

# 1. Annual Review - Summary Sheet

<b>Title: Sub-National Governance Programme</b>		
<b>Programme Value: £38 million</b>		<b>Review Date: 02 March 2015</b>
<b>Programme Code: 202367</b>	<b>Start Date: 01 Apr 2013</b>	<b>End Date: 30 Sep 2017</b>

## Summary of Programme Performance

Year	<b>2014</b>	<b>2015</b>					
Programme Score	<b>A</b>	<b>A</b>					
Risk Rating	<b>High</b>	<b>High</b>					

## Summary of progress and lessons learnt since last review

SNG had a successful second year of implementation and made particular progress on:

- Providing significant support to both Punjab and Khyber Pakhtunkhwa in preparation of 2014-15 budget
- Setting up the budget transparency baseline in both provinces using Open Budget Index (OBI) methodology, a key related success was the publication of citizen budgets with gender-disaggregated data.
- Updating the Planning Manual for Punjab; for the first time in 30 years.
- Roll out of the first round of Challenge Fund with eight grants focusing on improving education outcomes for 120,000 direct beneficiaries (60% women) at district level.
- Piloting four GIS cells to support districts governments in their planning and monitoring using socio-spatial data.
- Enabling significant efficiency savings in the budget cycle 2014-15 (£12m for Punjab and £7m for KP) by improved budgetary management.

Key lessons learnt were:

- For a programme as complex as SNG, sustainability and coherence of the technical assistance are the key challenges and must be reviewed continuously.
- The programme needs to focus more on districts and engage on budget execution. Logframe, in particular, can be more ambitious to deliver this.
- Issues such as local government elections and staff turnover are political choices, and the programme must engage at the right level to leverage its reform agenda.

## Summary of recommendations for the next year

- SNG must complement its technical assistance with government's capacity building to ensure sustainability of the reform and to reduce a dependency on the technical assistance.
- Retaining its flexibility, the programme must proactively respond and adapt to the decentralisation agenda once the local governments are in place. With local government elections announced, the programme must shape its engagement in advance of the local governments being in place.
- The challenge fund should shift its focus to addressing problems of structures and institutions and drive governance innovations at district level; which is both better VFM and stronger alignment with rest of the programme.
- With good results on improving planning and budgeting process, the programme also needs to strengthen its engagement on budget execution and performance monitoring.
- The programme must prioritise gender and equity issues, particularly under the output 1 and 3. This should be incentivised in the workplan and the logframe.

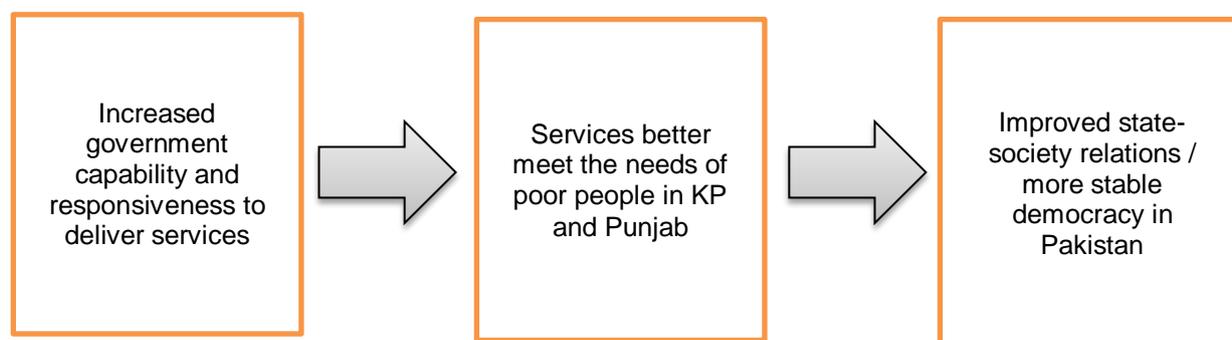
## A. Introduction and Context

DevTracker Link to Business Case:	<a href="http://devtracker.dfid.gov.uk/projects/GB-1-202367/documents/">http://devtracker.dfid.gov.uk/projects/GB-1-202367/documents/</a>
DevTracker Link to Log frame:	<a href="http://devtracker.dfid.gov.uk/projects/GB-1-202367/documents/">http://devtracker.dfid.gov.uk/projects/GB-1-202367/documents/</a>

### Outline of the Programme:

DFID Pakistan's Sub-National Governance (SNG) programme, 2013-2017, responds to the challenge of weak governance in Khyber Pakhtunkhwa (KP) and Punjab - the two focus provinces across DFID Pakistan's portfolio. The programme aims to contribute towards stable democracy in Pakistan by supporting the improvement of government service delivery in 12 districts, six each in Khyber Pakhtunkhwa (KP) and Punjab.

### SNG Theory of Change



In its first two years, there have been six areas of SNG programme activity:

1. **Technical Assistance** on public financial management, planning and local governance at both provincial and sub-provincial levels
2. **Challenge Funds** in both provinces to pilot innovative service delivery interventions at sub-provincial levels
3. Provision of ear-marked financial aid to roll out **Conditional Grants** in 6 districts in KP in line with Output Based Budgeting (OBB)
4. Work with the World Bank, primarily in Punjab, on three Externally-Financed Outputs (**EFOs**) on Information and Communication Technology (ICT); Right To Information legislation; and a Public Expenditure and Financial Accountability (PEFA) assessment of Pakistan's Federally Administered Tribal Areas (FATA)
5. Support the establishment of an effective and viable **Special Monitoring Unit (SMU)** to improve service delivery in selected departments of the Government of Punjab.
6. Piloting **Geographical Information System (GIS)** at district level to strengthen evidence-based planning and monitoring using adequate socio-spatial data.

## B: PERFORMANCE AND CONCLUSIONS

### Annual outcome assessment

The programme's outcome aims at an improved service delivery at the district levels. Outcome indicators rely on the Pakistan Living Standards Measurement survey (PLSM), for which data is not yet available. The review therefore cannot comment on specific levels of progress at outcome. An independent mid-term impact evaluation confirms that the programme remains relevant to the context, the needs of the government and the intended beneficiaries; it is therefore likely that the trajectory against outcome targets has been positive. Both the impact evaluation and the review underline the need for greater emphasis on coherence and sustainability to increase the likelihood of achieving the outcome.

The three outputs are mutually reinforcing and the logic that if governments are providing services based upon informed planning and peoples' needs and have stronger capacity to deliver these services will result in services that better meet peoples' needs. It remains important for the programme to measure the service delivery aspect at the output level. At the outcome level, it is worth revisiting the indicator and look at the data sources which are available rather timely.

### Overall output score and description

Since all the three outputs are assessed as having met expectations, this annual review aggregates to an **overall score of A** in year 2014/15. This marks progress since the last annual review for 2013/14, where one of the three outputs was moderately not meeting expectations. Operating in a challenging environment, the programme has been leading the reform agenda on finance and planning functions in Punjab and Khyber Pakhtunkhwa with clear government buy in. Major successes of the programme include improvement in the budget transparency, better use of evidence and planning in the budget cycle and an improved fiscal space in both provinces. The programme is largely on track with some questions around sustainability and coherence, which are reflected in the key lessons and actions below:

### Key lessons

- The Theory of Change, which the impact evaluation suggests is ambitious, must be thoroughly tested throughout the programme e.g. measuring sustainable transformation in service delivery at output level.
- While the programme interventions are important and relevant, to ensure sustainability, the programme must consider and engage on contextual factors such as government capacity, staff turnover and political will.
- In the service delivery chain, the importance of district government cannot be emphasised more. Despite the uncertainty around local government ordinance, district stakeholders and structures must be engaged to achieve the programme's overall objectives.
- Robust grant management mechanisms are essential but not enough to drive innovation in a challenge fund; the theme of call for proposals needs stronger strategic focus and better coherence with the programme objectives. From a sustainability perspective, the programme could really benefit from stronger government involvement
- To date, the programme has largely focused on the planning and budgeting reforms, going forward it is important to monitor and improve the budget execution and on ground performance to improve service delivery.

### Key actions

- Building on a baseline of strong provincial engagement, the programme must increase its focus at district level in the year 3 and year 4 work plans.
- On PFM and planning function, the programme needs to focus more on execution and monitoring with direct linkage to service delivery.
- Government's capacity needs, at both district and provincial levels, should be identified and addressed in parallel to the provision of technical assistance.

- The future rounds of challenge fund should align more with the technical assistance and should focus more on addressing the governance weakness in structures and institutions at district level.
- The modality for the implementation of conditional grants should be revisited to ensure that funds flow and the expected results are robustly monitored and accounted for.
- Government counterparts should be encouraged to review programme progress more proactively and systematically.

### **Has the logframe been updated since the last review?**

The logframe was revised after the first annual review and all recommendations were incorporated in consultation with the programme implementer and the government counterparts. The current review recommends to:

- Revisit outcome level indicators and find alternatives to out of date PSLM.
- Revisit the indicators 1.1 and 3.1 to be more specific about the definition of success.
- Revisit the targets in indicator 2.3 and 3.1 with the objective of being more ambitious.
- Carefully reflect on the influencing options and attribution issues for the forward delivery in the indicators 2.1 and 3.2.

## C: DETAILED OUTPUT SCORING

<b>Output 1</b>	<b><i>Decisions by sub-national governments are based on robust evidence</i></b>		
Output number per LF	1	<b>Output Score</b>	<b>A</b>
Risk:	<i>High</i>	Impact weighting (%):	30%
Risk revised since last AR?	<b>No</b>	Impact weighting % revised since last AR?	No

<b>Indicators Punjab</b>	<b>Milestones</b>	<b>Progress</b>
<b>Output indicator 1.1:</b> District budgets based on evidence of people's needs	6 districts have budget proposals based on evidence including needs assessments	<b>Meeting expectations (A):</b> End March all 6 districts will have budget proposals based upon needs assessments
<b>Output indicator 1.2:</b> Service improvement pilots are evaluated and successful pilots are adopted by provincial governments	2 pilots operational and 4 additional pilots shortlisted for award; with future benefit for 60,000 people	<b>Meeting expectations (A):</b> 3 pilots operational for round 1 (Education) and 4 pilots (Health) shortlisted for round 2
<b>Output indicator 1.3:</b> Government uses Geographic Information Systems (GIS) to monitor and plan quantity and quality of services	GIS operational in 2 districts and used for service delivery monitoring	<b>Meeting expectations (A):</b> GIS cells operational in 2 districts; districts have started to use these cells in their service delivery planning
<b>Indicators KP</b>	<b>Milestones</b>	<b>Progress</b>
<b>Output indicator 1.1:</b> District budgets based on evidence of people's needs	6 districts have budget proposals based on evidence including needs assessments	<b>Meeting expectations (A):</b> End March all 6 districts will have budget proposals based upon needs assessments
<b>Output indicator 1.2:</b> Service improvement pilots are evaluated and successful pilots are adopted by provincial governments	2 pilots operational and 4 additional pilots shortlisted for award; with future benefit for 60,00 people	<b>Meeting expectations (A):</b> 5 pilots operational for round 1 and 8 pilots shortlisted for round 2
<b>Output indicator 1.3:</b> Government uses Geographic Information Systems (GIS) to monitor and plan quantity and quality of services	GIS operational in 2 districts and used for service delivery monitoring	<b>Meeting expectations (A):</b> GIS operation in 2 districts, districts have started to use these cells in their service delivery planning

### Key Points

**District budgets based upon evidence:** In Punjab, SNG conducted District Health needs assessment in District Bahawalnagar and Hafizabad, which underlined the challenges of prioritisation in medicine procurement and insufficient operational budget for the vaccinations. The findings were discussed with District Governments which led to devolution of Health Budget within District i.e. from District to sub-District level and an increase in primary healthcare budget of 52% in Hafizabad and 209% in Bahawalnagar. Preliminary data in Bahawalnagr shows an estimated increase of patient coverage by 64% to approximately one million patients as compared to the previous year owing to better availability of medicines alone and the major beneficiaries of the process are women and children (70%). The needs assessment exercise has been replicated for other four SNG Districts as well and the District budgets for all the six SNG Districts for 2015-16 shall be based on citizens needs.

In KP, over the last six months SNG has worked with communities and districts to identify service delivery needs and build planning and budgeting capacities of district authorities. The process was formalised in November during the roll out of the new Budget Call Circular and Annual Development Plan Guidelines. To date, SNG has held a total of 180 consultations with civil society, and local groups,

to undertake district needs assessments in conjunction with district officials. They have also held 70 consultations on the budget development process with the support of AAWAZ and Alif Ailaan. Women's participation in pre-budget consultations has risen from 0% in 2014/15 to %15 in 2015/16.

Going forward the challenge will be embedding the planning consultation process in the routine of District planning and budgeting activities.

**Service improvement pilots:** SNG has made significant progress in the roll out of the Challenge Fund. Under the Round 1, 8 pilots have been launched and the lessons from the first round have strengthened the Round 2 process with greater government involvement. Together the grants target more than 120,000 direct beneficiaries in both provinces (meeting the milestone), which include students, teachers, government officials, parents teacher councils (PTC), community leaders and members of selected Civil Society Organizations etc. Of these beneficiaries, 60% are female beneficiaries, and 50% of the programmes are focused in marginal areas.

Though the fund has been launched successfully, it is too early to gauge their success and sustainability. The independent evaluation positively reviewed the challenge fund process, with some caveats, and commended the general innovation that the challenge fund has promoted. The evaluation and the challenge fund team have acknowledged that Round 1 was not sufficiently engaged with key district officials to encourage future up-take of the projects. This issue has been addressed under Round 2 with much greater interaction between the challenge fund team and district officials.

The round 2 for Punjab is focusing on Health and is in advanced stages with contract negotiations are underway with four finalists in Punjab. The proposals focus on use of ICT in Immunization, Tele-diagnostics, procurement and District ambulance resource management. The estimated beneficiaries from round 2 are more than 200,000 (60% women and girls). The round 2 for KP also focused on health, but the selection of the proposal is relatively slow and is expected to be completed in April.

Despite increased interaction with district officials, the challenge of scale up and government buy in remain, compounded by a lack of technical management skills to enable district management of challenge fund pilots. The programme could benefit from wider consultations and joint-monitoring with the district government officials. Moreover, beyond the practical issues of implementation, the challenge fund could also benefit from re-focusing on governance issues that impact service delivery, rather than simply seeking to encourage projects that address service delivery gaps at the district level, a potential duplication with other DFID challenge funds.

**Geographic Information System:** The GIS initiative is a tri-partite agreement between the Urban Unit and District Governments with SNG acting as a bridge. Progress in this area has been slow, but is currently picking up pace. In November 2014 SNG contracted the Punjab Urban Unit to implement the GIS programme, and the GIS cells are now fully set up in Haripur and Karak districts in KP and in Vehari and Sheikhpura districts in Punjab. Their use in district planning and monitoring is the next and crucial step and there is a lot of enthusiasm around this at district level. While the initial programme focus remains on using GIS for health and education services, the unintended benefits of the system in transport, rescue operations or electoral delimitations also look realistic.

Review notes that a significant amount of work is required to fully embed the GIS work into the planning and budgeting systems of the Districts and Provincial governments. The focus of SNG should be on making GIS sustainable, effectively used by officials, building capacity of a critical mass of mid-tier officials at District level in each department who understand how to use GIS. It is too early to comment on impact however SNG should have examples in six months' time of how Government used GIS for evidence based decision making.

However just like the challenge fund, the focus of SNG should be on making GIS sustainable, effectively used by officials, building capacity of a critical mass of mid-tier officials at District level in each department who understand how to use GIS. It is too early to comment on impact however SNG should have examples in six months' time of how Government used GIS for evidence based decision making.

## Summary of responses to issues raised in previous annual reviews:

Recommendation 2014 Annual Review	Response
Consider investing more in political engagement and influencing in both provinces to complement the set of technically robust interventions	SNG has made some progress on this and have engaged select legislative committees on finance and local government. The review still feels that the programme could invest more on this and can bank on the opportunities such as political drives on for service delivery in both KP and Punjab.
If implementation of the local government acts in each province is delayed (i.e. local bodies are not in place by 01 July 2014) the programme will need to reconsider its workplans and priorities for 2014/15	Implementation of Local Government Acts has continued to be delayed; SNG continues to monitor this process. District level engagement is still quite thin on the workplan but will be prioritised in 2015-16 workplans.
The programme will need to retain its flexibility of design to meet ongoing high demand from district offices for short-term technical assistance	The flexibility has been maintained for example support to immunisation work in Bahwalnager and Hafizabad under needs assessment. GIS cells were also tailored to the district needs.
Ensure that SNG challenge funds are closely coordinated with other similar challenge funds and initiatives, including those funded by DFID (Alif Ailaan/Ilm Ideas)	Further work and lesson learning could be done; the Annual Review team has found that there are likely some lessons SNG could learn from other challenge funds on encouraging innovation

## Recommendations

- **Focus on implementation and budget utilisation:** The needs assessments and GIS system are useful tools to strengthen the planning and budgeting processes in the province. However, it is important that monitoring of these processes be extended beyond reporting on the development of the documents, but further into budget execution, tracking and use of GIS.
- **A stronger governance focus for the challenge fund:** The challenge fund projects have started well; however:
  - there is a need for a greater focus on ensuring that the concepts are both innovative and able to be scaled up by government.
  - A greater focus on innovation is required to realise the potential of the challenge fund. Any discrepancies of the challenge fund purpose with the theory of change and the objectives of the overall programme must be addressed.
  - Specifically for the round 1 grants, the programme must ensure that there is sufficient coordination and coherence with ILM Ideas grants which also focused on education e.g. grant going to the Communicators for using radios to train teachers.

<b>Output 2</b>	<b>Sub-national government services are more responsive to peoples' needs</b>		
Output number per LF	2	<b>Output Score</b>	<b>A</b>
Risk:	<i>High</i>	Impact weighting (%):	30%
Risk revised since last AR?	<i>No</i>	Impact weighting % revised since last AR?	<i>No</i>

<b>Indicators Punjab</b>	<b>Milestones</b>	<b>Progress</b>
<b>Output indicator 2.1:</b> Proportion of budget allocated to primary health and primary education at district level	Share of non-salary recurrent budget in primary health and primary education allocated to the district level is 60%	<b>Meeting expectations (A):</b> Allocation of non-salary recurrent budget rose to 60% in the 2014/15 budget
<b>Output indicator 2.2:</b> Number of Departments / districts using smart information communication technology	1 Department (Education or Health) 6 Districts	<b>Moderately not meeting expectations (B) :</b> A wide range of ICT interventions were piloted ( <i>more than 10 interventions across 5 departments</i> ) through World Bank EFO with limited emphasis on sustainability and coherence.
<b>Output indicator 2.3:</b> Provincial Open Budget Index score	Provincial Open Budget Index (OBI) score improved by 5 per cent (58 from 55)	<b>Moderately Exceeding expectations (A+):</b> SNG supported the GoPb to improve its OBI score from 55 to 61 (a 10% improvement over the base)
<b>Indicators KP</b>	<b>Milestones</b>	<b>Progress</b>
<b>Output indicator 2.1:</b> Proportion of budget allocated to primary health and primary education at district level	Share of non-salary recurrent budget in primary health and primary education allocated to the district level is 24%	<b>Meeting expectations (A):</b> Allocation of non-salary recurrent budget rose to 28% in the 2014/15 budget
<b>Output indicator 2.3:</b> Provincial Open Budget Index score	Provincial Open Budget Index (OBI) score improved by 5 per cent	<b>Moderately Exceeding expectations (A+):</b> SNG supported the GoKP to improve its OBI score to 51 (a 16% improvement over the base)

## Key Points

**Non-salary recurrent budget:** The proportion of non-salary recurrent budget allocated to primary health and education in all 12 SNG districts increased and met the logframe targets (to 60% in Punjab and to 28% in KP). This is a considerable success but does not tell the entire story as SNG has made significant progress on a wide range of issues:

- SNG supported Government in preparation of design options for PFC (Provincial Finance Commission) Award as well as a simulation model for the PFC Award in both provinces. With local Government elections expected in late 2015, this substantial piece of work shall prove extremely valuable.
- Key achievements have been realised in leveraging the health and education programmes' efforts to increase overall allocation for health (21% in Punjab, 10 % in KP) and education (17% in Punjab, 20 % in KP) in the 2014-15 provincial budgets.
- In Punjab, the needs assessment exercise under output 1 led to an increase of BHU (Primary Health Care) resources by 209% in Bahawalnagar and 52% in Hafizabad. The need assessment also had an overall impact allocation of non-salary recurrent budget in Education and Health in these two

Districts as well as other four SNG Districts and the overall allocations went up from 58% to 60% of the total non-salary recurrent budget.

- SNG also supported the governments in preparation of 'Medium Term Development Framework' as well as Annual budget 2014-15 in both provinces.
- Roll out and operationalization of the conditional grants steering committee and framework that has significantly address delivery issues of small scale infrastructure at the local level. This has been noted and integrated into the GoKP budget for 2014/15 with a PKR 2 billion allocation for conditional grants

These are significant achievements; however, further work is required to take forward the implementation of the PFC award, specifically the delegation of financial powers, and a specific request from the Finance Department officials in KP. At the same time the sustainable implementation of these systems is essential, Finance Department officials noted that more capacity especially at mid-tier level is required to ensure that tools such as the OBB and MTBF are fully embedded and managed by the department in either province.

On **conditional grants**, a key component of the programme's original design, SNG has invested a significant amount of time to improve the process and management of these grants. The establishment of a steering committee chaired by Finance Department to address the audit findings was a key activity in putting conditional grants back on track. SNG also works across the GoKP to build a consensus on agreeing a framework for the functioning of conditional grants. This led to a Rs 2 billion investment in conditional grants by the Elementary and Secondary Education Department. Beyond this work on conditional grants, SNG has successfully reviewed the conditional grants framework, and with finance department had this framework signed off at the highest level. The next steps for DFID's outstanding £6.5 million financial aid investment remain in discussion, with a view to fully embed the conditional grants in the GoKP systems with robust implementation modality. Potential concepts need to be discussed between the GoKP and DFID with SNG support.

**Open Budget Index:** the publication of the Citizens' Budget 2014-15 is considered a significant success by GoKP and GoPb officials and external stakeholders alike. This was the first time such a document was produced to disseminate budgetary information in a simple and easily understood manner for public consumption. It is, however, worth noting that the main audience appears to have been the Provincial Assembly members who remarked that this was the first time they have understood the budget.

Beyond this SNG undertook and finalised an assessment of budget transparency at the Provincial level, using the Open Budget Index, a significant global innovation in monitoring budget transparency at the sub-national level. Through the publication of Citizen Budget and Budget Strategy Paper, the scores have progressed significantly from the baseline, which is further complemented by OBB and MTFP initiatives to leverage greater transparency and social accountability.

Less positively, it is not yet clear how these tools will be taken forward and sustained beyond the life of SNG. The independent evaluation noted that SNG is aware that the citizen's budget is only a tool and that more needs to be done to ensure that it is sustainable and effective in improving transparency.

### **Use of ICT by Government:**

The World Bank provided significant technical assistance to the Government of Punjab for the continuous improvement and institutionisation of Citizen Feedback Model<sup>1</sup> as a performance management tool. So far 6 million unique citizens have been contacted through this model, which is a significant success as a major citizen-state accountability interface. This model is a good example of deterrence factor in discouraging corruption, however the evidence is still limited on the improvement of services.

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<sup>1</sup> Citizen Feedback Model (<http://punjabmode.gov.pk>) is a communication channel allowing citizens in Punjab to provide feedback on service delivery in involved departments (Operational in 12 departments and 36 districts).

Working with Technology for People Initiative (TPI) at LUMS and the Centre for Technology in Governance at ITU, a range of e-governance solution were developed and piloted. For example:

- Development of low cost biometric technologies for attendance monitoring in health and education
- Inexpensive geo-mapping for demographics and service-delivery outlets to allow better decision making in GoPb
- Government Open Data Kit (GODK): Streamlining and centralization of government databases for the consumption of government officials leading to a simple solution for M&E and analysis.
- Open Data Initiative (ODI): Following up on RTI law, providing a web-interface where anyone can access, search through, compare and crosscheck different government datasets.

While there is mixed evidence on sustainability and impact of these solutions, this component's key success lies in testing and creating government's appetite for e-governance solutions. Credit goes to this component for piloting tablets for service delivery monitoring across and finding low cost viable solutions, which have now been picked up Health and Education monitoring teams to inform health and education roadmaps.

These pilots also lacked coherence with the wider TA and the government priorities in general, and both DFID and World Bank could have been more strategic about the design and implementation of this component.

## Recommendations

- **Build capacity and embed key planning and budgeting tools:** SNG should focus on how to strengthen and ensure sustainability of budget reforms in both provinces This may be the budget transparency reforms of the MTBF and OBB process. There has been positive progress on the PFM strategy, with Finance Officials noting that they are seeking political buy in for the reform strategy. However, a key next step will be ensuring that central and line department capacity is strengthened to ensure the sustainability of key reforms such as the OBB and MTBF, currently seen as dependent on SNG. Ensuring that PFM reforms are embedded and not consultant driven is essential criteria for the success of this programme.
- **Conditional Grants funding:** the GoKP and DFID need to take forward a dialogue on the future of existing DFID funds for conditional grants. It is important that the long-term outcome of this non-sector budget support are clear and are adding value for the wider governance agenda of KP. This should focus on how best to support district's capacity to deliver under both the performance frameworks as well as under the new local governments.
- **Working on e-governance:** SNG should continue supporting ICT initiatives with particular focus on sustainability. SNG needs to explore opportunities for collaboration with Government partners like Punjab Information Technology Board (PITB) and make efforts to ensure that ICT interventions are owned and sustained beyond SNG timelines.

Recommendation 2014 Annual Review	Response
DFID should consider a targeted advocacy strategy for Government of Punjab to ensure quality and integrity of PFC design is retained (transparent and rules-based leading to sufficient and predictable financing for new local government bodies)	SNG is engaged with both the local government department as well as with the provincial committee on fiscal space.
Review the milestones for indicator 2.1 to assess the realism of the percentage increases in budget being directed to service delivery in a post-PFC award environment. Clear agreement is needed between the Government of KP and the programme on how these milestones will be calculated	Logframe was revised and agreed with the government counterparts.
Encourage closer integration between World Bank	There was partial improvement in the coordination

ICT EFO teams and SNG to enable effective practical application of pilots in districts. This should include field testing the mapping work currently being supported at the Lahore University of Management Sciences (LUMS)	largely through setting up regular meetings and by developing a joint action plan. Limited synergies were realised, as the government counterparts were different for both teams.
Clarify OBI milestones which should refer to percentage (or index) points rather than simply percentage increases from baseline	Logframe was revised and agreed with the government counterparts.

<b>Output 3</b>	<b>Strengthened sub-national government capability to deliver basic services</b>		
Output number per LF	3	<b>Output Score</b>	<b>A</b>
Risk:	<i>High</i>	Impact weighting (%):	40%
Risk revised since last AR?	<i>No</i>	Impact weighting % revised since last AR?	<i>No</i>

<b>Indicators Punjab</b>	<b>Milestones</b>	<b>Progress</b>
<b>Output indicator 3.1:</b> Sub-national planning is more performance orientated (especially for health and education)	Framework for performance-based budgeting agreed in pilot Districts	<b>Moderately not meeting expectations (B)</b> : SNG has supported the introduction of a performance framework at district level covering Health sector but budgeting is still based at provincial level with limited discretion on budget decisions at District levels
<b>Output indicator 3.2:</b> % of budget reaching service delivery units	Expenditure tracking survey completed in two districts and baseline established	<b>Meeting expectations (A):</b> Study has been undertaken in two districts – the draft report has been received.
<b>Output indicator 3.3:</b> Increased provincial resources to finance services	Expenditure saving / revenue raising activities delivery efficiency savings of £2 million	<b>Exceeding expectations (A++):</b> Potential efficiency savings of £12 M+: <ul style="list-style-type: none"> <li>- £8m for flood relief and rehabilitation</li> <li>£4m from education sector payroll audit</li> </ul>
<b>Indicators KP</b>	<b>Milestones</b>	<b>Progress</b>
<b>Output indicator 3.1:</b> Sub-national planning is more performance orientated (especially for health and education)	Framework for performance-based budgeting agreed in 6 districts	<b>Meeting expectations (A):</b> SNG has supported the introduction of a performance framework at district level covering six sectors with strong buy in from the provincial and the district administrations.
<b>Output indicator 3.2:</b> % of budget reaching service delivery units	Expenditure tracking survey completed in two districts and baseline established	<b>Meeting expectations (A):</b> Study has been undertaken in two districts – the draft report has been received.
<b>Output indicator 3.3:</b> Increased provincial resources to finance services	Expenditure saving / revenue raising activities delivery efficiency savings of £2 million	<b>Exceeding expectations (A++):</b> Improved allocative efficiencies as a result of expenditure rationalization worth PKR. 1.122 billion (£7m).  Identified efficiency savings to the tune of PKR. 143 million (£0.92m) as a result of IT payroll audit for E&SE Department.

## Key Points

Although the milestones for 2014-15 are mostly met, the independent evaluation notes that the programme has yet to respond to the key needs of citizens due to the early stage of implementation, which has largely focused on provincial level PFM.

**Performance oriented planning:** Despite the initial plans of the GoKP and GoPb, the implementation of the decentralisation agenda is yet to occur in KP (the current date for local elections is June 2015 in KP and September 2015 in Punjab). As a result, service delivery has not been devolved, and the core functions of planning and budgeting remain centralised at the provincial level. District service delivery departments have a limited role in planning and budgeting. Decisions on budgetary and ADP resource allocations are made at the provincial level, with limited assessment of actual performance and realities at the district level. This continued centralisation has had implications on the work that SNG has been able to undertake at the district level. The independent evaluation noted that SNG has remained overly focused at the provincial level and more work is required to shift activities to the service delivery level (i.e. the district level).

This does not imply that SNG has not engaged at the district level. Through the annual budget process, SNG has been able to support the introduction of performance frameworks at district level, which should improve allocations for service delivery units. Key documents have been modified and approved to enable this process, with the Provincial Government issuing ADP Guidelines and a BCC (Budget Call Circular) facilitating shift towards performance-oriented planning at the district level.

In **KP**, SNG has further worked with the departments to ensure that Provincial OBBs indicators are translated to district level OBB, and that a performance framework system for districts is put in place in a dashboard format with ownership by the Reform Implementation Cell. All Deputy Commissioners have been issued the guidelines on updating these dashboard on monthly basis. Dashboard is updated by the districts and the information generated is available for decision makers at the highest level such as Chief Secretary's office and the ministers. The success of this instrument will now depend on effective use in monitoring and performance measurement, and SNG will remain fully engaged on this.

Similarly, in **Punjab**, a lot of good work has been done in developing DEA and DHA rules and strategies for the Education and Health departments. This is essentially substantial preparatory work which shall be very beneficial when local Governments and DEA/DHAs are established. SNG is also supporting the revision of Planning Manual for Planning and Development department, which is being revised after a gap of almost 40 years. Chairman P&D in a recent conversation highly appreciated the quality of work being done in this regard.

These activities have been complimented by SNG's active engagement with the Strategic Development Partnership Framework (SDPF) in KP, which has provided a platform to start the consideration of performance monitoring. The SDPF has been translated into a time-bound and costed medium term reform roadmap clearly identifying prioritized interventions and broader costing through four-year IDS 2014-18. The Independent Evaluation specifically recognised the value of the SDPF as an effective forum for dialogue. Departmental officials, expressly commended SNG's work on the SDPF as a key source of support. However, they stressed that there is still a significant amount of capacity development that is required to embed these processes within the GoKP.

Beyond this, it is also clear that much more work is required to strengthen performance based planning and monitoring, to make it part of the daily routine of Government. Specifically, SNG needs to work with the relevant departments to consider how to create more effective accountability incentives at the district level for the proposed performance frameworks currently in discussion with the P&D department.

**Budget reaching service delivery units:** SNG is in the process of developing a baseline assessment of how allocated funds reach service delivery units and key reasons for the delay in funds. SNG has conducted an a public expenditure tracking survey (PETS) of primary healthcare services in both Punjab and KP- which also was a longstanding PIFRA recommendation. The survey covered a sample of BHUs (Basic Health Units) in each district, and was undertaken in four districts - Buner and Karak in KP, and

Mandi Bahauddin and Bahawalnagar in Punjab. While the complete reports from these surveys should be ready by the end of March, this area of work remains behind schedule. This exercise also maps fund flows and shall be very helpful in addressing some of the key bottlenecks in fund flows to service delivery units including the political economy questions. World Bank is doing expenditure tracking for primary education sector and the two initiatives together shall inform the design of future interventions to improve timely and efficient use of resources at District level. This work stream needs to be a key priority for SNG in year three leading to a focus on budget execution to realise more effective service delivery outcomes.

Additionally, SNG through its support on planning and budget, and cross-departmental PFM dialogue, has established its credibility with the key departments, potentially creating the space for more robust discussions with the relevant departments on budget execution. The momentum of education and health roadmaps in Punjab and PTI's renewed delivery focus in KP should help to reinforce SNG's work in this area.

**Improved fiscal space:** SNG has made significant progress in supporting improvement in GoKP and GOPb/fiscal space.

## **KP**

Through budget analysis done with the Finance Department, SNG helped the GoKP realise efficiency savings of £7 million from improved budgetary management. At the same time, an IT payroll audit for the Elementary and Secondary Education Department identified efficiency savings of up to £0.92 million.

Beyond these two activities, SNG also worked with the Excise and Taxation Department to conduct a sales tax survey during 2014. This activity, conducted in Peshawar and Abbottabad, aimed to collect sample information on taxable and non-taxable businesses, and identify key gaps in the sales tax collection net. The survey collected data on 1,448 service providers, of which 1,017 were found to be taxable while 431 were assessed as non-taxable. It was found that a very few service providers (about 10%) had National Tax Number (NTN) and less than 5% had a Sales Tax Registration Number (STN). The survey data also shows that surveyed businesses (996) in the Peshawar district alone had paid Sales Tax amounting to Rs. 90 million in the last financial year. However, the estimated annual turnover of these establishments suggested that Rs. 1.5 billion should have been collected. Thus, the survey suggests a potential increase in collections of 1500%. Similarly, businesses surveyed (426) in the Abbottabad district had paid Sales Tax of Rs. 18 million whereas the survey suggested potential sales tax payments of Rs. 821 million during the current financial year, suggesting a potential increase of 4000% in sales tax collections from this district. In total, the sales tax survey has pointed to enhanced revenue potential of Rs. 2.3 billion from districts of Abbottabad and Peshawar, compared to actual sales tax collection of Rs 109 million.

With GIZ actively engaging in the tax administration sector at the Provincial Level, SNG will need to assess the role it can play in year three to support increases in fiscal space for the Provincial Government.

## **Punjab**

SNG conducted payroll audit of education employees and the draft report points to potential savings of £ 4 Million especially on account of ineligible allowances to teachers and education managers. The payroll audit covered almost one third of the entire provincial work force and the savings in terms of future benefits of the audit is even substantial. Similarly, SNG worked with Government to reallocate resources from low priority/ inefficient areas to rehabilitation of flood affectees and the efficiency savings in this regard were again close to £4 Million. Lastly, SNG reviewed the business process of EPI/Vaccination program for health department. SNG estimates the potential benefits if Government adopts this new process to be in excess of £20 Million, although this is just an estimate.

SNG also supported development of an action plan on Provincial Tax and now this plan is being finalized by Finance Department in consultation with all three tax-collecting agencies. Similarly, SNG supported an institutional review of Punjab Revenue Authority, which led to reduction of hundreds of proposed new posts without affecting the efficiency of the organization.

## Summary of responses to issues raised in previous annual reviews (where relevant)

Recommendation 2014 Annual Review	Response
Revisit PFM reform priorities between now and end September 2014 to ensure continued government commitment to producing and implementing PFM strategies	Work is on going in this area, but has been delayed due to slow work PFM strategies and staff turnover in the finance departments. SNG is working with the Finance Department(s) to build political buy-in for a PFM reform agenda.
Ensure all conditional grant and PFC work is undertaken in a conflict sensitive manner	Conflict reports have been completed for all SNG districts, and there is some evidence that District Teams have incorporated these reports into their thinking. SNG is currently considering how to take this forward.

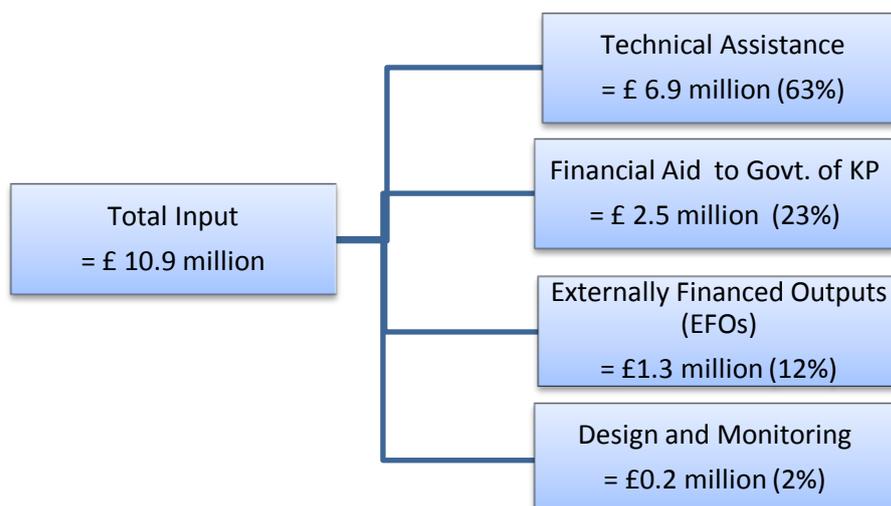
## Recommendations

- Delivery of plans:** SNG has been very successful in developing key planning and budget documents and processes; the OBB process and the SDPF most effectively demonstrate this. However, SNG recognises that they need to shift from the production of documents and plans to supporting the delivery of these plans. There is a risk SNG focuses too heavily on the documentation rather than the implementation. The completion of the expenditure tracking activity is a key entry point for a greater focus on budget execution and delivery of key service delivery activities. It is essential that the main thrust of this work is at district level.
- Capacity building:** Linked to a greater focus on delivery, SNG in the coming two years needs to become more effective at ensuring its advisors are building government capacity. The Independent Evaluation notes that SNG needed to more effectively define the role of advisors within Government, especially because the government counterparts so positively view the SNG team, they often become an extension of Government.
- Coordination on revenue collection:** Collaboration with GIZ, World Bank and other DFID programmes will be essential in determining how best to proceed with the revenue collection and enhanced fiscal space activities.
- Expanding payroll audit:** SNG should look into possibility of expanding pay roll audit exercise for whole of the provincial civil service to maximize benefits from the first phase of pay roll audit.

## D: VALUE FOR MONEY & FINANCIAL PERFORMANCE

### Key cost drivers and performance

The total spend to date on the SNG programme is £10.9 million (29%) out of total programme budget of £38.1 million. The component wise breakdown of spend is set out below;



The largest spending continues to be on the Technical Assistance contract managed by OPM. As a technical assistance programme, it is expected and a reasonable key cost driver.

Financial Aid in support for roll out of Conditional Grants has not been released to Government of KP after FY 2012/13 because of the irregularities reported through the continuous audit of the programme. The audit recommendations have mostly been addressed this year and the yearly allocations in the existing MOU are subject to revision based on a new funding modality agreed with the Government of KP.

### VfM performance compared to the original VfM proposition in the business case

Business case recognised that the programme interventions at provincial and sub-national levels would lead to both tangible and intangible benefits and social outcomes whose attribution to the programme may not be easily quantified. However, using conservative assumptions, selected tangible benefits were quantified – including increased productivity of the government and ultimate welfare gains enjoyed by end users of services (such as longer life and higher income). Benefit stream were assumed for up to 7 years from the programme start date, yielding a Net Present Value (NPV) and internal rate of return (IRR) on investment of £6.5 million and 22% respectively.

Given that the programme has been in implementation phase for two years now and as evident in the assessment below, that DFID funded inputs have started to yield returns in terms of efficiency gains and savings for the government through better planning and budgeting. Now there is a need to collect data to assess the welfare gains for direct beneficiaries, with an aim to tackle issues of attribution and double counting, which in turn will allow replacing assumptions in the business case with evidence when quantifying the benefits. This could be achieved through closer monitoring of the intervention (collecting data on a retrospective basis) and using the planned impact assessments of all major interventions under the programme. Once this information is available, it will allow the team to meaningfully quantify

the benefits (including returns on investment) and compare it with original business case VFM proposition (which may also need revisions as delivery mechanisms of some planned activities have changed).

### **Assessment of whether the programmer continues to represent value for money**

The £38 million Sub-National Governance Programme (SNG) aims to strengthen governance in the provinces of Punjab and Khyber Pakhtunkhwa (KP), in particular in government budgeting and planning processes, to make public services more effective, efficient and targeted. The programme is half way through in its implementation period and has met most of its logframe targets set for March 2015 using only 29% of its total budget, suggesting that it has done well in terms of achieving economy and efficiency<sup>2</sup>. However, it is a challenging to make an overarching assessment that overall programme is delivering VFM due to three reasons. Firstly, although the logframe milestones have been met, but it is still unclear (including attribution challenges within the delivered outputs) if the outputs are effectively being converted into outcomes<sup>3</sup>. Secondly, partial but significant part of the programmes needed to focus on district level planning and execution with direct link to service delivery; which did not gain expected traction because of factors such as delay of local government elections and a parity towards provincial TA. Lastly, and most importantly, the key question remain if the interventions will be sustainable once the DFID funding has ended. Capacity at district level and sustainability of interventions are critical VFM questions not just for SNG programme but also for wider service delivery agenda. A failure to embed these reforms at district level in a sustainable manner also has serious implications for large DFID investments in the two provinces, especially post local government elections. The review recognises that the PFM reforms may take a long time to demonstrate their impact and hence recommends collecting information which measures the effectiveness with a particular view on sustainability, particularly at district level, of these interventions.

Having said that, there are three major components of the programme where DFID funded interventions have started to demonstrate VFM. Selected illustrations are discussed below:

**Under output 1**, there is evidence available, which suggests that direction of travel is appropriate that decisions by sub national governments are based on robust evidence.

- Needs assessments have influenced budget proposals in 12 districts of KP and Punjab, with potential benefits for 25m people (16m in Punjab and 9m people in KP)<sup>4</sup>. More specifically, health budgets for 2014/15 for Bahawalnagar and Hafizabad districts increased by 209% and 69% respectively following SNG needs assessments in June/July 2014. Partly because of budget increases, EDO(Health) Bahawalnagar reports that patient load at Basic Health Units (BHUs) in the district has increased by 64% compared to last year, now catering to 1 million people. While full impact data is not yet available, but this preliminary data suggests improved access to basic health care for 36% of the district population, many of whom are female, marginalised and poor, at a cost of £0.42 per patient consulting a BHU. In KP, using evidence is being embedded more effectively, as revised Annual Development Plan (ADP) guidelines issued by P&D department now endorse the requirement for needs-based budgeting. However, it will be important to see if the government actually ensures that this is implemented in spirit.
- At a unit cost of £141,106, GIS cells have been made operational in four out of the 12 target districts in KP and Punjab to monitor and plan quantity and quality of services. This initiative has a potential to bring further efficiency gains in budget planning and execution. Since, the systems have just been made operational in four districts; it is a bit early to comment on the tangible benefits that it will deliver. However, this is the time that information collection should start in a structured manner. The aim of the information collection should be that district planning and monitoring is becoming more needs and evidence based, while real-time information from GIS systems is efficiently used for the purposes of course correction.

<sup>2</sup> Specifically in technical assistance (because of flexible design of the TA which has also delivered additional outputs), conditional grants (30-40% cheaper than government systems) and GIS (they have been able to efficiently use existing data and information in-turn reducing the input cost).

<sup>3</sup> It is evident that programme feels challenged in measuring outcomes.

<sup>4</sup> Sustainability and replication in other districts still needs to be seen

There are good VFM illustrations under **output 2**, which focuses on ensuring that sub-national government services are more responsive to peoples' needs:

- SNG's investment of £844,725 has played a significant role<sup>5</sup> in ensuring that government of KP and Punjab stick to their commitment of increasing the non-salary budget for education and health sectors. In KP, the share of the total non-salary budget allocated to the health and education sectors was increased to 28% in 2014-15, compared to a target of 24% in 2014-15 and a baseline of 22% in 2012-13. Similarly, in Punjab, budget allocated to the health and education sectors increased to 60% in 2014-15, 2% higher compared to a baseline of 58% in 2012-13. This was mainly achieved through continuous support to the 12 districts that SNG is directly engaged in, lobbying the provincial governments and leveraging support from health and education related DFID's technical assistance. Precise increases in the 12 districts stood at £7.4million, implying that for every £1 SNG investment contributed to an increase of £9 in non-salary budgets for education and health<sup>6</sup>.
- Additionally, to ensure that the budget processes are transparent and respond to people needs more efficiently, SNG invested £795,352 to produce quality Citizens Budgets in KP and Punjab. This led to an improvement in international budget transparency score by 7 points to 51 points (16% improvement over base) in KP and by 6 points to 61 points (11% improvement over base) in Punjab.
- Furthermore, building up on Freedom of Information (FOI) momentum, SNG contributed significantly on budget transparency in both provinces by establishing first ever sub-national baselines using OBI methodology and enabling the publication citizen budgets and budget strategy papers with an aim of decreasing disconnect between the budget cycle and the common public vis a vis politicians.

VFM is the strongest under the **output 3** (total cost of £2.6 million to date), which aims to **strengthen sub-national government capability to deliver basic services**

- With the support of SNG funded technical assistance, allocative efficiency savings of £7 million have already been realised in KP from improved budgetary management<sup>7</sup>, while in Punjab efficiency savings of £8m were realised for 381,977 flood-affected families besides £4 million efficiency savings from Punjab education payroll audit. A total of £15m efficiency savings already realised, which is directly attributable to SNG investment, suggests a saving cost ratio of 35.3<sup>8</sup> i.e. every £1 investment led to £35.3 savings.
- Similarly, SNG supported a tax survey in KP, which conservatively pointed to new and existing avenues that could be brought in the provincial tax net. The potential additional tax revenues of £15m were identified in KP, which implies that for £1 invested has a potential of reaping £35.3 in tax revenues. It will be critical for the GoKP to actually collect these potential revenues. If target is missed, then we may want to qualify the reasons of missing this target to understand if the weakness was in the process of pointing to potential revenue avenues or administrative capacity the government to collect these taxes.

**Recommendation:** It is evident that the programme has started delivering; it is necessary now to start collecting information on how these outputs are translating into outcomes and are they sustainable. Unless such information is monitored, it is still early to say with confidence that the interventions are effective and sustainable.

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<sup>5</sup> Including both advocacy and technical assistance

<sup>6</sup> SNG has also contributed to an increase in Punjab's overall non-salary budget in education and health by £24 million. Since, it was government's own agenda as well hence direct attribution to SNG is bit of a challenge and not claimed as SNG achievement in this assessment.

<sup>7</sup> Six to 7 expenditure heads were critically analysed to ensure that the spending remains a) in line with previous years actual expenditures and b) admissible limits.

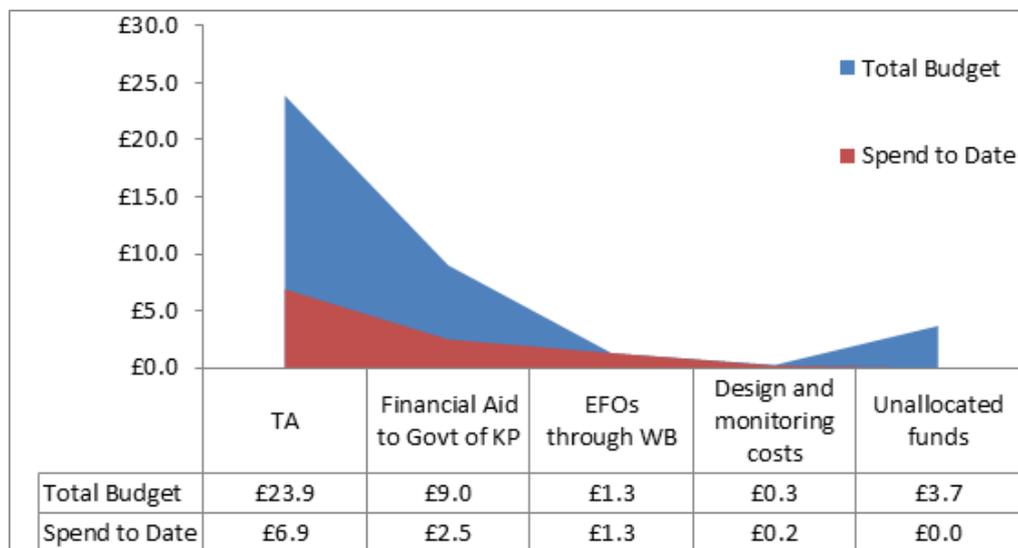
<sup>8</sup> It is assumed that total spend which lead to efficiency savings and tax surveys costed an equal amount of £424,773 respectively. Total spend on output 3.3 stood at £849,545.

## Quality of financial management

The contract for the SNG programme is input based. The programme has picked pace in its second year with the roll out of GIS and Challenge Fund components and the budget utilisation in Year 2 has risen by 76%. OPM and Coffey follows robust financial management procedures and procurement practices as set out in the SNG office manual. Monthly invoices for TA and quarterly invoices for challenge fund are scrutinized thoroughly by the DFID programme team and paid in arrears. Financial reporting also includes a narrative of various costs, which enables better scrutiny with clear links of costs to the delivery. A monthly budget tracker is maintained to ensure spend is in line with the limits assigned in OPM's budget.

The programme has also put in strong financial management controls for downstream partners e.g. on Challenge Fund and GIS, which involves incentivising milestones based payments. Controls such as spot checks and external audit provide further assurances of fiduciary controls.

Although spending has picked up in the second year, the rate of increase has been slow compared to the initial forecasts. The total spend this year has been £4.4m compared to a forecast of spending of around £5m in year 2. This can be contributed to factors such as delays in finalizing the administrative arrangements with the Challenge Fund grantees for Round; contract for GIS being awarded to Urban Unit in the last quarter of this year; and OPM in-country team carrying some in year staffing gaps. The programme is expected to improve budget utilization in Year 3, particularly with the Round 2 pilots on Challenge Fund and GIS cells becoming operational.



The review is also satisfied with additional controls such as annual external audit of TA funds and challenge fund grantees, due diligence for challenge fund grantees, and continuous audit for the conditional grants component. OPM and Coffey between themselves have spent approximately 30% of the TA and Challenge Fund budget in first two years of the programme, which suggests a slow but upward trajectory with 2.5 years to go before the end-date of the programme. The programme must ensure delivery at scale in the years three and four, and this should be reflected in both the workplans as well as the financial forecasts.

### Recommendations:

- Ensure that the financial controls needed for conditional grants are embedded within the government systems.
- Consider PRAP (Portfolio Risk Assurance Plan) Action Plan to build capacity of downstream partners such as Urban Unit.

Date of last narrative financial report	13 March 2015
Date of last audited annual statement	15 July 2014

## E: RISK

### Overall risk rating: High

Based on the complexity of the operating environment and political economy of reform in KP and Punjab, the original risk of the programme was rated high. Successive 'A' ratings in the annual review suggest that good mitigating measures are in place. There is a view that the delivery risk is medium in Punjab specific outputs but the high risk in KP is significant enough for an overall 'high'. The review also recognises that despite consistent delivery, the programme operates in a conflict-prone context with high levels of political uncertainty; therefore it does not suggest revisiting the risk rating.

### Overview of programme risk

SNG is a high-risk programme operating in a complex and fragile context. Its major risks are around:

- **Sustainability** of governance reforms influenced by SNG beyond the life of the programme; this needs to be mitigated by greater government ownership, lower government staff turnover and a matching capacity building alongside the technical assistance.
- Two years into the programme, **the delay in local government election**, remains a constraining factor for programme district level ambition. Recent political momentum suggests likely local elections in both provinces in the next 12 months and the programme is well placed to support provincial decentralisation. The programme must however find innovative and proactive ways to build capacity of district level officials. DFID could lead on high level messaging on local government elections.
- **Security and Conflict** remains a challenge for DFID and OPM staff, particularly in South KP. DFID's ability to visit KP remain restricted with OPM staff having fewer access issues. OPM security team is vigilant and have a regular liaison with British High Commission Security Section. The programme also commissioned a conflict-mapping exercise for KP districts and will be mainstreaming its findings in subsequent years.
- The conditional grants component has highlighted **the fiduciary risk in non-sector budget support to KP**, and the programme has done well to follow up the fraud reported in first year. For any future support on conditional grants, the programme and the government must come up with a fresh implementation modality with emphasis on robust fund flow mechanisms and a stronger accountability for results.

### Outstanding actions from risk assessment

- The programme has done well to complete the survey on construction quality of schools facilities build under the conditional grants. DFID and GoKP must ensure that the findings are followed up in any further support on conditional grants.
- For sustainability, the year 3 and year 4 work plans must have adequate capacity building focus. Both DFID and OPM must lobby with the government counterparts to address the problems of high government staff turnover.

## F: COMMERCIAL CONSIDERATIONS

### Delivery against planned timeframe

Delivery against the workplan is monitored and reported on monthly basis using RAG ratings, which allows real time identification of any delays. While the programme is largely on track, delivery against

workplan has been behind schedule on some areas such as provincial PMF strategies, PETS( Public Expenditure Tracking Surveys), setting up the GIS cells and launching the round 2 of the challenge fund.

Programme could overcome these delays by being more efficient in procurement, mobilisation of consultants and a timely government engagement. The programme also did not deliver against its district level ambition, which is slightly disappointing because a dedicated workshop was organised to look at this at mid-point in the year.

**Recommendations:**

- DFID's delivery plan must also maintain a log of any delays.
- The review recognises the uncertainty in the absence of local governments, however would like to see clear prioritisation of district level work in year 3 and year 4 workplans.

**Performance of partnership (s)**

**Performance of Technical Assistance Contract:**

OPM are a proactive implementer with strong technical team. In managing SNG, they have been very responsive to both the donor and the government counterparts. Their risk mitigations and financial management are also impressive. They have consistently been on track on delivering the programme objectives. The impact evaluation notes that been methodical in the delivery and reporting of its activities. The inherent flexibility of the programme has allowed OPM and the government counterparts to respond to emerging challenges and to convert them into reform opportunities. The review also notes that most the programme's access and influencing is driven by its staff with civil service background; which is not necessarily sustainable in the long term and the programme could look for a more diverse mix of staff. The impact evaluation comments on DFID's approach to approve all the short-term TA deployments on individual basis rather than delegating this to OPM as the management organisation. While this entails additional bureaucracy, this allows DFID to ensure quality and coherence while retaining the flexibility of the programme.

**Recommendation:**

- OPM should look for a more diverse mix of staff with governance skills broader than the public financial management and with non-civil servant background.
- OPM may consider shifting some of the national and provincial resources to the districts to get the province-district TA balance right.

**Challenge Fund Management:**

Coffey, who are the challenge fund manager, have put in place robust grant management processes. They have commissioned calls for proposal for two rounds now, and have fetched more than 500 applications in both Punjab and KP. They have also been successful in engaging a range of government stakeholders in the selection process. Given the relative small size of challenge fund, economies of scale cannot be realised and it is a question for DFID if in future they want to consider setting up one big challenge fund rather than various small to medium challenge funds such as SNG, Alif Ailaan (Education) and Health Voice and Accountability Challenge Fund (EVA). Government's ability and appetite to scale up challenge fund ideas are unclear, particularly in KP, which also raises questions over VFM of this component. The review also feels that the challenge fund manager could had taken a more proactive and dynamic role in encouraging innovations as currently there is greater emphasis on grant management and commercial assurances with lesser focus on the former

**Recommendation:**

- DFID must revisit the structure and scope of challenge fund with a view on how to best incentivise innovations leveraging the overall objectives of SNG.

- Coffey must find ways to increase government involvement in both the design and the implementation of the challenge fund, just like the selection stage. This needs greater attention at district level.

#### **Coordination with other Programmes:**

SNG is inherently a cross cutting programme with interlockers for sector support programmes on education (KESP, PESP) and health (MNCH, TRF+), demand side programmes such as Alif Ailaan, Aawaz and peace building programmes such as PSP (Peace Building Support to PCNA) and MDTF (Multi Donor Trust Fund). With better coordination, SNG can leverage their outcomes and enable synergies. There are instances of good coordination e.g. working with Alif Ailan and Aawaz on needs assessment, pre-budget consultations; clearer division of labour on supporting devolution (DHAs and DEAs work) with health and education TAs and education payroll audits. However, there is still scope for more systematic coordination and alignment of workplans as there are still some gaps e.g. Aawaz and PSP could better join up at the district level and education/health TAs could sequence their PFM support in synch with SNG TA. This should be done proactively and sensitively and government counterparts should also be brought in so that duplication of efforts can be avoided and the results can be maximised.

#### **Recommendations:**

- At provincial level, mechanism should be established for regular coordination with the relevant programmes. Sharing of workplans, while they are being finalised, will be a good starting point.
- At district level, programmes such as Aawaz and Alif Ailan should be brought into the district reforms groups (DRGs).

#### **Partnership with the Government:**

Government counterparts, Finance and Planning and Development departments in particular, have taken a proactive role in holding the programme to the account in quarterly steering committees and other formal interactions. This also enables a stronger government ownership and coherence of the programme. There are risks, however, that at times the technical assistance replaces government capacity rather than building one, which needs careful examination and mitigation in forward years. At district level, the programme needs to build stronger partnership with the district officials where they are able to hold programme to the account and can contribute to the programme direction. District Reform Groups (DRGs), which are set up by the programme, can be made more effective by having some decision-making powers on district level engagement. The programme does well to reach out to the citizens and take their inputs for interventions such as needs assessments and pre-budget consultation. The programme can, however, strengthen beneficiary feedback and accountability loop increasing the involvement of citizens at all levels of the programme.

#### **Recommendation:**

- The programme must have clear capacity building components to complement various technical assistance interventions. This should allow breakpoints for various TA interventions where government can take forward the interventions without the programme's support.

#### **Asset monitoring and control**

OPM also demonstrates strong procurement procedures by ensuring all purchases are pre- authorised according to the appropriate delegation of authority. All items above PKR 50,000 require at least three quotations from suitable vendors evaluated by a Procurement Committee on the basis of price, quality, delivery time, and credit period and after sales services. Due to this robust management, efficiency gains have been reported by OPM where various goods procurements achieved savings of between 16% and 20% below the highest quoted price. DFID conducted three assets spot checks this year and verified that the adequate controls are in place.

## **G: CONDITIONALITY**

### **Update on partnership principles**

DFID support through SNG for the conditional grants component to the Government of Khyber Pakhtunkhwa is classified as Non Budget Support Financial Aid. The published business case states that funding is based on the Government of Pakistan's commitment to poverty reduction, protection of human rights and strengthening public financial management and accountability, as set out in the UK's Development Partnership Arrangement (DPA) with Pakistan. DFID Pakistan has reviewed this arrangement periodically since it was agreed in 2006.

A new Partnership Principles Assessment (PPA) has been agreed with the Government of Pakistan. This sets out the Government of Pakistan's commitment to the four Partnership Principles as demonstrated through its policies and actions and will supersede the previous Development Partnership Arrangement. The four Partnership Principles represent a commitment to: reducing poverty and achieving the Millennium Development Goals; respecting human rights and other international obligations; strengthening financial management and accountability; and reducing the risk of funds being misused through weak administration or corruption; and a commitment to strengthening domestic accountability.

Our overall assessment is that the Federal Government of Pakistan is demonstrating a defensible commitment to the four Partnership Principles, particularly given the fragile security and the challenges of the country's democratic evolution. Pakistan lifted the moratorium on the implementation of the death penalty following the school attack in Peshawar in December 2014. The UK remains opposed to the death penalty in all cases and will continue to raise this as a concern in our dialogue with the government. In the meantime, it would not be fair that the poorest across the country should suffer from a withdrawal or reduction of UK support. A continuing substantive direct partnership is therefore justified.

The most recent public expenditure and financial accountability assessment for Khyber Pakhtunkhwa (KP) and Punjab were undertaken in 2010 and 2012 respectively, with an update due in 2015. DFID Pakistan prepared a Fiduciary Risk Assessment on the back of these assessments that rated fiduciary risk in both KP and Punjab as substantial. The most recent Annual Statement of Progress for KP and Punjab, completed recently, finds that the overall risk has not significantly changed, although fraud risk has reduced from high to substantial. There have been continued improvements in budget preparation and budget transparency in both provinces, specifically related to the publication of the citizens' budget in fiscal year 2014/15. At the same time, payroll audits in key sectors, including education, have reduced ghost workers on the payroll and identified system weaknesses that DFID TA teams and the provincial Governments are working to rectify. Overall, the PFM system can be considered robust, but process heavy. This often manifests itself in weak planning, delay in payments and slow budget execution.

## **H: MONITORING & EVALUATION**

### **Evidence and Evaluation**

DFID commissioned independent mid-term impact evaluation, which looked at the progress made in first two years of the programme and commented extensively on the direction of travel. Key findings are:

- The evaluation notes that programme's theory of change is ambitious and should be further tested with greater application in the programme particularly on the delivery and performance of government in addition to planning and budgeting. This should be reflected in both the logframe and the workplan as well as in the design of final evaluation.
- The programme itself remains relevant to the context, the needs of the government and the challenges faced by benefitting departments and officials. The programme has done well to establish itself as the key reform catalyst and has demonstrated a capacity to be effective and facilitate government to complete some key pieces of work across all three of its stated outputs

including: undertaking sales tax on services review in KP; payroll audits; budget transparency reports; district level needs assessments; and citizen budgets. These activities provide ideas, tools and processes to catalyse incremental improvement in government systems and processes. Government counterparts are consistently keen to draw on SNG interventions to drive forward their reform agenda, which provides SNG a solid positioning.

- There is limited evidence, however, if the government counterparts will be able to carry forward SNG interventions without any technical assistance and that poses a significant sustainability risk.
- The programme must shift its focus towards the district level and focus on interventions that enable improvements in budget execution and service delivery.
- Challenge Fund can increase its impact by focusing on strengthening system and institutions for service delivery rather than looking at alternate providers of service delivery.

The mid-term impact evaluation has also set up a baseline, which will be followed up on in 2017 to for contribution analysis of the programme's impact.

### **Monitoring Progress throughout the Review Period**

In addition to the independent impact evaluation and the annual review, DFID has put in place the following mechanisms to monitor the progress throughout the year:

- The project implanter, OPM, share monthly updates against the work plan in dashboard format with RAG ratings
- OPM also share narrative quarterly progress reports, which also capture the progress against the logframe indicators
- Quarterly Steering Committees are held in both provinces, which are co-chaired by DFID and P&D department(s). Steering Committees also look at the programme's progress and take key decisions to move forward.
- DFID teams undertook multiple monitoring visits to the provinces, which include two district visits in Punjab, two district visits in KP and two visits to Peshawar. As of last year, one Governance Adviser is permanently based in Lahore, which allows real time engagement and oversight of the programme.
- To look at the progress of conditional grants and for verification of fund flows, DFID has deployed Deloitte to conduct Continuous Audit. Monthly and annual reports capture all the progress and issues.

### **Recommendations:**

- The programme must encourage joint-monitoring visits with the government and this should be reflected in the OPM and Coffey's monitoring plans.
- Beneficiary feedback remains a relatively weaker area, and the programme must prioritise it particularly for the district level work. The programme can also benefit by bringing politicians as well as common citizens to feedback on both the ongoing implementation and the design of future phases of TA and challenge fund rounds.
- The programme must plan ahead for the final impact evaluation as a follow up to the midterm impact evaluation; and should give due attention to factors such as design, time and the expertise.