguson & Co.	30 May 2005
M/S Applied Excellence (PVT) Limited	31 May 2005
Aurat Foundation	23 June 2005
A. F. Ferguson & Co.	23 June 2005
Avais Hyder Nauman Rizwani (Chartered Accountants)	7 July 2005
M/S Gidrodhia Institute of Social Development	13 July 2005
MS Semioitics Consultants PVT. Ltd.	18 August 2005
M/S Consumer Rights Commission of Pakistan	17 August 2005
Mr. Alki Hadi	22 February 06
Muhammad Khalid Khan	23 December 06
Asmatullah Khan Niazi	19 December 07
Anik Ur rehman	19 December 07

<sup>a</sup> There are about 300 contracts. Only \$20,000 and above were included in this table.

## 5. Program Performance Report Ratings

## i. Loan 1935 (OCR) and Loan 1936 (SF) - DSP

Implementation Period	Ratings	
	Development Objectives	Implementation Progress
30 November 2002 – 30 June 2003	Satisfactory	Satisfactory
31 July 2003–31 August 2003	Satisfactory	Unsatisfactory
30 September 2003–31 December 2006	Satisfactory	Satisfactory

## ii. Loan 1937 (SF) - LGPE

Implementation Period	Ratings	
	Development Objectives	Implementation Progress
30 November 2002–30 June 2003	Satisfactory	Satisfactory
31 July 2003–31 August 2003	Satisfactory	Unsatisfactory
30 September 2003–31 December 2005	Satisfactory	Satisfactory
31 January 2006–28 February 2006	Satisfactory	Unsatisfactory
31 March 2006–31 December 2008	Satisfactory	Satisfactory
31 January 2009–30 June 2009	Satisfactory	Unsatisfactory

## iii. Loan 1938 (SF) - GGM

Implementation Period	Ratings	
	Development Objectives	Implementation Progress
30 November 2002–30 June 2003	Satisfactory	Satisfactory
31 July 2003–31 July 2005	Satisfactory	Unsatisfactory
31 August 2005–30 September 2008	Satisfactory	Satisfactory
31 October 2008–30 June 2009	Satisfactory	Unsatisfactory

## D. Data on Asian Development Bank Missions

Name of Mission	Date	No. of Persons	No. of Person-Days	Specialization of Members <sup>a</sup>
Fact-Finding	6–24 May 2002	3	19	a,g,h
Pre-Appraisal	13–25 August 2002	5	13	a,c,g,h
Review Mission	21 April–8 May 2003	2	18	a
Consultation Mission	23–30 April 2004	1	4	a
Review Mission	10–23 June 2004	3	14	a,b
Review Mission	16–27 August 2004	3	12	a,f
Review Mission	1–6 November 2004	6	1	a
Review Mission	28 June–5 July 2005	5	8	a,f,g
Review Mission	9–17 May 2006	2	9	a,f
Review Mission	15–26 January 2007	3	12	a,f,h
Program Completion Review <sup>b</sup>	1 July 2007– 15 September 2007	1		f

<sup>a</sup> a = project officer, b = project analyst, c = senior counsel, d = financial analyst, e = social development specialist, f = Pakistan Resident Mission staff, g = Office of Cofinancing staff, h = consultant.

<sup>b</sup> The Project Completion Review Mission was conducted on intermittent basis for Loans 1935 and 1936 only.

## I. PROGRAM DESCRIPTION

1. On 21 November 2002, the Asian Development Bank (ADB) approved the Decentralization Support Program (DSP).<sup>1</sup> The DSP included (i) a program loan of \$205 million from ADB's ordinary capital resources (Loan 1935-PAK), (ii) a program loan equivalent to \$65 million from ADB's Special Funds resources (Loan 1936-PAK), (iii) a technical assistance (TA) loan of \$23 million equivalent to strengthen local government performance, and (iv) a second TA loan (TA Loan 1938-PAK) for the equivalent of \$7 million for gender and governance mainstreaming.<sup>2</sup> Both TA loans were financed from ADB's Special Fund.

2. The DSP was intended to support the poverty reduction strategy of the Government of Pakistan through decentralization, gender, and social development reforms.<sup>3</sup> By supporting the implementation of procedures and fiscal arrangements that would help local governments to better mobilize and manage services, the program aimed to improve public access to higher quality, sustainable public services. Each program loan covered a four-year period from December 2002, with two tranches to be released upon completion of specific policy actions.<sup>4</sup> The Ministry of Finance (MOF) was the executing agency for both the program and TA loans. Implementing agencies included provincial governments and, at the federal level, the Pakistan Auditor General (PAG), the Controller General of Accounts (CGA), the National Reconstruction Bureau (NRB), and the Ministry of Women's Development, Social Welfare, and Special Education. The program loan's planned closing date was June 2006.

3. The local government performance enhancement TA aimed to help the federal and provincial implementing agencies carry out the reforms supported by the program, particularly in strengthening capacity in 11 thematic areas. It was structured in four phases to provide maximum flexibility in responding to provincial and local circumstances during program implementation.<sup>5</sup> The second TA supported the implementation of federal and provincial Gender Reform Action Plans (GRAPs).

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<sup>1</sup> ADB. 2002. *Report and Recommendation of the President to the Board of Directors: Proposed Program and Technical Assistance Loans to the Islamic Republic of Pakistan for the Decentralization Support Program (Loan 1935/1936-PAK)*. Manila.

<sup>2</sup> Program loan 1935-PAK of \$205 million from ADB's ordinary capital resources (OCR) was for 15 years, inclusive of a 3-year grace period, with a commitment charge of 0.75% per annum and a front end fee of 1% of the loan amount. Program loan 1936-PAK of \$65 million equivalent from ADB's Asian Development Fund (ADF) financing, for a 24-year period, inclusive of an 8-year grace period, with an interest rate of 1% during the grace period and 1.5% thereafter. The two TA loans, 1937-PAK and 1938-PAK, were for the equivalent of \$23 million and \$7 million, respectively, with maturities of 32 years, an 8-year grace period, and interest rates of 1% during the grace period and 1.5% thereafter. The Government's contribution for TA 1937-PAK was \$4.109 million and for TA 1938-PAK \$150,000.

<sup>3</sup> The broad agenda was laid out in the Interim Poverty Reduction Strategy Paper, discussed by the International Monetary Fund and World Bank boards in December 2001, and later affirmed in both the Poverty Reduction Strategy Paper (PRSP, 2004) and PRSP II (2008).

<sup>4</sup> The first tranche of the two program loans, totaling approximately \$120 million, was released upon loan effectiveness 24 September 2003, and TA loan 1937-PAK, Local Government Performance Enhancement, was made effective at the same time. TA loan 1938-PAK, Governance and Gender Mainstreaming, did not become effective until 18 August 2005.

<sup>5</sup> The thematic areas included (i) audit; (ii) accounts; (iii) communication, strategic monitoring, and social audit process; (iv) Balochistan medium-term policy making and resource management systems; (v) province training, capacity building, and mentoring arrangements; (vi) local government regulation and intergovernmental relations; (vii) intergovernmental fiscal transfers; (viii) performance budgeting and service delivery; (ix) political and institutional arrangements and administrative restructuring for improved local government performance; (x) public access, information, and internal audit and quality assurance; and (xi) public grievance, dispute resolution, internal administrative process, and functionality of the ombudsman.

4. The DSP's policy objectives were (i) effective federal support for decentralization and related reforms, (ii) effective and sustainable provincial–local intergovernmental relations, and (iii) equitable and accountable management of resources by local governments. These objectives would be achieved through reforms and related action in (i) policies, laws, and regulations; (ii) institutional strengthening and capacity building; and (iii) fiscal restructuring and budgetary measures

## II. EVALUATION OF DESIGN AND IMPLEMENTATION

### A. Relevance of Design and Formulation

5. The DSP design was *highly relevant* during processing and implementation. The DSP was consistent with ADB's Country Strategy and Program (2003-2005) and ADB's Poverty Reduction Strategy Agreement with the Government of Pakistan. It also conformed to the Interim Poverty Reduction Strategy Paper approved by the executive boards of World Bank and the International Monetary Fund and reflected the priority ADB and the Government attach to governance reforms that are critical to Pakistan's poverty reduction strategy.<sup>6</sup> Pakistan's social indicators had long lagged well behind those of comparable developing countries and had responded only minimally to real growth or increased spending. Public institutions for social services were clearly failing and one aspect of the DSP's poverty reduction reforms was the decentralization of administrative responsibility for the delivery of key social services away from the federal and provincial governments to a new structure of local governments.<sup>7</sup> To support these reforms, the DSP provided support for the costs of creating new locally elected governments with two program loans. It also provided TA for capacity building for public management and the mainstreaming of governance and gender issues into policy discussions. ADB's TA loans and its support for the Access to Justice Program<sup>8</sup> served to link the DSP with the commitments and related assistance of other aid agencies for governance reforms.<sup>9</sup>

6. The Government's request for ADB support to implement decentralization measures built on the framework of earlier TA in fiscal decentralization and gender reform.<sup>10</sup> The fiscal decentralization TA in 2001 helped define revenue, expenditure, and audit and accounts functions for local governments.<sup>11</sup> Pakistan's reform and decentralization program was formulated at the federal executive level, with limited consultation with subnational governments. The DSP's design took this into account, incorporating avenues to ensure extensive consultation with these subnational governments in implementing the technical assistance.

<sup>6</sup> ADB. 2002. *Country Strategy and Program (2003-2005): Pakistan*. Manila; ADB. 2001; *Medium-Term Strategy (2001-2005)*. Manila; ADB. 2001; *Moving Poverty Reduction Forward in Asia and the Pacific: The Long-Term Strategic Framework of the Asian Development Bank (2001-2015)*. Manila.

<sup>7</sup> The adoption of Local Government Orders by each of the provinces divided each province into three administrative tiers, (districts, tehsils, and unions), creating some 6,458 new local governments: 97 districts, 4 city districts, 306 tehsil administrations, 29 towns, and 6,022 union administrations. District governments were assigned responsibility for primary and secondary health care and primary and secondary education, while tehsils were generally given responsibility for municipal services.

<sup>8</sup> ADB. 2001. *Report and Recommendation of the President to the Board of Directors: Proposed Loans and Technical Assistance Grant to the Islamic Republic of Pakistan for the Access to Justice Program*. Manila (Loans 1897-PAK and 1898-PAK).

<sup>9</sup> The two nation-wide governance programs—access to justice and the DSP—were complemented by province-level resource management programs in Punjab in 2003 and Balochistan in 2004 and by devolved social services programs in Sindh in 2003, Punjab in 2004, and Balochistan in 2005.

<sup>10</sup> ADB. 2001. *Technical Assistance to the Islamic Republic of Pakistan for Fiscal Decentralization*. Manila (TA 3621); ADB. 2002. *Technical Assistance to the Islamic Republic of Pakistan for Gender Reform* (TA 3832).

<sup>11</sup> TA 3621 (Fiscal Decentralization) approved by ADB Board on 17 January 2001 for \$1,875,000 with NRB as executing agency and closed on 31 December 2002.



7. The program recognized that, while Pakistan's reform program was designed during a 3-year period of executive government in the country, democratically elected representatives in the national and provincial assemblies would be in place within the program's first year, along with three levels of elected local governments. The ADB Board noted the evolutionary process inherent in governance reforms and the need to build the flexibility to review the status of the program into the design and its key features to ensure the program remained relevant throughout. The design also anticipated the need for elected local councilors to review, modify, or revalidate key features and for these features to continue to reflect the priorities of national and provincial elected leaders. It therefore included the annual performance review (APR) process, which is not commonly applied to program loans. Two APRs were completed under the DSP for 2004 and 2005. The 2004 APR served as a key mechanism for revalidation of the program and release of the final tranche.

8. Sector and political analysis of problems, opportunities, and experience with other programs in Pakistan strongly influenced the DSP's design. As a result, the DSP aimed not only to meet short-term financing needs associated with a newly established system of local governments but also to change the perception of decentralization as a purely federal program and to actively seek the cooperation of provincial governments. The DSP also built on the work of earlier programs in decentralization and on relationships established at the provincial level under the social action programs.<sup>12</sup>

## **B. Program Outputs**

9. The DSP was structured around three policy outcomes: (i) sufficient, effective federal support for decentralization and related reforms, including gender and social development; (ii) effective, sustainable province-local intergovernmental relations; and (iii) local government institutions managing resources accountably and equitably. Each outcome had corresponding result areas and policy actions judged essential to support the reform process. The DSP supported the government's poverty reduction strategy through the implementation of reform policies on decentralization and gender and social development through 17 policy actions—6 in tranche 1 and 11 in tranche 2. The policy actions and their implementation status are in Appendix 1.

### **1. Sufficient and Effective Federal Support for Decentralization and Related Reforms, including Gender and Social Development**

10. This component supported action by the federal and provincial governments in the policy, legal, fiscal, and institutional domains to (i) ensure adequate laws and regulations to support new institutional arrangements; (ii) effect fiscal restructuring to transfer fiscal powers and resources to provincial and local governments, in accordance with their mandates; and (iii) build capacity at the provincial and local government levels to support the implementation of new systems and processes for local government, particularly with regard to agencies responsible for accounting and audit, and gender and social development.

11. Compliance with these policy conditions was largely successful and had sustained effect. To ensure adequate resource transfers for newly created local governments, the release of the first tranche followed commitment by the Government to transfer to local governments an

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<sup>12</sup> ADB. 1994. *Support for Social Action (Sector) Project*. Manila; ADB. 1996. *Support for Social Action (Sector) Project II*. Manila.

amount equal to their 2.5% share of the general sales tax (GST) plus PRs1 billion for the Decentralization Transition Grant in FY 2003. A second tranche release condition required full implementation of the National Financer Commission (NFC) decision allocating an amount to provincial and local governments equal to their share of the sales tax on an ongoing basis. With support from ADB, the Government financed transfers to provincial governments of PRs17.025 billion in FY 2003 and PRs21.814 billion in FY 2004, ensuring adequate resources for local governments in the initial phase of decentralization.<sup>13</sup> Under Presidential Order No. 1 for 2006, the Federal Divisible Pool was expanded to include all GST receipts. Resources allocated to the provincial governments, including those for onward transfer to local governments, were increased from 37.5% of the Divisible Pool in 1997 to 45% of the Divisible Pool by FY 2010, with a final increase to 46.25% for FY 2011. These increases substantially exceed the program requirement that the previously mandated 37.5% share be increased by an amount equivalent to 2.5% of the GST.

12. Transfers to provincial governments remain consistent with these principles. Following revisions in 2006, the 2.5% of the GST owed to local governments is included in the Divisible Pool, is transferred to provinces as part of the overall share, and is then passed through to local governments through annual Provincial Finance Council (PFC) awards.<sup>14</sup> The combined provincial share of the Divisible Pool has increased from 37.5% in 1997 to 45% for FY 2010, with a mandated further increase to 46.25% for FY 2011. Owing to the low local government revenues, these transfers primarily finance salaries and operating costs. A system of performance-driven grants for local government put in place in Punjab and Sindh further encourages local governments to meet key policy objectives.

13. While further work is needed, program measures did strengthen accountability within the fiscal institutional framework, particularly with respect to processes and procedures for public financial management. To support decentralization, the program focused on ensuring clear responsibility for accounting standards and audit functions for all levels of government. The program required implementation of legal provisions that separated accounting and audit functions—the Controller General of Accounts Ordinance (2001) and the Auditor General Ordinance [2001]). This both eliminated the scope for conflicts of interest between accounting and audit and ensured that capacity requirements for both functions in local government received adequate attention. The Local Government Accounting Code implemented under the DSP assigned responsibility for accounting down to subdistrict government levels to the federal Controller General of Accounts (CGA). While accounting functions at the district level have been largely mainstreamed into the national accounting system, additional efforts are needed to extend this to subdistrict levels of local government.<sup>15</sup> The Auditor General established four provincial directorates and 27 regional offices, and districts have been audited on a rotating basis since FY 2003. In addition, audits of lower tiers of local government, the tehsil (subdistrict) municipal administrations (TMA), have also been successfully carried out in the four provinces.

14. Difficulties in implementing appropriate reporting by local governments made assessments of the adequacy of resources transferred to local governments difficult, as did delays in establishing minimum standards for the areas of responsibility shifted to local

<sup>13</sup> For FY 2003, a policy commitment supported by the DSP included the allocation as part of the federal budget of PRs1 billion (\$116.6 million) as a devolution transition grant transferred to provinces for basic administrative infrastructure for local governments.

<sup>14</sup> The Divisible Pool comprises taxes on income, wealth tax, capital value tax, taxes on sales and purchases, sales tax on services, customs duties, and federal excise taxes, excluding those on gas.

<sup>15</sup> Local fund audit departments in provinces pre-audit expenditure for subdistrict tiers but prepare neither monthly accounts nor the appropriation and finance accounts required for merger with the National Accounts.

governments. All subnational governments depend heavily on transfers passed on to them from the federal government through the provincial finance commissions (PFCs). Tax revenues collected by provincial governments themselves accounted for less than 10% of total provincial resources for FY 2008 and FY 2009. The revenues of the local government are similarly limited.<sup>16</sup> Transfers to local governments have appeared only as a line item in provincial budgets and, until recently, reporting on outlays by local governments was limited. Combined with substantial vertical programs administered by the federal and provincial governments, this has made it difficult to track resources for particular sectors, including health and education. Theoretically, the recent implementation of new accounting standards and systems at the district level makes it possible to compile this information, which would enable a much needed assessment of overall spending on social services by provincial and local governments. At present, however, while the data is in the system, technical problems have made it difficult to move from a presentation useful for accounting purposes to one more suited for budget analysis. For example, it has not been possible so far to consolidate information on aggregate spending by districts and the province within a particular sector. The DSP recognized that a sustained focus on governance and public financial management would be needed and these issues are being addressed through ongoing programs at the provincial level.

15. The DSP also contributed significantly to mainstreaming of gender reform in Pakistan.<sup>17</sup> The release of the first tranche required the promulgation of local government ordinances (LGOs) that called for 33% of the elected seats at all levels of local government to be filled by women. Release of the second tranche required cabinet approval and implementation of provincial and federal gender reform action plans, which reflect the National Policy for the Empowerment of Women. The program sought implementation of GRAPs consistent with federal and four provincial cabinet approvals.<sup>18</sup> While the North West Frontier Province (NWFP) attached a considerably lower priority to gender issues, relative to the other provinces, the GRAP was approved by in March 2007 as a directional policy document for the NWFP. Although this falls short of the desired objective, it nevertheless remains a substantial accomplishment. Delays in adopting the GRAPs, particularly in the NWFP, limited the effectiveness of the TA and curtailed the use of these resources sharply. Gender mainstreaming has remained an important focus for ADB and implementation of the GRAPs was supported by ADB technical assistance.<sup>19</sup>

## 2. Effective and Sustainable Province–Local Intergovernmental Relations

16. This policy outcome recognized the need for rule-based, integrated relationships between provincial and local governments to deliver technical, political, and fiscal support, as well to regulate local government affairs to conform to national priorities. Support took into account existing and planned provincial public sector reform programs in Punjab, NWFP, and Sindh. Support for intergovernmental relations covered (i) upgrading provincial technical support, training and mentoring for local governments, relying on resources in provincial finance, planning and development, gender, and local government departments; (ii) reorientation of provincial regulatory relationships with local governments, and inter-local

<sup>16</sup> Government of Pakistan. 2009. *Economic Survey 2008/09*. Islamabad.

<sup>17</sup> ADB. 2006. *Implementation Review of the Policy on Gender and Development*. Manila.

<sup>18</sup> One national and four provincial GRAPs were prepared by the Ministry of Women Development and provincial women development departments under ADB-financed \$800,000 TA 3832-PAK (Gender Reform Program), which was approved by the ADB Board 17 January 2001 with cofinancing of \$400,000 by the Government of the Netherlands. These included gender-based institutional and policy reforms at all levels of governments.

<sup>19</sup> ADB. 2005. *Proposed Technical Assistance to Implementing Gender Reform Action Plans*. (Cofinanced by the Poverty Reduction Cooperation Fund and the Government of Canada).

government relationships, consistent with LGO provisions, and (iii) intergovernmental transfers through the development of the PFCs. The DSP supported the provinces in the articulation of basic technical, legal, regulatory, and fiscal aspects of provincial-local relations.

17. First tranche release conditions required that Local Government Commissions (LGCs) be established in all four provinces. The LGCs improved provincial–local government relations by mentoring local governments, conducting inspections, resolving disputes between provincial and local governments and between the local governments themselves, and by monitoring implementation of LGOs. Amendments to the LGOs in 2005 expanded the commissions’ role to include responsibility for coordination between local councils and the national and provincial legislatures on local development matters. The LGCs’ initial operations were hampered when the provisions in the LGOs for the establishment of separate secretariats and budgets for the commissions were not implemented. Because of this, the operational development of the LGCs took longer than the preparation of the legal, regulatory, and institutional frameworks.

18. The DSP included the implementation of a transparent institutional framework to guide allocation of resources among local governments. Release of the first tranche of the program loans required that the LGOs include provisions (Chapter XII and XIIA) that were developed under ADB-assisted TA (footnote 11). These provided for independent PFCs and policy space for a norm-based intergovernmental fiscal arrangement. They were central to DSP support. The PFCs set formulas to determine not only the vertical distribution of resources between provincial and local governments but also the subsequent distribution among local governments. Fiscal transfer rules that provide for formula-based intergovernmental transfers were promulgated by all provincial governments prior to the release of second tranche. These rules establish requirements for technical reports, databases, and policy dialogue on local finances and fiscal transfers. The PFCs are fully functional. Transfer rules are publicly available and are generally presented, along with the implied resource allocation, either in budget documentation or in annual reports produced by the provinces. Conditional grants, including those associated with ongoing ADB programs, are now being funneled through the PFCs, as their mandate requires.

19. Each PFC met the program and LGO requirement to issue at least one annual report before the second tranche was released. These reports inform individual provincial governments, local governments, and other stakeholders of the impact transfers are having on local finances, the local governments’ own source revenues situations, expenditure patterns, and the results of incentives. Important support was provided under the local government performance enhancement TA to address the initial lack of technical expertise.

20. The provinces instituted performance-based grants and matching grants for preferential transfers to support key federal and provincial policies on gender, poverty, and local revenue mobilization.<sup>20</sup> These steps introduced a mechanism for provincial governments to transmit additional support for key policies in devolved sectors. Conditional grant systems to support policy transmittal have also been introduced in the ADB-supported Devolved Social Services

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<sup>20</sup> Performance-based conditional grants are provided to districts in Punjab as part of the Millennium Development Goals program.

Programs and the Punjab Millennium Development Goals Program.<sup>21</sup>

21. The four provinces instituted new local government budget rules and, as required under the program, district governments continue to abide by them in their budget development. The performance TA included country-wide training on these budget rules and supported some basic implementation but more training was needed, particularly for lower levels of local government and operating staff.

22. Provisions in the DSP for the implementation of accounting and internal control for local governments were partially successful. The fiscal decentralization TA grant supported the development and codification of a new chart of accounts before first tranche release. A new accounting model was established and put into use at the provincial government levels. Financial and internal audit rules for local governments were adopted before release of the second tranche. Systems to monitor and control down to the district, tehsils, and union levels have relied substantially on the Project on Improvement on Financial Reporting and Auditing (PIFRA). The implementation of internal audit functions by the local governments has been delayed, mainly owing to the lack of adequate internal audit institutions and capacity issues at the federal and provincial levels of government. These issues remain important. Materials developed under the performance enhancement TA to improve efficiency and compliance in internal audits are being introduced in Punjab at the provincial and district levels under ADB's Punjab Millennium Development Goals Program.

### **3. Local Government Institutions Managing Resources Accountably and Equitably**

23. Reforms aimed at this policy outcome involved support for local government planning and fiscal management programs considered critical for efficient and equitable delivery of services, access to information, and accountability. Efforts focused on developing and implementing reform processes in an environment with notable capacity constraints. The two result areas were (i) institutionalization of local government planning, budgeting, finance management, and audit systems; and (ii) public access, accountability, and performance management.

24. Nationally approved audits in each district to assess the ease of access and quality of key social services, including police, health, and education, were crucial to this policy outcome. A baseline social audit of governance and delivery of public service was conducted by Centro de Investigación de Enfermedades Tropicales (CIET) in collaboration with NRB in 2002. The exercise was repeated in 2004. The Government did not conduct further surveys, citing the expense. Because the administration of service delivery lies with subnational governments and provincial governments set the relevant standards, it is important that provincial and local governments conduct future surveys but there are no current proposals to do so.

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<sup>21</sup> ADB. 2003. *Report and Recommendation of the President to the Board of Directors: Proposed Cluster of Loans to the Islamic Republic of Pakistan for Punjab Resource Management Program*. Manila; ADB. 2004. *Report and Recommendation of the President to the Board of Directors: Proposed Program Loans and Technical Assistance Grant to the Islamic Republic of Pakistan for Punjab Devolved Social Services Program*. Manila; ADB. 2003. *Report and Recommendation of the President to the Board of Directors: Proposed Program and Technical Assistance Loans to the Islamic Republic of Pakistan for Sindh Devolved Social Services Program*. Manila; ADB. 2005. *Report and Recommendation of the President to the Board of Directors: Proposed Program Loans, Technical Assistance Loan and Asian Development Fund Grant to the Islamic Republic of Pakistan for Balochistan Devolved Social Services Program*. Manila.

25. A separate requirement for second tranche release involved the transparency of local government operations and implementation of all of the requirements set out in Section 114 of the LGOs. Some of these were fully met with important TA support under the DSP, including the setting up of accounts offices and accounts committees in all local governments. Fulfillment of other requirements was incomplete, however, particularly in terms of providing public access to information on budget implementation and audits. The LGCs were supposed to ensure that monthly accounts were displayed in a prominent place and that public accounts committees held meetings to address issues related to monthly and annual accounts and audit accountability mechanisms. In practice, progress has been slow in providing open access audit reports and accounts statements.<sup>22</sup> While the LGC has a mandate to inspect local governments and provide reports on their functionality, enforcement of this policy action was generally outside the scope of federal or provincial governments. Although the LGCs exercised their functions, including displays of accounts, in an improved manner during 2005–2006, outputs still did not meet the program goals. A growing number of districts are making this information publicly available but compliance has varied widely.

26. The requirement that district ombudsmen been established has been only partially met. This is despite workshops under the DSP to highlight the importance of formal redress. Instead, in Balochistan, Punjab, and Sindh, provincial ombudsman established additional offices in former divisional headquarters. While this has met some needs, it has not provided the district-specific resources envisaged in the DSP.

### **C. Program Costs**

27. ADB supported the program with a program loan of \$205 million (Loan 1935-PAK) from ADB's ordinary capital resources and a program loan of the equivalent of \$65 million from ADB's Special Funds resources (Loan 1936-PAK). These were provided to support the DSP, as described in the Development Policy Letter and Policy matrix. An additional \$30 million was initially approved for technical assistance to support local government performance (TA Loan 1937-PAK, \$23 million equivalent) and gender mainstreaming and governance reform (TA Loan 1938-PAK, \$7 million). In 2007, TA Loan 1937-PAK was reduced from \$23 million to \$13 million, and TA Loan 1938-PAK was reduced from \$7.0 million to 0.09 million. Total disbursements under TA Loan 1937-PAK amounted to only \$4.72 million and only \$91,000 was disbursed from TA Loan 1938-PAK.

28. At the time of design of the DSP, estimates were made of the adjustment costs. The cost of adjustment for 3 years from FY 2003 was estimated at about \$462.39 million to cover (i) federal revenue shortfall due to transfer of revenues to provinces and local governments; (ii) the restructuring of existing and creation of new institutions at federal, provincial, and local government levels; and (iii) institutional strengthening and capacity building, including infrastructure, equipment and human resource development.<sup>23</sup> Details are provided in Appendix 2.

### **D. Disbursements**

29. Loan proceeds were withdrawn in accordance with ADB's standard disbursement procedures. Program loans were disbursed in two tranches based on specified tranche release

<sup>22</sup> The Auditor General Web site has a record of audits conducted for 2003–2004, including audits for local governments.

<sup>23</sup> ADB. 2002. *Proposed Program and Technical Assistance Loans, Decentralization Support Program*. Manila, Appendix 3.

conditions. The first tranche, equivalent to \$123.46 million, was released by ADB on 30 September 2003 after the Board was satisfied that the six loan effectiveness tranche conditions had been met. The second tranche of the equivalent of \$169.88 million was released by ADB on 22 December 2004 upon compliance with 11 specified conditions, satisfactory completion of the 2004 APR, as well as continued compliance with all previous tranche conditions. Release of the second tranche was about 6 months later than initially envisioned.

30. In November 2005, the Board approved the use of savings of up to \$105 million from seven ADF-financed loans for the emergency rehabilitation and reconstruction of earthquake-affected areas in Pakistan. In December 2005, \$84.8 million was disbursed and channeled through the DSP (Loan 1936-PAK) as quick disbursing support. The use of loan savings in this manner was consistent with Project Administration Instruction No. 5.06, and a table showing the loan savings by project is attached as Appendix 3.<sup>24</sup>

31. Total disbursements of TA Loan 1937-PAK amounted to SDR 3.15 million (\$4.72 million equivalent). SDR 6.6 million (\$10 million equivalent) was cancelled 29 June 2007. The undisbursed balance of SDR 7.62 million (\$11.75 million equivalent) was cancelled on the closing date, 1 June 2009. The government disbursed about \$43.23 million equivalent for local currency costs of the projects financed by this loan.

32. Total disbursements for TA Loan 1938-PAK amounted to SDR 0.082 million (\$0.091 million equivalent). SDR 4.69 million (\$7.10 million equivalent) was cancelled on 1 July 2007. The undisbursed balance of SDR 0.518 million (\$0.801 million equivalent) was cancelled on the closing date 7 July 2009. The government disbursed about \$0.532 million equivalent for local currency costs of the projects financed by this loan.

## **E. Program Schedule**

33. Both program loans became effective on 24 September 2003, 6 months later than scheduled in the loan agreement. The first tranches were released on 30 September 2003, 6 months later than the planned release date. The second tranches were released on 22 December 2004, 5 months later than the planned release date. The loan closed on 30 June 2006 as planned. The local government performance enhancement TA loan became effective at the same time as the program loans, and was to close on 30 June 2007. The original loan closing date needed to be extended by 1 year to 30 June 2008 to complete ongoing contracts. However, the loan was financially closed 1 June 2009.

34. The gender and governance mainstreaming TA loan became effective on 18 August 2005, 2.5 years later than scheduled. The loan effectiveness was extended multiple times (from 24 September 2003 to 31 October, 2004, 25 January 2005, 28 February 2005, 31 March 2005, and 15 April 2005). This was because provincial governments did not meet the three requirements as agreed in section 6.01 of the Loan agreement: (i) the GRAPs shall have been approved by each of the provincial and federal cabinets; (ii) the PC II for the project shall be duly approved by appropriate authorities of the Borrower; (iii) MOF shall have confirmed in writing with each federal implementing agency and each province implementing agency on indicative shares of the proceeds of the loan. The major problem concerned difficulties in obtaining cabinet approval for the GRAP for the NWFP. The matter was resolved by the

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<sup>24</sup> The transfer of loan savings to Loan 1936-PAK was approved by the Board in November 2005 (ADB. 2005. *Use of Loan Savings for Emergency Rehabilitation and Reconstruction of Earthquake-Affected Areas in Pakistan*. Manila). These amounts were included as the quick disbursing component of the DSP.

acceptance of the GRAP by the NWFP as a directional policy document. The TA loan was financially closed on 7 July 2009, 2 years later than scheduled.

## **F. Implementation Arrangements**

35. The MOF was the executing agency for the program loans as well as two TA loans. Implementing agencies at the federal level included the Auditor General of Pakistan (AGP), the CGA, NRB, and the Ministry of Women Development Department. A national program support office (NPSO) was established at federal level to manage the program, with corresponding provincial program support offices (PPSOs) in provincial finance departments. A National Program Steering Committee (NPSC) was established to review and coordinate the overall progress, particularly in promoting federal–provincial liaison and coordination. The NPSC is chaired by an additional secretary of finance department, with membership from all implementing agencies, key departments of each province, the Pakistan Resident Mission (PRM) of ADB, and two members of civil society. The diversity of the NPSC membership facilitated policy dialogue on important issues. The NPSO serves as secretariat for the NPSC.

## **G. Conditions and Covenants**

36. The program had 17 tranche conditions, 6 for release of the first tranche and 11 for release of the second. All the first tranche conditions were met prior to loan effectiveness. At the time of release of second tranche in December 2004, the Government had achieved full compliance with 7 policy conditions, while substantial compliance had been achieved on 3 policy actions and partial compliance on 1 policy action. Both tranches were released with minor delay. Appendix 4 summarizes status of compliance with the 17 conditions.

37. The program loans had 24 covenants, 21 of which were fully met. Two covenants were not complied with: quarterly reports were not prepared as specified by program covenants, and a program completion report was not submitted by the Government. One condition, requiring annual progress reports, was met with partial compliance with progress reports for 2004 and 2005. The same covenant issues arose with respect to the TA loans for local government performance enhancement and for gender and governance mainstreaming. Most reporting was accomplished by the Advisory Technical Assistance Office, which provided periodic reports on the implementation of the TA loans. The Government has issued completion reports for the local government performance enhancement TA loan and the gender and governance mainstreaming TA loan. Appendix 4 provides an overview of the borrower's compliance with loan covenants.

38. Compared with other similar ADB programs, policy conditions were few and well-focused. They were committed to in advance by the Government of Pakistan.

## **H. Related Technical Assistance**

39. Grant resources totaling \$8.115 million were also approved at intervals for supporting program and TA loans. These included (i) TA 3926-PAK (\$560,000)<sup>25</sup>; (ii) TA 4207-PAK<sup>26</sup> (\$3,639,000, with \$850,000 from ADB, \$159,000 from the Government of Canada, \$1,440,000 from the Government of the United Kingdom, and \$550,000 from the Government of the

<sup>25</sup> ADB. 2002. *Technical Assistance to the Islamic Republic of Pakistan for Support to Implementation of Decentralization*. Manila.

<sup>26</sup> ADB. 2003. *Technical Assistance to the Islamic Republic of Pakistan for Support to Implementation of Decentralization II*. Manila.



Netherlands; and (iii) TA 4602-PAK<sup>27</sup> (\$4,565,000, with \$100,000 from ADB's TA funds, \$800,000 from ADB's Poverty Reduction Cooperation Fund, and \$3,665,000 from the Government of Canada). TA 3926-PAK and TA 4207-PAK were used to support the implementation of the two TA loans included in the DSP package for local government performance enhancement and gender and governance mainstreaming. Specifically, they provided support to (i) the federal and provincial program support offices (PSOs); (ii) implementing agencies to assist in defining capacity development needs; (iii) provincial and local governments in the development of monitoring capacity; and (iv) government, civil society, and donors with strategic information on policy issues. This support was critical to the implementation of demand-driven technical assistance.

#### **I. Consultant Recruitment and Procurement**

40. Consultant recruitment under the two TA loans was done in accordance with ADB procedures. No issues were faced during the recruitment, other than a need for consultants that exceeded the available supply. No consultants were hired under the program loans.

#### **J. Performance of Consultants, Contractors, and Suppliers**

41. Performance of the TA and other consultants was *satisfactory*. According to the Technical Assistance Completion Report, many consultants performed well and produced high-quality deliverables. In cases where the consultants were not able to perform and provide deliverables as expected, they were replaced with more suitable candidates.

#### **K. Performance of the Borrower and the Executing Agency**

42. The performance of the MOF and provincial finance departments is rated *satisfactory*. The MOF and finance departments were instrumental in meeting the policy conditions. The MOF is well placed within the government system to steer policy dialogue not only within federal government but also with the provinces. It was a source of strength for the program and, due to its strong support, most policy conditions were met almost on time. However, the MOF's commitment faded after release of final tranche. It did not provide adequate support for meeting the outstanding policy actions. On the other hand, the NWFP finance department made tremendous efforts in its successful bid to obtain approval of the GRAPs by the province's Chief Minister under very difficult circumstances even after release of final tranche. Improvements in public financial management capacity remain a priority and the MOF and local finance departments continue to show enthusiasm in implementation of the local government performance enhancement TA, with its emphasis on capacity building for fiscal management and control.

#### **L. Performance of the Asian Development Bank**

43. The performance of ADB is rated *satisfactory*. During implementation of the DSP, ADB maintained close coordination with the relevant federal, provincial, and local governments. The PRM remained an active member of NPSC and has participated in all meetings of NPSC to date. In addition, ADB supported the MOF in addressing problems arising during implementation. In this regard, special protocols were approved by ADB to facilitate implementation of the DSP TA

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<sup>27</sup> ADB. 2005. *Technical Assistance to the Islamic Republic of Pakistan for Support to the Implementation of Gender Reform Action Plans*. Manila.

loans. These protocols included changes in procurement method to provide more flexibility and a protocol for facilitating the role of nongovernment organizations and PSOs in implementation.

44. ADB also mobilized grant resources from ADB's own sources as well as cofinancers. The staff of ADB was instrumental in leading policy dialogue on reform beyond the policy conditions. Towards this end, ADB joined hands with World Bank and the Department of International Development (DFID) of the United Kingdom to conduct comprehensive field research on the impact of reforms and identify major challenges and issues faced in the implementation of the reform, based on empirical study of local governments. The three-volume series, *Devolution in Pakistan*,<sup>28</sup> published in 2004, is the most comprehensive research on decentralization in Pakistan to date. The paper was widely circulated and initiated a lively debate among devolution stakeholders. This paper was followed by another joint study by ADB and DFID entitled *Improving Devolved Social Service Delivery in NWFP and Punjab*. ADB staff were among the lead authors of both studies.

45. ADB has ensured that its strategy for all social sector assistance in Pakistan is in line with the new devolved structures. In this regard, the DSP was involved in the design of other ADB projects with investments in devolved sectors. The PRM engaged consultants hired under the DSP TA in project design missions, including the South Punjab Basic Urban Services Project (2003), the Punjab Public Resource Management Program (2003), the Devolved Social Services Program Sindh (2003), the Devolved Social Services Program Punjab (2004), the Balochistan Resource Management Program (2004), and the NWFP Road Sector Project (2004). This initiative helped build gender and decentralization concerns into project designs. ADB's support for decentralization reform in Pakistan thus went far beyond meeting tranche conditions.

### III. EVALUATION OF PERFORMANCE

#### A. Relevance

46. The program was *highly relevant* at the time of design and during implementation. Appropriately, the program design took into account pending local elections, the importance of bridges between local and provincial governments, and the need for flexibility as the decentralization process evolved. The DSP was consistent with ADB's Poverty Reduction Partnership Agreement, and with the Country Strategy and Program, as well as ADB's policy on governance reforms.<sup>29</sup>

47. The reform agenda set out by the Government aimed at core legal, institutional, and fiscal changes, with a focus on accountability, citizen involvement, and improved delivery of and access to social services. This agenda opened a long awaited window of opportunity for ADB to support significant governance reform in Pakistan. The DSP provided critical support consistent with the Government's expressed commitment to governance reforms as outlined in the initial decentralization plans (2000) and the interim Poverty Reduction Strategy Paper (PRSP, 2001), and reaffirmed commitment in the PRSP I (2004) and PRSP II (2008). The DSP's design reflected a full analysis of the problems, opportunities, and lessons from other programs. The program not only contributed to short-term financing needs but also helped change the perception of the DSP as a purely federal program by actively seeking the involvement of provincial governments.

<sup>28</sup> Available at [www.adb.org/documents/studies/devolution-in-Pakistan](http://www.adb.org/documents/studies/devolution-in-Pakistan).

<sup>29</sup> ADB.1995. *Governance: Sound Development Management*. Manila.

48. Sector and political analysis of problems, opportunities, and experience with other programs in Pakistan strongly influenced the DSP's design. As a result, the DSP aimed not only to meet short-term financing needs associated with a newly established system of local governments but also to change the perception of decentralization as a purely federal program and to actively seek the cooperation of provincial governments. The DSP also built on the work of earlier programs in decentralization and on relationships established at the provincial level under the social action programs (footnote 12).

## **B. Effectiveness in Achieving Outcome**

49. The program is rated *highly effective*. The DSP was designed before adoption of the new results-based framework and design and monitoring template at ADB. Thus, the program contained objectives rather than concrete outcomes. Many of these objectives were achieved but, given the need for additional consensus among key stakeholders and the absence of strong leadership, other reforms required additional time and support. This is being achieved in part through additional province-specific reforms supported by ADB in the form of the Devolved Social Services Programs and Resource Management programs.

50. The DSP was *highly effective* in launching ADB's participation in governance reforms in Pakistan, as demonstrated by multiple successor programs. The program loans were successful in supporting governance reforms at a critical time for Pakistan. The progress on ensuring adequate resources for subnational levels of government and transparent mechanisms for resource transfer was particularly important. The program was also successful in shifting the perception of decentralization as purely a federal program to one that actively engaged the participation of the provincial governments in a positive manner. While the demand-based approach to the local government performance enhancement and the gender and governance mainstreaming TA may have resulted in less capacity building than would have followed from a more systematic approach to capacity development, a lack of participation from the provincial governments would have remained a critical problem

## **C. Efficiency in Achieving Outcome and Outputs**

51. The program is rated *less efficient*, reflecting the limited use of technical assistance. Program funds were allocated and used as intended, with the envisaged outcomes. There was no major delay or cost overruns. At the time of release of second tranche, all but one policy action were either fully complied with or substantially complied with. Substantial progress has since been made on the outstanding policy actions. The program was implemented with minimum administrative and operational expenses.

52. Implementation of the technical assistance components was more difficult. The TA was directed to improvements in capacity at the provincial level that would support implementation of key program requirements. Limited disbursements under the local government performance enhancement TA loan reflected a range of issues. Putting the NPSO and PPSOs into place took considerable time, and frequent turnover in personnel meant that adequate capacity remained a chronic problem. Difficulty in recruiting high-caliber consultants posed an additional problem, reflecting the tighter than expected supply. Finally, ADB procurement procedures required for approved projects contributed to delays of 9 months or more in the implementation of approved projects.

53. The case may possibly be made that ADB's TA should have been far more extensive, covering all areas of public financial management, beginning with provincial governments and

moving on to local governments. This would have been a massive undertaking, however, and the TA provided was well focused. Many of the outputs (audit manuals and training modules) are now coming into play. The direct links established between local and provincial governments represent a critical success of the demand-driven TA. This did contribute to growing interest at provincial levels in reforming the LGOs once legal protection expires at end-2009, rather than interest in a full reversion to the pre-2001 system

#### **D. Preliminary Assessment of Sustainability**

54. Improvements in governance and transparency are likely to be at least partially sustained and the principles involved have already been incorporated into other province-specific programs. The program's policy outcomes promoted improvements in public financial management and overall transparency. Subsequent programs supported by ADB looking at public resource management and devolved social services have expanded on these basic themes.

55. The transfer arrangements between tiers of government have continued to evolve. Full implementation of accounting, audit, and information systems will enable a more analytic approach to budgeting for provincial and local governments. This in turn will lead to a more strategic budgeting process that will strengthen the link between planned expenditures and stated policy objectives across all tiers of government. A complete reversal of the reforms undertaken is unlikely and many of the administrative arrangements the DSP helped established will probably remain in place. Even though reforms to the LGO are still being discussed and changes are pending, increases to the allocations to local governments are going ahead. The NWFP decided on its own to raise transfers to local governments for FY 2010 to include 5% of government receivables from gas and oil. Performance-based conditional grants have been implemented in Punjab and Sindh, with active support at the provincial and district levels. Budget rules are in effect in Punjab and steps are being taken to implement internal audit systems at the district level. Information is becoming accessible to show what resources are needed to improve delivery of social services. The revisions to the LGOs will make it possible to clarify the roles of individual levels of government in pursuing this objective.

56. While provincial governments cooperated with the DSP, the provincial bureaucracies were and continue to be ambivalent about how decentralization has been carried out. Tensions between the provincial and local levels of government posed problems as subsequent ADB programs began to work more closely with provincial and local governments on the devolution of responsibility for delivery of social services. This made the shortcomings of the 2001 LGOs more apparent.<sup>30</sup> The failure of the federal government to consult with provincial governments in designing the decentralization program and LGOs was largely to blame. Post-devolvement responsibilities, particularly those of the provincial line departments, were not clearly defined, leaving these departments unsure of their role and resistant to the loss of political power and administrative control.<sup>31</sup> Revised LGOs are expected to shift some control back to provincial authorities.<sup>32</sup>

<sup>30</sup> ADB. 2004. *Report and Recommendation of the President to the Board of Directors on Proposed Program Loans and Technical Assistance Grant to Punjab Devolved Social Services Program*. Manila; ADB. 2003. *Report and Recommendation of the President to the Board of Directors on Proposed Program Loans and Technical Assistance Loans to the Islamic Republic of Pakistan for the Sindh Devolved Social Services Program*.

<sup>31</sup> ADB. 2008. *Program Completion Report: Sindh Devolved Social Services Program. (Pakistan)*. Manila (Loans 2047-PAK and 2048-PAK).

<sup>32</sup> Plans to change the LGOs took on a new intensity with the 2007 change in government.

## IV. OVERALL ASSESSMENT AND RECOMMENDATIONS

### A. Overall Assessment

57. The program is rated *successful* (Table 1). The objectives of the program rightly originated from social and economic needs of the borrower, the Government's prior commitment to decentralization reform, and ADB's country strategy. The program was designed after thorough consultations with key stakeholders and a sound sector analysis. The design also took into account the complex reform environment and impending political change in the country. The delegated approach to program implementation arrangements worked well during implementation and allowed the program to overcome initial lack of ownership at provincial level.

**Table 1: Assessment of Program Performance**

Criterion	Weight	Assessment	Rating Value	Weighted Rating
Relevance	20%	Highly Relevant	3	0.6
Effectiveness	30%	Highly Effective	3	0.9
Efficiency	30%	Less Efficient	1	0.3
Sustainability	20%	Less Likely	1	0.2
<b>Overall Rating</b>		<b>Successful</b>	<b>Not applicable</b>	<b>2.0</b>

58. The program effectively provided initial legal, institutional, and regulatory frameworks for select areas of reform critical to the Government's governance reform program. This support was provided through transfer of substantial revenue to local governments on a sustainable basis, establishment of independent and technical provincial finance commissions, promulgation of rules for fiscal transfer and internal audit, and notification of budget and local government accounts code. The program has been able to foster policy dialogue around the reform and highlighted a number of issues that continue to hamper the reform objectives.

59. These achievements notwithstanding, the reforms face numerous challenges in fully implementing the accounting, audit, and information systems needed to support budgeting and monitoring consistent with improved service delivery. Consolidation of reforms of this magnitude is a gradual process and will require time and effort. Full implementation of the legal framework for all levels of government would require sustained support.

### B. Lessons

60. The program highlights a number of lessons for design and implementation of reforms and policy-based lending:

61. **Policy Conditions.** The DSP experience shows that the quality of programs can be improved by imposing fewer but more focused, streamlined policy conditions that are crucial for reform process. The number of policy conditions was manageable, compared with similar programs implemented at the same time, and these conditions were critical to the success of the reforms.

62. **Flexibility in Implementation.** The flexibility provided in program design proved to be a source of strength. Although the program approval processes of both ADB and the Government encourage rigid, detailed designs to ensure accountability, the DSP's more adaptable approach allowed the program to adjust effectively to the evolving nature and changing requirements of reform.

63. **Sequencing of Reform.** Research shows that successful decentralization reforms need appropriate sequencing, beginning with a strong national debate and, ultimately, a national consensus. This was not the case in the reform program set out by the Government. Most fiscal and administrative aspects of decentralization received scant attention. The policy dialogues undertaken as part of the DSP and the active involvement ultimately of provincial governments in implementation with the supporting technical assistance addressed these issues. The policy dialogues made it abundantly clear that these discussions should have preceded the reforms' design and implementation.

64. **Capacity Needs.** Without sufficient implementation capacity, even well-designed, broadly supported reforms cannot succeed. In addition, the one-size-fits-all approach to reform implementation does not work in a country as diverse as Pakistan. The outcomes of the reforms under the DSP differ from province to province depending on their existing capacities. The decentralization reform could have benefited from a province specific reform to provide for diverse situations and capacities. NRB or the Government could have provided technical assistance in design of the program.

## C. Recommendations

### 1. Program Related

65. **Future Monitoring.** The responsibility for monitoring reform implementation lies primarily with the Government of Pakistan. ADB will continue policy dialogue on various aspects of reform through its TA and TA loans. ADB should ensure that projects and programs contribute to sustained systematic improvements in fiscal management. Future missions should have a good understanding of the governance system and ongoing reforms for all three levels of government.

66. **Further Action or Follow-Up.** Reforms undertaken in the decentralization package aimed at supporting improvements in fiscal management and governance under a variety of decentralized possibilities. Support proved as part of technical assistance included in the DSP represented a starting point, and issues that emerged during the program highlighted the need for expanded and sustained support for further improvements in fiscal management at the provincial and local government levels. These improvements are recognized as critical if improvements in public service delivery, poverty reduction, and overall governance are to be achieved. In addition, changes to revenue sharing arrangements should be consistent with the assignment of roles and responsibilities to various levels of government. Finally, continued support for capacity development will remain important for improved public management at the federal, provincial and local government levels.

67. **Timing of the Program Performance Evaluation Report.** The program performance evaluation report can be conducted at any time now that both TA loans have formally closed.

## STATUS OF POLICY REFORMS UNDER THE DECENTRALIZATION SUPPORT PROGRAM

<p><b>Policy Outcome 1:</b> Sufficient and Effective Federal Support for Decentralization and Related Reforms Federal legal, technical, and fiscal support for decentralization and related reforms creating an enabling environment for successful implementation.</p>			
<p><b>Result area:</b> Federally supported enabling environment created for decentralization and related reforms</p>			
1 <sup>st</sup> Tranche Release Action	Status	2 <sup>nd</sup> Tranche Release Action	Status
Federal government to enact and enforce Controller General Of Accounts Ordinance 2001 and Auditor General Ordinance 2001, and provinces to promulgate Local Government Ordinance (LGO) 2001.	<b>Complied</b>	Federal government to allocate in FY2004 an amount to provinces and local governments equal to at least their share of the general sales tax (GST), in accordance with the National Finance Commission decision 2002.	<b>Complied</b>
Federal government to allocate an amount to provinces and local governments equal to at least their 2.5% share of GST in FY 2003, plus an allocation of PRs1 billion for the Decentralization Transition Grant in FY 2003 budget.	<b>Complied.</b> Punjab allocated all of the 2.5% revenues directly to tehsil municipal administrations (TMAs) and Unions; Sindh also provided local government revenue from this source. Balochistan and North West Frontier Province (NWFP) transferred these amounts, but with offsetting reductions in other grants.	Federal government and the provinces to implement Gender Reform Action Plan, consistent with federal and provincial capital approval	<b>Complied: adopted, implementation guided by technical assistance (TA) Loan 1938-PAK and by provisions from other Asian Development Bank (ADB) TA.</b>
		Federal and provincial governments to create a regulatory framework, including amendments to laws, if necessary, to enable the Auditor General to audit local governments at all levels, and to finalize a time-bound implementation plan with the intention that the Auditor General will be capable of auditing all levels of local government.	

<p><b>Policy Outcome 2: Effective and Sustainable Province–Local Intergovernmental Relations</b>  Development of rule-based and integrated relationships between provincial and local governments resulting in sufficient technical, political, and fiscal support and regulation of local government affairs, consistent with national policy and provincial priorities.</p>			
<p><b>Result areas:</b> 1. Province technical support, training, and mentoring of local governments.  2. Province regulation of local government  3. Intergovernmental fiscal transfers and revenue mobilization</p>			
<b>1<sup>st</sup> Tranche Release Condition</b>	<b>Status</b>	<b>2<sup>nd</sup> Tranche Release Condition</b>	<b>Status</b>
Each provincial government to establish a local government commission (LGC)	<b>Completed</b>	Each provincial finance commission (PFC) to publish at least one annual report providing information about the implementation of fiscal transfer rules and fiscal transfer outlays (final expenditure)	<b>Completed, and ongoing</b>
Each province to enact and enforce amendments to LGO 2001 for insertion in Chapter XII and XIIA, which provides a statutory basis for a technical and independent PFC, formula-based transfers to local governments, and predictability and stability in local fiscal environment.	<b>Full compliance</b>	Each province to notify the Fiscal Transfer Rules, 2002, for ensuring transparency, timeliness, predictability, and certification.	<b>Adjustments need to be noted</b>
Approval of local governments accounts code by Auditor General	<b>Full compliance</b>	Each province to institute performance-based grants and matching grants for preferential transfers for priority policies concerning poverty, gender, and local revenue mobilization, to act as a means of policy transmittal.	<b>Substantial Compliance</b> <b>All provinces:</b> Selective use of conditional grants in all PFC awards; evidence of program specific conditional grants in NWFP, Sindh, and Punjab; Rules for performance grants approved by Balochistan.
Approval of Local Government Budget Code 2002	<b>Full compliance</b>	Each provincial government to approve new financial rules for local governments together with internal audit rules and procedures	
		Federal government to confirm through its revised budget estimates transfer of 2.5%	<b>Complied</b> Punjab allocated all of



		<p>additionality of GST and decentralization transition grant to provinces, and through provincial revised budget estimates, transfer of 2.5% additionality of GST to local governments, during FY 2003, within a range of 10% of budgetary allocations.</p>	<p>the 2.5% revenues directly to TMAs and Unions; Sindh also provided revenue from this source to local governments: Balochistan and NWFP transferred these amounts, but with offsetting reductions in other grants.</p>
<p><b>Policy Outcome 3:</b> Local Governments Institutions Managing Resources Accountably and Equitably</p>			
<p><b>Result areas:</b> 1. Local government planning, budgeting, finance management, and audit systems. 2. Public access, accountability, and performance management in local government.</p>			
<b>1<sup>st</sup> Tranche Release Condition</b>	<b>Status</b>	<b>2<sup>nd</sup> Tranche Release Condition</b>	<b>Status</b>
		<p>In accordance with the agreement reached between the federal government and the provinces, community and social audits (based on <i>Centro Investigacion de Enfermedades Tropicales surveys</i>) conducted at least once in each district to assess access and quality of services in key social sectors, including police, health, and education.</p>	<p><b>Full Compliance</b> Two social audits completed; first completed in 2002 and final completed in 2004/2005.</p>
		<p>LGC in each province to certify that adequately staffed and resourced district ombudsmen have been appointed for each district and that the office of each such ombudsman has published at least one annual report for the district or districts under its jurisdiction.</p>	<p><b>Substantial Compliance</b> Accounts Committees established in all local governments.</p>
		<p>Province to certify that adequately staffed and resourced district ombudsmen have been appointed in each district and that the office of each such ombudsman has published at least one annual report for the district or districts under its jurisdiction.</p>	<p><b>Non-Compliance</b> No ombudsperson appointed. The issue is being debated between the provincial and federal governments.</p>

Source: ADB. 2002. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan to the Islamic Republic of Pakistan for the Decentralization Support Program*. Manila.

**COST ESTIMATE SUMMARY–3 YEARS**

	<b>Districts</b>	<b>PRs in Million</b>	<b>PRs in Million (Subtotal)</b>	<b>\$ in Million (Subtotal)</b>
1	Districts			
	Infrastructure	1,296.400	1,296.400	21.61
2	TMA			
	Infrastructure	448.500	448.500	7.45
3	Hardware			
	For district	960.000		
	For TMA	1,348.000	2,308.000	38.47
4	Training		1,033.100	17.22
5	Survey			
	Service delivery management information systems	192.000		
	Revenue mobilization-district	288.000		
	Revenue mobilization-tehsil	1,011.000	1,491.000	24.85
6	Database			
	For province	300.000		
	For districts	288.000	588.000	9.80
7	Nazim's (mayor) office			
	Zila (district) nazim	288.000		
	Tehsil nazim	404.400	692.400	11.54
8	Zila council		489.600	8.16
9	Tehsil council		808.800	13.48
10	Provincial Institutions			
	LGC		17.664	0.29
	PFC		13.008	0.22
11	Investments to strengthen local service delivery			
	District	2,880.000		
	TMA	2,022.000		
	UA	9,033.000	13,935.000	232.25
12	Khushal Pakistan <sup>a</sup>	4,500.000	4,500.000	75.00
13	Competency focused technical assistance		122.000	2.04
	<b>Total Cost</b>	<b>15,667.000</b>	<b>27,743.372</b>	<b>462.39</b>

LGC = local government commission, PFC = province finance commission, TMA = tehsil (subdistrict) municipal administration, UA = union administration.

<sup>a</sup> Khushal Pakistan is the national public works and employment-generation program.

Source: Mission calculations based on Ministry of Finance statistics and fieldwork.

### PAKISTAN ADF LOAN SAVINGS

Loan No.	Project		Net Loan	Approval	Date of		Cumulative	Undisbursed	Proposed
			Amount		Closing				
			ADF		Original	Revised			
1278-PAK	(SF)	Middle School	49.16	Dec-93	Dec-99	Mar-04	34.41	14.75	14.7
1294-PAK	(SF)	Pehur High-Level Canal	124.60	Dec-93	Dec-02	Jun-05	107.38	17.17	17.5
1373-PAK	(SF)	Technical Education	47.83	Sep-95	Jun-02	Jun-04	36.95	10.98	10.9
1413-PAK	(SF)	Drought Impact Mitigation and Recovery	113.06	Aug-01	Aug-04	Sep-05	92.20	20.92	7.0
1413-PAK	(SF)	National Drainage Sector	62.33	Dec-95	Jun-03	Dec-06	12.26	50.21	45.0
1454-PAK	(SF)	Second Girls Primary School	42.53	Aug-96	May-02	Mar-05	37.27	5.26	5.3
1671-PAK	(SF)	Women's Health	48.35	Mar-99	Dec-05		26.63	21.72	2.5
1934-PAK	(SF)	Sindh Rural Development	54.80	Nov-02	Jun-10		1.16	53.64	2.5
								<b>Total</b>	<b>105.4</b>

Source: ADB. 2005. *Use of Loan Savings for Emergency Rehabilitation and Reconstruction of Earthquake-Affected Areas in Pakistan*. Manila.

### STATUS OF COMPLIANCE WITH LOAN COVENANTS

Covenant	Reference in Loan Agreement	Status of Compliance
<b>Loans 1935 and 1936</b>		
The Borrower shall cause the Program to be carried out with due diligence and efficiency and in conformity with sound administrative, financial, engineering, environmental, and governance practices.	(LA, Section 4.01(a)).	Complied with.
In the carrying out of the Program and operation of the Program facilities, the Borrower shall perform, or cause to be performed, all obligations set forth in schedule 5 to this Loan Agreement.	(LA, Section 4.01(b))	Complied with.
The Borrower shall make available promptly as needed, the funds, facilities, services and other resources which are required, in addition to the proceeds of the Loan, for the carrying out of the Program and for the operation and maintenance of the Program facilities.	(LA, Section 4.02)	Complied with.
The Borrower shall ensure that the activities of its departments and agencies with respect to the carrying out of the Program and operation of the Program facilities are conducted and coordinated in accordance with sound administrative policies and procedures.	(LA, Section 4.03)	Complied with.
The Borrower shall maintain, or cause to be maintained, records and documents adequate to identify the Eligible Items financed out of the proceeds of the Loan and to indicate the progress of the Program.	(LA Section 4.04 (a))	Complied with.
The Borrower shall enable ADB's representatives to inspect any relevant records and documents referred to in paragraph (a) of this Section.	(LA Section 4.04 (b))	Complied with.
The Borrower shall furnish, or cause to be furnished, to ADB all such reports and information as ADB shall reasonably request concerning (i) the Loan, and the expenditure of the proceeds and maintenance of the service thereof; (ii) the goods financed out of the proceeds of the Loan; (iii) the implementation of the Program, including the accomplishment of the targets and carrying out of the actions set out in the Policy Letter; (iv) financial and economic conditions in the territory of the Borrower and the international balance-of-payments position of the Borrower; and (v) any other matters relating to the purposes of the Loan.	(LA Section 5 (a))	Complied with.

Covenant	Reference in Loan Agreement	Status of Compliance
<p>Without limiting the generality of the foregoing, the Borrower shall furnish, or cause to be furnished, to ADB quarterly reports on the carrying out of the Program and on the accomplishment of the targets and carrying out of the actions set out in the Policy Letter. Such reports shall be submitted in such form and in such detail and within such a period as ADB shall reasonably request, and shall indicate, among other things, progress made and problems encountered during the quarter under review, steps taken or proposed to be taken to remedy these problems, and proposed program of activities and expected progress during the following quarter.</p>	(LA, Section 4.05(b)).	Not complied with. No progress report was submitted.
<p>Promptly after the closing date for withdrawals from the Loan Account, but in any event not later than three (3) months thereafter or such later dates as may be agreed for this purpose between the Borrower and ADB, the Borrower shall prepare and furnish to ADB a report, in such form and in such detail as ADB shall reasonably request, on the execution of the Program, including its cost, the performance by the Borrower of its obligations under this Loan Agreement and the accomplishment of the purposes of the Loan.</p>	(LA, Section 4.05(c))	Not complied with. No report was submitted.
<p>MOF shall be the executing agency. The Pakistan Auditor General, the CGA, the National Reconstruction Bureau and the Ministry of Women's Development, Social Welfare and Special Education shall be the implementing agencies (IAs) at the federal level, and the departments of local government, women's development, social welfare, and special education, LGCs, and such other departments or agencies of the provincial governments as may be mutually agreed between ADB and the Borrower shall be the IAs at the provincial level.</p>	(LA Sched 5, para 1)	Complied with.
<p>The NSC shall comprise representatives of MOF, all the IAs, and two members of civil society appointed in accordance with procedures agreed to by the MOF and IAs, and acceptable to ADB. The NSC shall review and coordinate the overall progress of the Program, and promote the liaison and coordination between the federal and provincial governments, and appropriate civil society engagement. A PSC shall be established in each province, with membership determined by Provinces according to the following principles (i)local government majority membership, (ii)</p>	(LA Sched 5, para 2)	Complied with.

<b>Covenant</b>	<b>Reference in Loan Agreement</b>	<b>Status of Compliance</b>
<p>equal representation of elected leaders from districts and tehsils, (iii) administrative officers to be represented in PSCs in equal proportion to political members with a predominance of district administrative officers, but with adequate representation of tehsil administrative officers, (iv) local government members reflecting the range of strengths and weaknesses of local governments in the province, and (v) two representatives of civil society organizations active in the province with a track record of engagement in local government affairs (e.g., support to local elections, local government training, service delivery. The PSC shall plan the activities to be supported by the Program and shall review the progress of the Program in each of the provinces concerned. The PSCs shall be empowered to approve investments at their level and the provincial proposals will only be sent to the NSC for consolidation and review for assessing legal compliance. The PSO and the PPSOs shall assist the NSC and the PSCs, respectively. NSC and PSCs shall be established as soon as possible so that each one of them shall have convened at least two meetings within three months of the Effective Date.</p>		
<p>The Borrower shall (a) ensure that the policies adopted and actions taken prior to the date of this Loan Agreement, as described in the Policy Letter, including the Policy matrix attached to it, continue to be in effect for the duration of the Program period and thereafter, and (b) promptly adopt the other policies and take other actions included in the Program as specified in the Policy Letter, the Policy Matrix, the Loan Agreement, and as agreed during the APRs, and ensure that such policies and actions continue to be in effect for the duration of the Program period and thereafter.</p>	(LA Sched 5, para 3)	Complied with.
<p>The Borrower shall keep ADB informed of, and the Borrower and ADB shall from time to time exchange views on, the progress made in carrying out the Program.</p>	LA Sched 5, para 4)	Complied with.
<p>The Borrower shall continue timely policy dialogue with ADB on problems and constraints encountered during implementation of the Program and on appropriate measures to overcome or mitigate such problems and constraints.</p>	LA Sched 5, para 5)	Complied with.

<b>Covenant</b>	<b>Reference in Loan Agreement</b>	<b>Status of Compliance</b>
The Borrower shall keep ADB informed of policy discussions with other multilateral and bilateral agencies that have implications for implementation of the Program, and shall provide ADB with an opportunity to comment on any resulting policy proposals. The Borrower shall take ADB's views into consideration before finalizing and implementing any such proposals.	LA Sched 5, para 6)	Complied with.
Without limiting the generality of Section 4.05 of this Loan Agreement or paragraphs 4 to 6 of this Schedule, the EA shall assist ADB by providing relevant data and information in such detail as ADB may reasonably request to facilitate review by ADB of the progress in the implementation of the Program.	LA Sched 5, para 7)	Complied with.
APRs shall be conducted prior to the beginning of each new fiscal year during the Program period, commencing with the second year of Program implementation, according to the review schedule as agreed upon between the Borrower and ADB. The review process shall (i) assess compliance with conditions for the release of the Second Tranche, (ii) assess progress with implementation of complementary activities agreed upon between the government (including the IAs) and ADB and as may be supported by the Technical Assistance Loans; and (iii) define requirements for adjustments to activities supported by the Technical Assistance Loans in the following fiscal year. The review process shall be carried out through a publicized and participatory process beginning at the district level during May to June as mutually agreed between the Borrower and ADB, to enable federal, provincial and district authorities, with input from civil society, to reflect the results, where appropriate, in their statutory planning and budgeting process. Satisfactory conclusion of the first APR on the complementary activities will be a condition for release of the Second Tranche.	LA Sched 5, para 8)	Partly complied with. Only two APRs have been conducted, in 2004 and 2005.
The MOF shall ensure publication of the results of the APRs through website and other media as agreed with ADB.	LA Sched 5, para 9)	Complied with.
The Borrower shall conduct performance monitoring and evaluation of the Program during and after implementation in accordance with a schedule and terms of reference to be mutually agreed upon by the Borrower and ADB. The performance monitoring and evaluation of the Program shall be based on the principles	LA Sched 5, para 10	Complied with.

<b>Covenant</b>	<b>Reference in Loan Agreement</b>	<b>Status of Compliance</b>
outlined in paragraphs 56 and 57 of the Report and Recommendation of the President in respect of the Program.		
The Counterpart Funds generated by the proceeds of the Loan shall be used to provide budgetary support for implementation of fiscal decentralization and devolution.	LA Sched 5, para 11)	Complied with.
The quarterly progress reports and the results of the APR process will be provided to ADB based on the consolidated reports provided by the PSO to the NSC, which reports shall be based on the annual plan approved by the NSC and describe the achievement of the performance measures against the targets, as agreed between the Borrower and ADB.	LA Sched 5, para 12	Complied with.
The Borrower shall ensure the timely implementation of the technical assistance projects funded by the First Technical Assistance Loan and the Second Technical Assistance Loan.	LA Sched 5, para 13	Complied with.
<b>Loan 1936 (in addition to the above)</b>		
It is the mutual intention of the Borrower and ADB that no other external debt owed a creditor other than ADB shall have any priority over the Loan by way of a lien on the assets of the Borrower. To that end, the Borrower undertakes (i) that, except as ADB may otherwise agree, if any lien shall be created on any assets of the Borrower as security for any external debt, such lien will ipso facto equally and ratably secure the payment of principal of, and interest charge and any other charge on, the Loan; and (ii) that the Borrower, in creating and permitting the creation of any such lien, will make express provision to that effect.	LA Section 4.06 (a)	Complied with.
<b>Loan 1937-PAK</b>		
The Borrower shall cause the Project to be carried out with due diligence and efficiency and in conformity with administrative, financial, engineering, environmental, fiscal decentralization and local governance practices.	(LA, Section 4.01(a)	Complied with
In the carrying out of the Project and operation of the Project facilities, the Borrower shall perform, or cause to be performed, all obligations set forth in Schedule 6 to this Loan Agreement	(LA, Section 4.01(b).	Complied with
The Borrower shall make available, promptly as needed, the funds, facilities, services, land and	(LA, Section 4.02)	Complied with



<b>Covenant</b>	<b>Reference in Loan Agreement</b>	<b>Status of Compliance</b>
other resources which are required; in addition to the proceeds of the Loan, for the carrying out of the Project and for the operation and maintenance of the Project facilities.		
In the carrying out of the Project, the Borrower shall cause competent and qualified consultants and contractors, acceptable to the Borrower and ADB, to be employed to an extent and upon terms and conditions satisfactory to the Borrower and ADB.	LA, Section 4.03 (a)	Complied with
The Borrower shall cause the Project to be carried out in accordance with plans, design standards, specifications, work schedules and construction methods acceptable to the Borrower and ADB. The Borrower shall furnish, or cause to be furnished, to ADB, promptly after their preparation, such plans, design standards, specifications and work schedules, and any material modifications subsequently made therein, in such detail as ADB shall reasonably request.	LA, Section 4.03 (b)	Complied with
The Borrower shall ensure that the activities of its departments and agencies, including MOF with respect to the carrying out of the Project and operation of the Project facilities are conducted and coordinated in accordance with sound administrative policies and procedures.	LA, Section 4.04	Complied with
The Borrower shall make arrangements satisfactory to ADB for insurance of the Project facilities to such extent and against such risks and in such amounts as shall be consistent with sound practice.	LA, Section 4.05 (a)	Complied with
Without limiting the generality of the foregoing, the Borrower undertakes to insure, or cause to be insured, the goods to be imported for the Project and to be financed out of the proceeds of the Loan against hazards incident to the acquisition, transportation and delivery thereof to the place of use or installation, and for such insurance any indemnity shall be payable in a currency freely usable to replace or repair such goods.	LA, Section 4.05 (b)	Complied with
The Borrower shall maintain, or cause to be maintained, records and accounts adequate to identify the goods and services and other items of expenditure financed out of the proceeds of the Loan, to disclose the use thereof in the Project, to record the progress of the Project (including the cost thereof) and to reflect, in accordance with consistently maintained sound	LA Section 4.06 (a)	Complied with

Covenant	Reference in Loan Agreement	Status of Compliance
accounting principles, the operations and financial condition of the agencies of the Borrower including MOF responsible for the carrying out of the Project and operation of the Project facilities, or any part thereof.		
The Borrower shall (i) maintain, or cause to be maintained, separate accounts for the Project; (ii) have such accounts and related financial statements audited annually, in accordance with appropriate auditing standards consistently applied, by independent auditors whose qualifications, experience and terms of reference are acceptable to ADB; (iii) furnish to ADB, as soon as available but in any event not later than six months after the end of each related fiscal year, certified copies of such audited accounts and financial statements. and the report of the auditors relating thereto (including the auditors' opinion on the use of the loan proceeds and compliance with the covenants of this Loan Agreement as well as on the use of the procedures for imprest account/statement of expenditures) all in the English language; and (iv) furnish to ADB such other information concerning such accounts and financial statements and the audit thereof as ADB shall from time to time reasonably request.	LA Section 4.06 )b)	Complied with
The Borrower shall enable ADB, upon ADB's request, to discuss the Borrower's and MOF's financial statements for the Project and its financial affairs related to the Project from time to time with. the Borrower's auditors, and shall authorize and require any representative of such auditors to participate in any, such discussions requested' by ADB, provided that any such discussion shall be conducted only in the presence of an authorized officer of the Borrower unless the Borrower shall otherwise agree.	LA Section 4.06(c)	Complied with
The Borrower shall furnish, or cause to be furnished, to ADB all such reports and information as ADB shall reasonably request concerning (i) the Loan, and the expenditure of the proceeds and. maintenance of the service thereof; (ii) the goods and services and other items of expenditure financed out of the proceeds of the Loan; (iii) the Project; (iv) the administration, operations and financial condition of the agencies of the Borrower responsible for the carrying out of the Project and operation of the Project facilities, or any part thereof; (v) financial and economic	LA Section 4.07 (a)	Not complied with. Most reporting was accomplished by the Advisory Technical Assistance office.

<b>Covenant</b>	<b>Reference in Loan Agreement</b>	<b>Status of Compliance</b>
conditions in the territory of the Borrower and the international balance-of-payments position of the Borrower; and (vi) any other matters relating to the purposes of the Loan.		
Without limiting the generality of the foregoing, the Borrower shall furnish or cause to be furnished to ADB quarterly reports on the carrying out of the Project and on the operation and management of the Project facilities. Such reports, shall be submitted in such form and in such detail and within such a period as ADB shall reasonably request, and shall indicate, among other things, progress made and problems encountered during the quarter under review, steps taken or proposed to be taken to remedy these problems, and proposed program of activities and expected progress during the following quarter.	LA Section 4.07 (b)	Not complied with.
Promptly after physical completion of the Project, but in any event not later than three (3) months thereafter or such later date as may be agreed. For this purpose between the Borrower and ADB, the Borrower shall prepare and furnish to ADB a report, in such form and in such detail as ADB shall reasonably request, on the execution and initial operation of the Project, including its cost the performance by the Borrower of its obligations under this Loan Agreement and the accomplishment of the purposes of the Loan.	LA Section 4.07 (c)	Complied with, late.
The Borrower shall enable ADB's representatives to inspect the Project, the goods financed out of the proceeds of the Loan, and any relevant records and documents.	LA Section 4.08	Complied with.
The Borrower shall ensure that the Project facilities and equipment financed under the Project are operated, maintained and repaired in accordance with sound administrative, financial, engineering, environmental, and maintenance and operational practices.	LA Section 4.09	Complied with.
It is the, mutual intention of the Borrower and ADB that no other external debt owed a creditor other than ADB shall have any priority over the Loan by way of a lien on the assets of the Borrower. To that end, the Borrower undertakes (i) that, except as ADB may otherwise agree, if any lien shall be created on any assets of the Borrower as security for any external, debt, such lien will ipso facto equally and ratably secure the payment of the principal of, and	LA Section 4.10 (a)	Complied with.

Covenant	Reference in Loan Agreement	Status of Compliance
interest charge and any other charge on the Loan; and (ii) that the Borrower, In creating or permitting the creation of any such lien, will make express provision to that effect.		
The provisions of paragraph (a) of this Section shall not apply to (i) any lien created on property, at the time of purchase thereof, solely as security for payment of the purchase price of such property; or (ii) any lien arising in the ordinary course of banking transactions and securing a debt maturing not more than year after its date.	LA Section 4.10 (b)	Complied with.
The term "assets of the Borrower" as used in paragraph (a) of this Section includes assets of any political subdivision or any agency of the Borrower and assets of any agency of any such political subdivision, including the SBP and any other institution performing the functions of a central bank for the Borrower.	LA Section 4.10 (c)	Complied with.
<p>Project Implementation</p> <p>The MOF shall be the executing agency with the PSO in the MOF headed by a full-time Director/Joint Secretary, and with adequate support staff. The PPSO in each province shall coordinate all province activities under the Project. The Borrower shall ensure that the PSO and each PPSO shall be appropriately staffed and maintained to the mutual satisfaction of the Borrower and ADB during the Project.</p>	LA Schedule 6, para. 1	Complied with.
At the federal level, the implementing agencies shall be (i) NRB, (if) the PAG, and (iii) the CGA, and any other department or agency of the Borrower mutually agreed between the Borrower and ADB.	LA Schedule 6, para. 2	Complied with.
At the provincial level, the implementing agencies <u>shall be</u> the LGCs, the departments of local government and such other departments and agencies of the provincial governments as may be mutually agreed between the Borrower and ADB.	LA Schedule 6, para. 3	Complied with.
<p>The Project shall be implemented in four Phases over four years from' the Effective Date as follows:</p> <p>(a) Phase I shall run from month 1 to 12 of the Effective Date;</p> <p>(b) Phase II shall run from month 18 to 24 of the Effective Date;</p> <p>(c) Phase III shall run from month 25 to 36</p>	LA Schedule 6, para. 4	Complied with.

Covenant	Reference in Loan Agreement	Status of Compliance
<p>of the Effective Date; and</p> <p>(d) Phase IV shall run from month 37 to 48 of the Effective Date.</p> <p>Activities to be undertaken during Phase I in the thematic, areas described in paragraph 2 of Schedule 1 to this Loan Agreement shall be finalized during the inception mission for the DSP to ensure that these meet the requirements of the MOF and IAs. Not later than the penultimate month of each of Phases I, II, and III, the Borrower and ADB shall, as a part of the DSP APR process, (i) review progress in the implementation of the activities supported under the Phase coming to an end and (ii) define the terms of reference for and activities to be undertaken in the next Phase. At any time as the Borrower and ADB may agree, the Borrower and ADB may agree to make necessary modifications to any Phase of the Project, including its duration.</p>		
<p>The Borrower shall ensure that within three months of the Effective Date and upon completion of the review of the scope of Phase 1 of the Project to the satisfaction of ADB, PSO shall initiate the hiring of consultants as specified in Schedule 5 of this Loan Agreement.</p>	LA Schedule 6, para. 5	Complied with, late.
<p>The Borrower shall ensure that at least 70% of the Loan proceeds shall be allocated to activities identified and approved at provincial level based on a formula approximating the formula of National finance commission.</p>	LA Schedule 6, para 6	Complied with.
<p>Training</p> <p>The Borrower shall ensure that the IAs shall prepare a comprehensive training program with the assistance of PSO and the relevant PPSOs, in consultation with the agencies involved and following a training needs assessment, where necessary. Each training program shall specify (i) the number of persons to be trained each year; (ii) the criteria for selection of candidates, (iii) linkage of training to performance evaluation and promotion; (iv). institutions proposed, (v) types of training courses to be followed and materials to be used, (vi) duration of each course, and (vii) estimated cost.</p>	LA Schedule 6, para. 7	Complied with.

<b>Covenant</b>	<b>Reference in Loan Agreement</b>	<b>Status of Compliance</b>
<p>Accounts, Audits and Reports</p> <p>MOF shall establish and maintain separate accounts for expenditure under the Loan. All financial transactions shall be recorded separately in the accounts in a manner that allows identification of expenditures under the Loan. The Borrower shall ensure that the accounts, together with the record of expenditures, shall be audited annually by an auditor acceptable to ADB, and that within three months of the end of the fiscal year, MOF shall submit to ADB certified copies of the audited accounts and financial statements.</p>	LA Schedule 6, para. 8	Complied with.
<p>Without limiting the generality of the provisions of Section 4.07 of this Loan Agreement, the Borrower shall ensure that MOF shall prepare quarterly progress reports with the assistance of the IAs and shall furnish these to ADB within 60 days after the period under review. The reports shall be in a format agreed upon with ADB and shall include information on the progress of Project implementation, problems encountered and measures adopted for their resolution, and the proposed program for the following quarter. The reports shall include information on disbursements under the Loan and contributions of the Borrower.</p>	LA Schedule 6, para. 9	Not complied with.
<p>Implementation of TA to be in Support of DSP</p> <p>The Borrower shall consult with ADB in the implementation of the Project to ensure that the implementation of the Project supports and is in consonance with the DSP.</p>	LA Schedule 6, para. 10	Complied with.
<p>Counterpart Funds</p> <p>The Borrower shall ensure that counterpart funds equivalent to \$4,500,000 comprising cash and contributions in kind for equipment, counterpart staff and office space are made available on a timely basis for the smooth and efficient implementation of the Project.</p>	LA Schedule 6, para. 11	Complied with.
<p>Project Performance Management System</p> <p>The Borrower shall monitor and evaluate the Project during and after implementation in accordance with a schedule and terms of reference to be mutually agreed upon by the Borrower and ADB.</p>	LA Schedule 6, para. 12	Complied with.
<p>Environmental and Social Considerations</p> <p>The Borrower shall follow ADB's guidelines on</p>	LA Schedule 6, para. 13	Complied with.

Covenant	Reference in Loan Agreement	Status of Compliance
gender and development in all Project activities.		
<b>Loan 1938</b>		
The Borrower shall cause the Project to be carried out with due diligence and efficiency and in conformity with administrative, financial, engineering, environmental, fiscal decentralization and local governance practices.	LA, Section 4.01(a)	Complied with.
In the carrying out of the Project and operation of the Project facilities, the Borrower shall perform, or cause to be performed, all obligations set forth in Schedule 6 to this Loan Agreement.	LA, Section 4.01(b).	Complied with.
The Borrower shall make available, promptly as needed, the funds, facilities, services, land and other resources which are required; in addition to the proceeds of the Loan, for the carrying out of the Project and for the operation and maintenance of the Project facilities.	LA, Section 4.02	Complied with.
In the carrying out of the Project, the Borrower shall cause competent and qualified consultants and contractors, acceptable to the Borrower and ADB, to be employed to an extent and upon terms and conditions satisfactory to the Borrower and ADB.	LA, Section 4.03 (a)	Complied with.
The Borrower shall cause the Project to be carried out in accordance with plans, design standards, specifications, work schedules and construction methods acceptable to the Borrower and ADB. The Borrower shall furnish, or cause to be furnished, to ADB, promptly after their preparation, such plans, design standards, specifications and work schedules, and any material modifications subsequently made therein, in such detail as ADB shall reasonably request.	LA, Section 4.03 (b)	Complied with.
The Borrower shall ensure that the activities of its departments and agencies, including MOF with respect to the carrying out of the Project and operation of the Project facilities are conducted and coordinated in accordance with sound administrative policies and procedures.	LA, Section 4.04	Complied with.
The Borrower shall make arrangements satisfactory' to ADB for insurance of the Project facilities to such extent and against such risks and in such amounts as shall be consistent with sound practice.	LA, Section 4.05 (a)	Complied with.

<b>Covenant</b>	<b>Reference in Loan Agreement</b>	<b>Status of Compliance</b>
Without limiting the generality of the foregoing, the Borrower undertakes to insure, or cause to be insured, the goods to be imported for the Project and to be financed out of the proceeds of the Loan against hazards incident to the acquisition, transportation and delivery thereof to the place of use or installation, and for such insurance any indemnity shall be payable in a currency freely usable to replace or repair such goods.	LA, Section 4.05 (b)	Complied with.
The Borrower shall maintain, or cause to be maintained, records and accounts adequate to identify the goods and services and other items of expenditure financed out of the proceeds of the Loan, to disclose the use thereof in the Project, to record the progress of the Project (including the cost thereof) and to reflect, in accordance with consistently maintained sound accounting principles, the operations and financial condition of the agencies of the Borrower including MOF responsible for the carrying out of the Project and operation of the Project facilities, or any part thereof.	LA Section 4.06 (a)	Complied with.
The Borrower shall (i) maintain, or cause to be maintained, separate accounts for the Project; (ii) have such accounts and related financial statements audited annually, in accordance with appropriate auditing standards consistently applied, by independent auditors whose qualifications, experience and terms of reference are acceptable to ADB; (iii) furnish to ADB, as soon as available but in any event not later than six months after the end of each related fiscal year, certified copies of such audited accounts and financial statements. and the report of the auditors relating thereto (including the auditors' opinion on the use of the loan proceeds and compliance with the covenants of this Loan Agreement as well as on the, use of the procedures for imprest account/statement of expenditures) all in the English language; and (iv) furnish to ADB such other information concerning such accounts and financial statements and the audit thereof as ADB shall from time to time reasonably request.	LA Section 4.06 )b)	Complied with.
The Borrower shall enable ADB, upon ADB's request, to discuss the Borrower's and MOF's financial statements for the Project and its financial affairs related to the Project from time to time with the Borrower's auditors, and shall authorize and require any representative of such auditors to participate in any, such	LA Section 4.06(c)	Complied with.



<b>Covenant</b>	<b>Reference in Loan Agreement</b>	<b>Status of Compliance</b>
discussions requested by ADB, provided that any such discussion shall be conducted only in the presence of an authorized officer of the Borrower unless the Borrower shall otherwise agree.		
The Borrower shall furnish, or cause to be furnished, to ADB all such reports and information as ADB shall reasonably request concerning (i) the Loan, and the expenditure of the proceeds and maintenance of the service thereof; (ii) the goods and services and other items of expenditure financed out of the proceeds of the Loan; (iii) the Project; (iv) the administration, operations and financial condition of the agencies of the Borrower responsible for the carrying out of the Project and operation of the Project facilities, or any part thereof; (v) financial and economic conditions in the territory of the Borrower and the international balance-of-payments position of the Borrower; and (vi) any other matters relating to the purposes of the Loan.	LA Section 4.07 (a)	Not complied with. Most reporting was accomplished by the Advisory Technical Assistance office.
Without limiting the generality of the foregoing, the Borrower shall furnish or cause to be furnished to ADB quarterly reports on the carrying out of the Project and on the operation and management of the Project facilities. Such reports, shall be submitted in such form and in such detail and within such a period as ADB shall reasonably request, and shall indicate, among other things, progress made and problems encountered during the quarter under review, steps taken or proposed to be taken to remedy these problems, and proposed program of activities and expected progress during the following quarter.	LA Section 4.07 (b)	Not Complied with. Most reporting was accomplished by the Advisory Technical Assistance office.
Promptly after physical completion of the Project, but in any event not later than three (3) months thereafter or such later date as may be agreed. for this purpose between the Borrower and ADB, the Borrower shall prepare and furnish to ADB a report, in such form and in such detail as ADB shall reasonably request, on the execution and initial operation of the Project, including its cost, the performance by the Borrower of its obligations under this Loan Agreement and the accomplishment of the purposes of the Loan.	LA Section 4.07 (c)	Complied with, late.

<b>Covenant</b>	<b>Reference in Loan Agreement</b>	<b>Status of Compliance</b>
The Borrower shall enable ADB's representatives to inspect the Project, the goods financed out of the proceeds of the Loan, and any relevant records and documents.	LA Section 4.08	Complied with.
The Borrower shall ensure that the Project facilities and equipment financed under the Project are operated, maintained and repaired in accordance with sound administrative, financial, engineering, environmental, and maintenance and operational practices.	LA Section 4.09	Complied with.
It is the mutual intention of the Borrower and ADB that no other external debt owed a creditor other than ADB shall have any priority over the Loan by way of a lien on the assets of the Borrower. To that end, the Borrower undertakes (i) that, except as ADB may otherwise agree, if any lien shall be created on any assets of the Borrower as security for any external debt, such lien will ipso facto equally and ratably secure the payment of the principal of, and interest charge and any other charge on, the Loan; and (ii) that the Borrower, in creating or permitting the creation of any such lien, will make express provision to that effect.	LA Section 4.10 (a)	Complied with.
The provisions of paragraph (a) of this Section shall not apply to (i) any lien created on property, at the time of purchase thereof, solely as security for payment of the purchase price of such property; or (ii) any lien arising in the ordinary course of banking transactions and securing a debt maturing not more than year after its date.	LA Section 4.10 (b)	Complied with.
The term "assets of the Borrower." as used in paragraph (a) of this Section includes assets of any political subdivision or any agency of the Borrower and assets of any agency of any such political subdivision, including the SBP and any other institution performing the functions of a central bank for the Borrower.	LA Section 4.10 (c)	Complied with.
<p>Project Implementation</p> <p>MOF shall be the executing agency. MWD and NSWC shall be the federal IAs, and the WDDs shall be the provincial IAs. Each WDD shall have established an Institutional Reform Cell (IRC), constituted and staffed to the mutual satisfaction of the Borrower and ADB. Each IRC shall be headed by a project director not below the rank of a Director.</p>	LA Schedule 6, para. 1	Complied with.

Covenant	Reference in Loan Agreement	Status of Compliance
<p>There shall be a Program Management Office (PMO) established in the MWD, and headed by a full-time Director/Joint Secretary, and with adequate support staff. The Borrower shall ensure that the PMO shall be appropriately staffed and maintained to the mutual satisfaction of the Borrower and ADB during the Project. PMO shall manage overall implementation, co-ordination and monitoring of the Project and provide guidance to the IRCs in Project implementation.</p>	<p>Complied with, LA Schedule 6, para. 2</p>	<p>Complied with.</p>
<p>NSC and PSCs shall regularly review progress of the Project as agreed between the Borrower and ADB. PMO and WDDs shall assist the NSC and PSCs, respectively.</p>	<p>LA Schedule 6, para. 3</p>	<p>Complied with.</p>
<p>Accounts, Audits and Reports</p> <p>MOF shall establish and maintain separate accounts for expenditure under the Loan. All financial transactions shall be recorded separately in the accounts in a manner that allows identification of expenditures under the Loan. The Borrower shall ensure that the accounts, together with the record of expenditures, shall be audited annually by an auditor acceptable to ADB, and that within three months of the end of the fiscal year, MOF shall submit to ADB certified copies of the audited accounts and financial statements.</p>	<p>LA Schedule 6, para. 4</p>	<p>Complied with.</p>
<p>Without limiting the generality of the provisions of Section 4.07 of this Loan Agreement, the Borrower shall ensure that MOF shall prepare quarterly progress reports with the assistance of the IAs and shall furnish these to ADB within 60 days after the period under review. The reports shall be in a format agreed upon with ADB and shall include information on the progress of Project implementation, problems encountered and measures adopted for their resolution, and the proposed program for the following quarter. The reports shall include information on disbursements under the Loan and contributions of the Borrower.</p>	<p>LA Schedule 6, para. 5</p>	<p>Not complied with.</p>
<p>The Borrower shall ensure that at least 85% of the Loan proceeds shall be allocated to activities identified and approved at provincial level based on a formula approximating the sharing formula of the National Finance Commission.</p>	<p>LA Schedule 6, para. 6</p>	<p>Complied with.</p>

<b>Covenant</b>	<b>Reference in Loan Agreement</b>	<b>Status of Compliance</b>
<p>Implementation of TA to be in Support of DSP</p> <p>The Borrower shall consult with ADB in the implementation of the Project to ensure that the implementation of the Project supports and is in consonance with the DSP.</p>	LA Schedule 6, para. 7	Complied with.
<p>Engagement of Consultants</p> <p>The Borrower shall ensure that the engagement of consultants pursuant to Schedule 5 to this Loan Agreement commences within three months of the Effective Date.</p>	LA Schedule 6, para. 8	Complied with, late.
<p>Counterpart Funds</p> <p>The Borrower shall ensure that counterpart funds equivalent to \$1,500,000 comprising cash and contributions in kind for equipment, counterpart staff and office space are made available on a timely basis for the smooth and efficient implementation of the Project.</p>	LA Schedule 6, para. 9	Complied with.
<p>Project Performance Management System</p> <p>The Borrower shall monitor and evaluate the Project during and after implementation in accordance with a schedule and terms of reference to be mutually agreed upon by the Borrower and ADB.</p>	LA Schedule 6, para. 10	Complied with.
<p>Environmental and Social Considerations</p> <p>The Borrower shall follow ADB's guidelines on gender and development in all Project Activities.</p>	LA Schedule 6, para. 11	Complied with.

## DECENTRALIZATION SUPPORT PROGRAM (DSP) FRAMEWORK

Program Description	Assumptions
<p><b>Program Objective:</b> Improved representation, accountability, service delivery, and poverty reduction through reforms in policy, legal, technical, and fiscal domains in support of decentralization</p>	<ol style="list-style-type: none"> <li>1. Geopolitical instability does not undermine sustainability of macroeconomic, governance, and intergovernmental fiscal reforms.</li> <li>2. Positive association exists between good governance and poverty reduction.</li> <li>3. Positive association exists among decentralization, economic development, and poverty reduction.</li> <li>4. Poverty reduction and devolved governance will continue to be a national priority for the government.</li> <li>5. Government commitment to implement gender reforms will be sustained.</li> <li>6. Government commitment to enforce accountability provisions (fiscal, human, institutional) will be sustained.</li> </ol>

	Program Description	Key Performance Indicators	Means of Verification	Assumptions/ Risks
1	<p><b>Policy Outcome:</b> Sufficient and effective Federal support for decentralization and related reforms</p>	<p><b>Legal:</b></p> <ul style="list-style-type: none"> <li>• Legislative framework for decentralization enacted including: Local Government Ordinance (LGO) 2001; LGO Amendment, 2002; controller general of accounts (CGA) Ordinance 2001; Auditor General Ordinance 2001.</li> </ul> <p><b>Institutional:</b></p> <ul style="list-style-type: none"> <li>• Gender Reform Action Plan (GRAP) approved by Federal and provincial cabinets</li> <li>• Federal and provincial governments to create a regulatory framework, including amendments to laws if necessary, to enable the auditor general to audit local governments at all levels, and finalize a time-bound implementation plan with the intention that the auditor general is capable of auditing all levels of local government.</li> </ul>	<ul style="list-style-type: none"> <li>• Federal and provincial government records</li> <li>• Federal and provincial government records</li> <li>• Provincial budgets and revised estimates</li> <li>• Approved reports on agency restructuring</li> <li>• Amended laws on audit (&amp; where necessary, clarificatory amendments to LGO 2001.</li> <li>• Approved Audit General Implementation Plan, including capacity building strategy</li> </ul>	<p><b>Legal:</b></p> <p>1.1 Decentralization will continue to be a national priority for the government, and key ordinances will be given sufficiently durable legal cover.</p> <p><b>Institutional:</b></p> <p>1.2 Sufficient political constituency is mobilized to support cabinet approval and subsequent implementation of GRAP at the Federal and provincial levels.</p> <p>1.3 Inter-agency coordination among National Reconstruction Bureau, Pakistan auditor general and controller general of accounts occurs in the context of ADB- and World Bank supported programs.</p>

	<b>Program Description</b>	<b>Key Performance Indicators</b>	<b>Means of Verification</b>	<b>Assumptions/ Risks</b>
		<b>Fiscal:</b> <ul style="list-style-type: none"> <li>Federal government allocates annually an amount to provinces and local governments at least equal to their share of General Sales Tax (GST) in accordance with the National Finance Commission (NFC) decision in 2002.</li> <li>Decentralization Transition Grant in fiscal year (FY) 2003 budget allocation of PRs1 billion</li> </ul>	<ul style="list-style-type: none"> <li>MOF records, annual revised estimates</li> <li>MOF records</li> </ul>	<b>Fiscal:</b> <p>1.4 Policy commitment to intergovernmental fiscal reforms for predictability, transparency, and timeliness is articulated in practice</p> <p>1.5 Vertical fiscal imbalances are reduced as a consequence of fiscal policy measures.</p>
1.1	<b>Result Area:</b> Federally supported enabling environment created for decentralization and related reforms	<b>Institutional:</b> <ul style="list-style-type: none"> <li>Pakistan auditor general (PAG) capacity to audit local government (LG) accounts in accordance with PAG strategic Human Resource Development (HRD) plan</li> <li>LG Council Accounts Committees performing functions as per rules of business</li> <li>District accounts office (DAO), tehsil (subdistrict) accounts office (TAO) and union accountants maintaining accounts in accordance with LG accounts codes</li> <li>Accounts and Audit Training Institute (AATI) providing effective training for LG accounts staff</li> <li>Project on Improvement of Financial Reporting and Auditing (PIFRA) and Project to Strengthen Accountability and Reporting (PSTAR) systems designed to meet requirements of LG financial managers</li> <li>Lessons generated by strategic monitoring systems, including social audit, influence implementation of decentralization and related reforms</li> </ul>	<ul style="list-style-type: none"> <li>PAG audit reports</li> <li>Annual Performance Review reports on progress with implementation</li> <li>LG council records</li> <li>Centro Investigation de Enfermedades Tropicales (CIET) social/community audit reports</li> <li>LG accounts records</li> <li>AATI reports</li> <li>PIFRA and PSTAR program design documents and implementation reports</li> <li>National Reconstruction Bureau (NRB) records</li> </ul>	

	Program Description	Key Performance Indicators	Means of Verification	Assumptions/ Risks
		<ul style="list-style-type: none"> <li>Public communication strategy raises awareness of citizens about decentralization</li> </ul>	<ul style="list-style-type: none"> <li>NRB records</li> <li>CIET social audit reports</li> </ul>	
2	<b>Policy Outcome:</b> Effective and sustainable province-local intergovernmental relations	<b>Legal:</b> <ul style="list-style-type: none"> <li>LGO 2001 amendment inserting Chapter XII and XIIA enacted and brought into force by each province</li> <li>Local Government Accounts Code by auditor general for districts, tehsils municipal authorities (TMAs) and union administration (UA) approved</li> <li>Local Government Budget Code 2002 approved</li> <li>New financial rules for Local Government together with internal audit rules and procedures approved</li> </ul>	<ul style="list-style-type: none"> <li>Provincial government records</li> <li>PAG records</li> <li>CGA records</li> <li>Provincial government records</li> </ul>	<b>Legal:</b> 2.1 Restructuring of federal – province intergovernmental relations provide incentives for effective reorientation of province – local intergovernmental relations 2.2 Incoming elected provincial assemblies enact and/or endorse promulgation of ordinances and regulations for decentralization and related reforms. 2.3 Legal provisions are effectively articulated in institutional arrangements, attitudes, and behaviors.
		<b>Institutional:</b> <ul style="list-style-type: none"> <li>Local Government Commission (LGC) regulating LG performance in accordance with mandate</li> <li>Independent Province Finance Commission (PFC) approving annual formula based transfers to local governments providing predictability and stability in local fiscal environment</li> </ul> <b>Fiscal:</b> <ul style="list-style-type: none"> <li>Performance-based grants and matching grants for preferential transfers for priority policies concerning poverty, gender, and local revenue mobilization, to act as means of policy transmittal instituted by each province</li> <li>Fiscal transfer rules, 2002 for ensuring transparency, timeliness, predictability, and certification notified by each province</li> </ul>	<ul style="list-style-type: none"> <li>LGC annual reports</li> <li>APR reports</li> <li>PFC reports</li> <li>APR reports</li> <li>DOF / PFC records and PFC annual reports</li> <li>Provincial government records</li> </ul>	<b>Institutional:</b> 2.4 Provinces ensure LGCs are provided with sufficient political, technical, and fiscal support to enable effective functioning. 2.5 Provinces ensure PFCs are provided with sufficient political, technical, and fiscal support to enable effective functioning. <b>Fiscal:</b> 2.6 Provinces accept principle of policy articulation through fiscal means, in preference for "command and control" modalities in relations with local governments. 2.7 Federal and province fiscal conditions are sufficiently stable and predictable to underwrite local government fiscal requirements. 2.8 Sufficient independence is provided to ensure PFC monitoring and publicity for fiscal transfers

	<b>Program Description</b>	<b>Key Performance Indicators</b>	<b>Means of Verification</b>	<b>Assumptions/ Risks</b>
<b>2.1</b>	<b>Result Area:</b> Province technical support, training, and mentoring of local governments	<b>Institutional:</b> <ul style="list-style-type: none"> <li>• Provincial government effectively managing capacity development, including mentoring, of LG elected councilors and administrators</li> <li>• Provincial government staff job descriptions reviewed in accordance with new training and mentoring role for LG</li> </ul>	<ul style="list-style-type: none"> <li>• Annual reports and APR reports</li> <li>• Provincial government staff APR/performance evaluation reports</li> </ul>	
<b>2.2</b>	<b>Result Area:</b> Provincial regulation of local governments	<b>Institutional:</b> <ul style="list-style-type: none"> <li>• Regulatory instruments are effective in managing intergovernmental relationships</li> <li>• LGC systems and procedures operational</li> <li>• Rules, procedures, and systems for intergovernmental relations among local governments including Mushavirat committee (intergovernmental dispute resolution committee) operational</li> </ul>	<ul style="list-style-type: none"> <li>• Provincial and LG plans and budgets</li> <li>• LGC annual reports</li> <li>• LG records and LGC reports</li> </ul>	
<b>2.3</b>	<b>Result Area:</b> Intergovernmental fiscal transfers and revenue mobilization	<b>Institutional:</b> <ul style="list-style-type: none"> <li>• Local fiscal stability is ensured by the timely, predictable and transparent fiscal transfers and ability of LG to generate local revenue</li> <li>• Revenue and transfer arrangements regularly published and discussed in public forums Proportion of funding coursed through incentive based matching grants</li> <li>• Reduction of gender gaps in social services</li> </ul>	<ul style="list-style-type: none"> <li>• PFC reports</li> <li>• PFC records</li> <li>• LG and province reports</li> </ul>	
<b>3</b>	<b>Policy Outcome:</b> Local Government Institutions managing resources	<b>Institutional:</b> <ul style="list-style-type: none"> <li>• Nationally sanctioned community/social audits (based on CIET surveys) conducted at least once in each district to assess access and quality of services in key social services, including police, health, and education</li> </ul>	<ul style="list-style-type: none"> <li>• NRB and LG reports</li> </ul>	<b>Institutional:</b> 3.1 Decentralized systems and procedures in support of improved service delivery result in allocative efficiency, greater equity, and sustainability of local government resource management.



	<b>Program Description</b>	<b>Key Performance Indicators</b>	<b>Means of Verification</b>	<b>Assumptions/ Risks</b>
	accountably and equitably	<ul style="list-style-type: none"> <li>LGC certifies that majority of District and tehsil governments are acting substantially in accordance with the spirit of LGO Section 115.</li> <li>Province certifies that adequately staffed and resourced district ombudsman has been appointed for each district, or clusters of districts.</li> </ul>	<ul style="list-style-type: none"> <li>District ombudsman's annual report published</li> <li>LG records</li> </ul>	<p>3.2 Political conditions in local government ensure that councils establish adequate engagement with their constituencies and workable accountability relations with administrative officials.</p> <p>3.3 Historically entrenched social inequalities (gender, class, and ethnicity) can be positively affected by decentralized systems of service delivery and political accountability.</p> <p>3.4 National efforts to improve political literacy have sustained impact on ability of citizen and councilors (in particular women) to access the political process.</p>
<b>3.1</b>	<b>Result Area:</b> Local government planning, budgeting, finance management and audit systems	<b>Institutional:</b> <ul style="list-style-type: none"> <li>Performance-based targets and measures for services agreed upon and incorporated in local budget systems</li> <li>Annual budgets allocate resources based on analysis of gender utilization of services and performance targets to reduce gender gaps</li> <li>Citizen conferences and action surveys conducted in preparation of LG annual plans and budgets</li> <li>Citizen community boards (CCBs) implementation of development activities in accordance with agreed upon procedures</li> <li>LG council committee members &amp; administrators effectively interacting to provide public services</li> <li>Norms and standards for council committees agreed</li> <li>Local Government Associations (Nazims; Women Councilors) operational</li> </ul>	<ul style="list-style-type: none"> <li>LG records</li> <li>LG annual reports</li> <li>LG reports</li> <li>CCB and village council reports</li> <li>LG reports</li> <li>LG records</li> <li>LGA reports</li> </ul>	
<b>3.2</b>	<b>Result Area:</b> Public access, accountability, and performance management in local government	<b>Institutional:</b> <ul style="list-style-type: none"> <li>Performance benchmarks established for LG services, governance processes, and systems</li> <li>Sample surveys utilizing purpose built software producing information for LG</li> </ul>	<ul style="list-style-type: none"> <li>LG reports</li> <li>LG reports</li> </ul>	

	<b>Program Description</b>	<b>Key Performance Indicators</b>	<b>Means of Verification</b>	<b>Assumptions/ Risks</b>
		<ul style="list-style-type: none"> <li>• Internal audit units effectively performing mandated functions</li> <li>• Ombudsman's offices functional for each district, resulting in improved systems for administrative dispute resolution</li> </ul>	<ul style="list-style-type: none"> <li>• LG reports</li> <li>• District and province annual reports of ombudsman</li> </ul>	

## ACTIVITIES CARRIED OUT UNDER THE TECHNICAL ASSISTANCE LOANS<sup>a</sup>

### A. TA Loan 1937-PAK: Local Government Performance Enhancement

Region	Project No.	Title
Federal		
	F004	Communication of DSP
	F006	Policy Dialogue Strategy
	F007	Grant Support for Local Accountabilities
	F201	Capacity Building/Technical Support for NFC Secretariat
	F202	Study of Women's Participation in Local Government System
	F203	GRAP Orientation Workshops
	F204	DSP Stakeholder Interaction
	F205	Orientation for Local Government Reforms
	F304	Institutional Development of Zila Accounts Committees
	F307	Outreach on Local Government Reform
	F308	New Financial Rules
	F309	Policy Research for Strengthening Local Government
	F311	Training of Local Government Officers for CCBs in Balochistan
	F313	Capacity Building Zila Mushawarat Committees
	F314	Strengthening Citizen Voice, Access, and Accountability to Local Government
	F401	Capacity Development for Higher Functionality of PFC Committees and Intergovernmental Relations
	F403	Support for Consolidation and Reconciliation of Accounts at the District Level During Transition to New Accounting Model
	F405	Institutional Development of PFC II
	F502	Support to Auditor General Office to Strengthen District Audit
	F601	Printing of Compendium of Laws, Rules, and Instructions for TMAs
Balochistan		
	B001	Framing Rules and Model Bylaws under BLGO 2001
	B002	Skill Development and Capacity Building of District Government Officials in Planning and Budget Making
	B004	Institutional Development of PFC
	B202	Preparation of Automated Database of Tax/Non-tax Receipts
	B301	Training of Second Round of Nazim
	B302	Training of TMA Officials in Planning and Budget
	B404	Outreach to DSP Stakeholders
	B501	Reflex Action Mechanism for Local Governments
	B601	Strengthening of Social Regulatory Mechanisms
NWFP		
	N001	Guidebook to Effective Use of Budget Manuals for Districts and TMAs
	N002	DDO Handbook and Financial Rules
	N003	Institutional Strengthening of Monitoring Committees
	N004	Skills Development for Zila Council
	N007	Institutional Development of PFC

Region	Project No.	Title	
Punjab	N008	Support for LGC	
	N009	Strengthening Zila Accounts Committees	
	N203	Strategic Plan for Core District Departments (Abbottabad, Bannu)	
	N205	Proposal for Honoraria for Focal Persons	
	N207	Preparation of Automated Database for Tax/Non-tax for TMAs Nowshera; Charsadda	
	N208	Reconstruction of Real Estate/Land Assessment for Abbottbod District and TMAs	
	N302	Development Planning Manual	
	N303	Outreach to Stakeholders	
	N305	Enhancing Local Accountabilities for Involvement in CSOs	
	N307	Technical Support for Liquid Asset Management	
	N309	Integrated Manual Services Toolkit	
	N401	Training of Elected Representatives Following 2005 Local Elections	
	N404	Capacity Building of Local Fund Audit Department	
			Capacity Building: Director General and TMA Officials Dealing with Budget and Planning
		P002	
		P005	Institutional Development of PFC
		P007	Exploratory Survey: Capacity Needs of Council Committees
		P008	Automated Database Tax/Non-tax for TMA Khanawal
		P201, 202	Extension of Capacity Building P002 for Director Generals and TMAs
		P205	Bylaws for District Governments
		P206	Local Government Resource Center
		P207	Proposal for Payment of Honoraria/Incentive to Focal Persons Manual on Powers/Functions/Duties of Elected and Key Local Government Officials
		P208	
		P209	Proposal for Payment of Honoraria/Incentive to Focal Persons
		P210	Bylaws for TMAs
		P304	Strengthening CCBs
		P305	DSP Outreach
		P308	Strengthening District Safety Commissions
		P309	Training of Second Generation Local Governments (Module)
		P310	Printing of Materials for P309
		P403	Reimbursement of Government of Punjab Funds
		P502	Printing/Distribution: Local Government Development Planning Manual
		P506	Strengthening Financial Management Systems in Punjab
		P507	Flexible Financing Facility for Local Governments
		P508	Training of Second Generation Councilors (District and Tehsil)
		P602	Training for Officers/Officials of Director Generals on Budget and Planning
	Sindh	S001	Building Capacity in Budget
		S002	Training on Performance Budgeting
S003		Development of Client Charters	

Region	Project No.	Title
	S004	Easy Access to Financial Rules and Laws
	S006	Tax/Nontax Database Tando Adam
	S008	Institutional Development of PFC
	S301	SLGO Rules for Provincial Government–LG&RD Department
	S302	Outreach
	S304	Model Bylaws
	S305	Capacity Building for Officers/Offices Working with CCBs (Larkana; terminated)
	S307	Improving SWM at TMA Level through PPP Performance Enhancement and Capacity Development for Musalihat.
	S308	Anjuman
	S309	Tax Policy/Database Jacobabad
	S403	Support for LGC
	S405	Training of Elected Representatives (Second Generation)
	S501	Capacity Building for New Representatives in Budget
	S504	Responsive Local Government Development
		Audit
		Accounts
		Communication, Strategic Monitoring, Social Audit
		Balochistan Medium-Term Policy Making
		Province Training Capacity Building, Mentoring
		Local Government Regulation and Intergovernmental Relationship
		Intergovernmental Transfer and Local Revenue Generation
		Performance Budgeting and Service Delivery
		Political, Institutional Arrangements for Restructuring for Improved Local Government Performance
		Public Access to Information and Internal Audit/Quality Assurance
		Public Grievance
		Manuals
		Compliance Audit Manual
		Manual for Union Administration
		Performance Audit Manual
		Performance Budgeting Guide
		Zila Accounts Training Manual
		Local Government Planning Manual (Volumes I and II)
		Handbook for Zila Council
		Handbook, Directorate of Local Fund Audit
		Training Manual: Local Fund Audit
		Function of Local Councils
		Guidebook for Citizen Community Board
		Budget Rules (NWFP)
		Guidebook for Officers and Officials

**B. TA Loan 1938-PAK: Gender and Governance Mainstreaming**

<b>Project No.</b>	<b>Title</b>
FG101	Gender Communication and Research
SG102	Improvement of Processes in Women Jails

BLGO = Balochistan Local Government Ordinance, CCB = Citizen Community Board, DSP = Decentralization Support Program, GRAP = Gender Reform Action Plan, LGC = Local Government Commission, NFC = National Finance Commission, NWFP = North West Frontier Province, PFC = Provincial Finance Council, PPP = public-private participation, SWM = solid waste management, TA = technical assistance, TMA = tehsil municipal administration.

<sup>a</sup> Activities planned for the TA but not carried out are not listed.

Source: Decentralization Support Program website.