



<b>1. Project Data:</b>		<b>Date Posted :</b> 07/23/2003	
<b>PROJ ID:</b> P077834		<b>Appraisal</b>	<b>Actual</b>
<b>Project Name:</b> Nwfp Structural Adjustment Credit	<b>Project Costs (US\$M)</b>	90	90
<b>Country:</b> Pakistan	<b>Loan/Credit (US\$M)</b>	90	90
<b>Sector(s):</b> Board: EP - Sub-national government administration (60%), General education sector (20%), Health (10%), Law and justice (5%), Roads and highways (5%)	<b>Cofinancing (US\$M)</b>		
<b>L/C Number:</b> C3687			
	<b>Board Approval (FY)</b>		03
<b>Partners involved :</b>	<b>Closing Date</b>	12/31/2002	12/31/2002

<b>Prepared by :</b>	<b>Reviewed by :</b>	<b>Group Manager :</b>	<b>Group:</b>
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**2. Project Objectives and Components**

**a. Objectives**

To support the Northwest Frontier Province's economic and social reform program, as the first of a proposed set of three programmatic loans. The four pillars of this program are: 1. Strengthen provincial governance through the reform of the civil service to enhance the accountability, integrity, and professionalism of state institutions . 2. Accelerate human development by improving the public health and education delivery systems and supporting the devolution of responsibilities to expand access to these services, with a focus on primary service delivery . 3. Improve Fiscal and financial management to increase provincial revenues, reprioritize expenditures, strengthen procurement and improve budget preparation, execution, and oversight . 4. Deregulate business and facilitate private sector development to enhance the prospects for growth and poverty alleviation .

**b. Components**

1. Strengthen provincial government's accountability and professionalism : (a) devolution; (b) restructuring and downsizing; (c) promoting merit and professionalism and improving human resource management; and (d) judicial reforms. 2. Accelerate human development: (a) education, and (b) health. 3. Fiscal and Financial management enhancement through improvements in: (a) fiscal sustainability, (b) taxes and user charges; (c) expenditures, (d) processes (e) fiscal devolution, (e) public financial management and accountability, (f) procurement, (g) overall transparency including public access to budget documents, (g) autonomous bodies/public enterprises. 4. Promote sustainable growth through private sector development . The project also included a monitoring component for poverty, social service delivery, and reform implementation .

**c. Comments on Project Cost, Financing and Dates**

The project cost US\$90 million financed by an IDA credit of US\$90 million. The project was appraised in April, 2002, approved by the Board on July 9, 2002, made effective July 12, 2002, and closed on schedule on December 31, 2002.

**3. Achievement of Relevant Objectives:**

1. (a) To support devolution of responsibilities to the provincial government, Government restructured 15 departments and streamlined management of government programs by abolishing 11 departments. (b) Government eliminated more than 6,000 positions and rationalized staffing patterns so that about 6,500 staff were placed in a surplus pool. All but 1,400 of these have been transferred to other departments . Rationalization of staffing is continuing although total wage payments has increased substantially, partly because of added health and education staff. (c) The independence of the Provincial Public Service Commission was increased, with autonomy for recruitment for grades 11 and above. Donors have supported an extensive training program . A monitoring system has been implemented (Multiple Indicator Cluster Survey) but has not progressed as far as hoped . (d) The judiciary is now independent of the executive branch . 2. (a) Concerning education. the number of students increased by 115, 000 (6 percent) in 2002/3 compared to 2001/2. For FY 2003, the education budget increased nearly 25 percent (so

that the government is on track to reach the target increase of 75 percent by FY05). and 2,400 new teachers have been recruited. (although to reach the target of 30 pupils per teacher, another 12,200 teachers will need to be recruited). Management reforms are being implemented as expected to facilitate the process of district -based management, including the separation of teaching and management staff, and training . Teacher redeployment is proceeding according to plan . Essential physical facilities in all primary schools, especially for girls, are being added . Secondary school capacity is being expanded . Primary schools are being established in districts with serious deficiencies. (b) Concerning health, seven district hospitals were upgraded to A level . Increased financial authority has been granted to tertiary hospital, district health services are being rationalized in 12 districts and 255 posts have been created to meet critical needs . Female nursing staff is being increased and more Lady Health Workers are being hired. The immunization program is being expanded (but see section 5 below on disappointing results thus far). 3. (a) Some expensive debt was retired early . An agricultural income tax was introduced . (b) Tax simplification was achieved as the number of provincial taxes was reduced from 22 to 9. (c,d,e) A financial management reform program was initiated, and reconciliation of accounts has now reached 96 percent. (f) Public procurement has been improved, although not efficiency improvements have been observed . (g) no significant items noted in ICR. 4. (a) Industrial inspections have been streamlined, and only private insurance companies will be involved in these inspections, reducing the role of government . (b) A new hydel policy was formulated to promote small private sector investments. The Mines Committee was reconstituted with substantial private sector participation .

**4. Significant Outcomes/Impacts:**

The judiciary is now independent. Civil service staffing patterns have been rationalized to a significant extent . Expenditures were re-prioritized in the sense that a number of new teachers and health workers were hired . Modest improvements in health and education sector indicators have been achieved . Financial autonomy has increased in the health sector. Taxes were simplified, and an agricultural tax implemented .

**5. Significant Shortcomings (including non-compliance with safeguard policies):**

1 (c) Concerning the objective to improve human resource management, there are still frequent transfers of staff, and the average term for secretary is only 7 months. There are also frequent lower level staff rotation . This undermines the move to a merit-based civil service. (d) With the independence of the judiciary, the role of the Magistrate was abolished, but nothing has replaced this so now a large backlog of family cases and minor civil cases which Magistrates used to hear. Also, Magistrates were a check on police power, now there is no check and it is reported that there is public dissatisfaction with growing police corruption . 2.a. Concerning education, the gross enrollment rate only increased from 70 to 72 percent, against a target of 85 percent by 2005. Female primary enrolment only increased from 54 to 56 percent, against a target of 84 percent for 2005. The dropout rate has only declined from 45 to 43 percent against a target of 35 percent in 2005. While these predate the effects of teacher redeployment and recruitments and upgrading of girls' schools, targets are not likely to be reached without substantial new initiatives . (b) Concerning health, infant mortality declined by only 3 percent and immunization coverage of children aged 12-23 months has increase by about 3 percentage points from 54 to 57 percent against a target for 2005 of 80 percent . A plan to finance the upgrading of district hospitals through a hospital fund in which doctors contribute 30 percent of the proceeds from their private practices was rolled back, since this was not effectively enforced . Population with access to safe drinking water was unchanged at 58 percent, compared to a target of 65 percent by 2005. 3. Little progress has been made in provincial revenue collection . Provincial own revenues increased by 3 percent in 2001/2 and 2.5 percent in 2003/3 first three quarters), well below the budget target of over 20 percent. Fiscal deficits first fell, but subsequently sharply increased. While part of this sharp increase in deficit was due to increased spending in priority areas such as education and health, "expected outcomes in these sectors have not yet been observed ". Provincial government did not follow up its revenue policy measures with necessary revenue administration measures, and without remedial measures fiscal targets were not achieved . 4. This pillar was not broad enough to define and support measures that would have a real impact on private sector development in the NWFP .

6. Ratings:	ICR	OED Review	Reason for Disagreement /Comments
Outcome:	Satisfactory	Moderately Satisfactory	There are a large number of shortfalls in implementation as enumerated in section 5 above. Key among these was the elimination of the Magistrate function as part of the judicial reform program, without any substitute to replace Magistrate functions such as settlement of small disputes and as a vehicle to address cases of police corruption . While Board presentation conditions were certainly met, many of the follow-on conditions were not. See table 2 of the ICR where the current status of monitoring indicators shows little or no improvement in many

			<p>components. This does not bode well for the proposed follow-on programmatic loan, and a substantial effort will be needed to keep the program moving forward. Nevertheless, a number of important achievements were supported by this project, such as establishment of an independent judiciary, rationalization of provincial staff, teacher employment and investment in schools, and tax simplification, for which the project merits a rating of moderately satisfactory. In sum, note that the ICR rates implementation of two of the four components as satisfactory, one as marginally satisfactory, and one as marginally unsatisfactory. Finally, since this is only the first in a series of Programmatic Loans, important components only set out conditions for future implementation, and these will need to be more fully evaluated in the context of those follow-on operations.</p>
<b>Institutional Dev .:</b>	Modest	Modest	
<b>Sustainability :</b>	Likely	Non-evaluable	<p>The reviewer agrees with the ICR that there are important uncertainties in sustainability, and the ICR cites good reasons why a rating of "non-evaluable" is appropriate. There is a lack of monitoring and evaluation indicators throughout the project, and many references to slow or disappointing progress. In Table 2 of the ICR, 7 out of the 16 monitoring indicators are not available. Implementation of the follow-on components of the project (post-Board) is characterized by the ICR as "marginally unsatisfactory", which reflects "shortfalls in implementation". Again, as with the outcome rating, it is important to note that this is only the first in a series of Programmatic Loans, and important components only set out conditions for future implementation. These will need to be more fully evaluated in the context of those follow-on operations.</p>
<b>Bank Performance :</b>	Satisfactory	Satisfactory	<p>While agreeing with the rating of satisfactory, Bank Performance raises a number of issues. Prior actions were weak, there was very little ESW, there was an excessive focus on inputs and the ramifications of important parts of the program were not adequately thought through, with judicial reform and the elimination of the magistrate function being one important example.</p>
<b>Borrower Perf .:</b>	Satisfactory	Satisfactory	
<b>Quality of ICR :</b>		Satisfactory	

**NOTE:** ICR rating values flagged with '\*' don't comply with OP/BP 13.55, but are listed for completeness.

#### **7. Lessons of Broad Applicability:**

1. ICRs for programmatic loans need to present detailed progress reports on all elements of the program as does this ICR, they should also present clear overall perspectives concerning what has been achieved /attempted in earlier

reforms, where the reform needs to go, and how helpful the loan has been in moving the country along, generally in terms of the Policy Matrix of the Program Document . 2. Judicial Reform needs to be carefully considered and its ramifications fully understood before proceeding . In this case, the unfortunate lacunae left by the abolition of the Magistrate has brought some unnecessary hardship to the population . 3. Technical Assistance projects to support adjustment loans should be seriously considered . In this case, the lack of a technical assistance loan limited the effectiveness of the project .

**8. Assessment Recommended?**  Yes  No

**Why?** This is a complex operation pursued in tandem with a SAC for Sindh province and a SAC for Pakistan. It would be useful to audit these as a group, given the central role they would play in Pakistan's development, especially if a CAE were planned for Pakistan .

**9. Comments on Quality of ICR:**

While the ICR presents a large number of details of this project and is satisfactory, more effort could have gone into placing this project in perspective, stepping back from the details, and giving an integrative overview of progress and shortcomings in implementation. For example, the ICR could have drawn on Attachment 1 of Annex A of the IDA Program Document to place progress to date better in terms of the medium term program . The ICR also could have better explained why key reform champions such as the former Finance Minister and former Education Minister were not re-elected and are no longer in the provincial government, and whether their role in reform was a factor in this event.