

# **MDTF Financing Strategy: A Proposal**

## **Introduction**

An important function of the Steering Committee (SC) of the Multi-Donor Trust Fund (MDTF) for Khyber Pakhtunkhwa, FATA and Balochistan is to endorse the overall priorities and provide policy direction to the Administrator/Trust Fund Secretariat on the Trust Fund's strategic goals. The SC is also expected to review and approve the financing strategy for the overall allocation of resources among the various pillars of the recipient-executed activities to be financed by the MDTF.

A key objective of the process of selecting a portfolio of projects to be funded by the MDTF is to ensure that these activities meet the immediate and critical needs of the population in the crisis affected areas—restoring destroyed physical infrastructure, providing improved service delivery, and supporting livelihoods. It also includes the initiation of longer-term capacity building and institutional strengthening as well as focusing on a peace building strategy that addresses the main drivers that have caused the crisis. Given the deep crisis situation, exacerbated by the recent devastating floods, the main focus of the first set of priorities would be on addressing immediate needs. However, activities funded by the MDTF would also initiate work on important capacity building activities for the government line ministries and agencies of the Governments of Khyber Pakhtunkhwa, Balochistan and FATA Secretariat.

The proposed framework in this note summarizes the Government of Pakistan's key priority areas for the first two and a half years of the investments from the MDTF. They reflect the Government's priorities as incorporated in the federal and provincial development plans and those of FATA. They are also informed by the Damage and Needs Assessment (DNA) of November 2009 and the Post-Crisis Needs Assessment (PCNA). Finally, these priorities were initially ratified during a Results Framework Workshop, held on July 29, 2010 in Islamabad, by representatives of the government (federal, provincial, FATA Secretariat) as well as Donors to the MDTF, and the UN.

## **Objectives**

The proposed MDTF Financing Strategy aims to strengthen Government leadership over the direction of the Trust Fund and ensure that the MDTF serves as a platform for donor coordination and aid effectiveness.

Specifically, the Financing Strategy will:

1. ensure full government ownership of the MDTF, including in setting the strategic prioritization of allocations;
2. recommend that the immediate reconstruction and rehabilitation needs of Khyber Pakhtunkhwa, Balochistan and FATA are met;
3. establish a multi-year financing framework which will ensure predictability of funding and thus enhance effective planning of operations; and
4. initiate a Results Framework that would enable a review of the results achieved across the

whole portfolio of development activities of the MDTF.

## **Possible Criteria for Project Selection**

Projects would be eligible for funding from MDTF if they meet one or more of the following criteria:

- The project should reflect the Government's priorities as expressed in the federal and provincial development plans ( including KP's Comprehensive Development Plan), the PRSP, the DNA or the PCNA.
- The project supports one or more of the pillars of the MDTF, as summarized in the section below.
- The project encourages the engagement of communities and civil society in the preparation and/or implementation of the project.
- The project takes, or contributes to, a programmatic approach, under which specific interventions are part of a medium- to long-term strategy to build capacity, help in fostering reconciliation, and enhance citizens' trust in the state.
- The project does not needlessly duplicate, and where relevant complements, the interventions of bilateral or multilateral development partners.

## **Key Elements of the MDTF Financing Strategy**

### **Funding**

A key consideration in the MDTF is to establish a multi-year planning and financing mechanism, without which realistic plans cannot be prepared for many activities, especially in capacity building and peacemaking. Some of the activities in the PCNA/DNA will require a sustained, long-term commitment. The financing plan's focus is on the first set of commitments already made, namely the US\$ 130 million that nine donors (Australia, Denmark, Finland, EU, Germany, Italy, Turkey, UK and the USA) have already pledged. During the first meeting of the Steering Committee, the focus will be mainly on the funding of already pledged amount (first tranche), although a discussion of the pre-requisites and modalities for subsequent pledges for the overall envelope would also be welcome.

### **Strategic Areas for Investment**

The broad sectoral areas eligible for funding from the MDTF are included in the four pillars below, and summarized in the attached Matrix.

**Pillar 1: Restoration of Damaged Infrastructure and Disrupted Services:** Estimates from the Damage and Needs Assessment (DNA) of November 2009 indicated the cost of immediate reconstruction at about \$ 1.1 billion for the five Khyber Pakhtunkhwa districts and two FATA agencies. This figure has mounted considerably as a result of the recent floods that have devastated vast swaths of the country, including in Khyber Pakhtunkhwa and Balochistan. Given the massive losses in terms of lives, capital and infrastructure, this pillar will have the

highest priority for immediate action. It would cover the reconstruction of damaged or destroyed public facilities (health, education, government buildings, equipment and supplies, etc.); the restoration of damaged infrastructure including power, transport (including road projects in FATA of key socioeconomic/strategic importance, including those linked to the TARUCCI program mentioned below), water supply and sanitation, and irrigation; cash grants for owner-driven reconstruction and repair of damaged housing; and provision of cash grants targeted at the population living in the affected areas or those who have been displaced and who meet objective poverty and vulnerability criteria. Overall, the focus will be on reconstruction rather than on relief and early recovery.

**Pillar 2: Improving Local and Provincial Service Delivery:** This pillar includes both local service delivery through community driven development (CDD) interventions as well as through line departments such as provincial health and education departments, and local governments. Activities would include delivering basic infrastructure and services to low income communities by financing through community organizations and improving provincial governance and service delivery through line departments and local governments. It would improve the key aspects of the social protection system, initiate work on the 14 urban centers identified by the government (TARUCCI program), and develop a communications program to highlight the objectives and achievements of the activities.

**Pillar 3: Supporting Livelihoods and Creating Employment Opportunities:** Support for livelihoods would be provided through asset building, community credit and microfinance schemes, small enterprises development, developing value chains in critical sectors (decorative stones, horticulture, and livestock, skills development, and transitional workforce programs).

**Pillar 4: Capacity Building and Institutional Strengthening:** To meet the challenge of post crisis reconstruction and to cope with the longer-term issues of capacity building and governance, the capacity of the government ministries and agencies of the Governments of Khyber Pakhtunkhwa and Balochistan and FATA Secretariat will be strengthened, including for conflict and disaster assessment and preparedness. This pillar includes activities to support Government to review and revise, where appropriate, policies to consolidate peace and reduce the potential for future conflict by addressing the underlying causes of the conflict, as highlighted in the PCNA. This would include developing a program to initiate governance reforms for FATA. It would also include reform of FATA's legal/judicial infrastructure reform, and the strengthening the capacity of PaRRSA and FATA Disaster Management Authority.

### **Proposed Menu of Projects for Financing from Current Pledges**

The Government of Pakistan is in the process of finalizing project concept notes, falling within the four pillars mentioned above, for submission to the MDTF Administrator (World Bank) for an initial review of the projects employing the criteria indicated above. An important prior step, however, is a review and approval by the Steering Committee of the menu of the proposed project areas to be financed from the existing pledges to the MDTF. This section provides a summary of the project areas that the Government plans to submit to the Administrator.

1. **Projects to restore damaged infrastructure and disrupted services:** as already indicated, a project or two will be submitted to respond to the needs indicated in the DNA and PCNA (Pillar 1 above). Given the vast damage to infrastructure and services, exacerbated by the floods during August 2010, projects in this area would need the highest and urgent priority. These projects would build on the preparatory work already undertaken by the Government, and could cofinance activities being planned (or already

underway) by individual donors. This would also help keep the costs of MDTF's Secretariat for preparation, appraisal and supervision down. In some cases the provincial governments and line departments would be the implementing agencies along with relevant federal agencies. In other cases, implementation would be undertaken by the well-established Pakistan Poverty Alleviation Fund (PPAF) which has a good track record of implementing projects. The objective of the latter project would be to rehabilitate and revitalize the approximately 100,000 enterprises (employing 1-5 people) in the crisis-affected areas.

2. **Project to support the Government's Urban Centers (TARUCCI) program:** The objective of the Tribal Areas Rural-to-Urban Centers Conversion Initiative (TARUCCI) is to initiate a social transformation of FATA from a scattered rural/tribal society to a more urbanized society brought more into line with the socio-economic and security services in the more developed parts of the country. This would entail planning and establishing urban centers in selected high density areas in each of the Tribal Agencies, which would ensure the provision of increased access to planned housing, quality education and health care, municipal services, economic opportunities for employment and commerce, social recreation and security. FATA Secretariat has identified 14 towns to be developed as such hubs. To increase access to these urban hubs and to connect them with the trade routes, proper road infrastructure would be critical. There would also be linkage to the value chains project ( described under #3 below) in selected sectors such as marble and minerals in Mohmand and Bajaur; food processing in North and South Waziristan and Kurram, etc.
3. **Projects to support livelihoods and create employment opportunities through the development of value chains for critical sectors.** This project would be implemented by the Khyber Pakhtunkhwa Government and FATA. It would work with three critical sectors: decorative stones; horticulture; and livestock development to develop value chains. It would include (i) development of a coordination capacity to address standards, contracts, prices, training, development of proposals and assessment of viability of different markets; (ii) financing; and (iii) an infrastructure fund for small items, e.g. local access roads, sheds, etc.
4. **Community Development Project:** This community-based, demand driven project would build on the successful experience with two community Initiatives Projects (CIP-I and CIP-II). It would involve the provision and upgrading of physical infrastructure in communities in Khyber Pakhtunkhwa, focusing on access roads, street pavements, drainage and flood control, water supply, sanitation, solid waste management and community centers and markets. It would also involve capacity building of local councils/line departments in the preparation and implementation of small infrastructure schemes through participatory development.
5. **Balochistan Education Support Project:** This is an ongoing project with a solid record of achievement more than halfway through the implementation period. At the time of its appraisal, the Government had envisaged that about 450 schools would become operational with adequate enrollment rates for at least two years, at which point a school building would be provided to the community from the project. Given the highly satisfactory performance of the project in meeting its development objectives and achieving its end-of-project targets ahead of time, the Government requested the World

Bank to extend both the scope and period of the project to include construction of all 649 community schools. The increase in scope of the project will require additional financing of around US\$ 15 million equivalent to cover both the cost of building 200 additional schools and the increase in per school cost of construction. The additional funding would also help deepen the capacity support to teachers, parent education communities and implementing partners to strengthen the focus on the quality of education.

6. **Capacity Building Projects:** Projects in this category, implemented by provincial governments and FATA, would initiate work to enhance responsiveness and effectiveness of the State to restore citizen trust (first Strategic Objective of the PCNA). This would include the first steps to support the Government in deciding which elements of the traditional social infrastructure (e.g. *maliks, jirgas*) to support and which ones to discard. Projects would also involve building capacity for greater citizens' engagement, access to affordable, timely and equal justice, building institutional capacity on the economic development and governance side, including PFM and procurement, promoting PPPs and meeting the needs of SMEs.

### **Results Framework, Monitoring and Evaluation**

A Results Framework (RF) is being developed to ensure that the results to be funded are clearly stated, are aligned with MDTF's strategic priorities along with the Government's development priorities and the PCNA's Transitional Results Framework. The focus will be on identifying a few key indicators with realistic targets. The Results Framework establishes the causal logic of the overall strategy and provides a clear picture of the expected relationship among Outputs, Outcomes and Strategic Goals. The projects to be funded under the MDTF will be aligned with the RF, so that Project Outputs would relate directly to the RF Outputs, and the Outcomes to RF Outcomes.

Achievement of the MDTF results will be monitored through the Results Framework. The Secretariat would be responsible for consolidating and reporting on the performance indicators at an aggregate level for the program and updating the Results Framework to ensure that it reflects the overall objectives of the MDTF. Because the results chain of the funded projects will mirror the results chain of the RF, the Secretariat will be able to monitor both project and program implementation (efficiency) at the Activity-to-Outputs level and evaluate the realization of Outcome level results (effectiveness) at once. The Secretariat will provide the Steering Committee with semi-annual reports on the progress of activities financed by the MDTF.

### **Possible Topics for Discussion**

1. **Does the Steering Committee agree with the proposed set of project areas indicated in this Note?**
2. **Should the Steering Committee already start planning for the next set of pledges—perhaps in the context of the next Pakistan Development Forum?**
3. **One of the functions of the Steering Committee is to provide advocacy support for the MDTF. Are there any suggestions for a concerted effort by Donors and Government to effectively communicate the objectives and results of the MDTF?**

## MDTF Financing Strategy: Investment Proposals and Results Framework, 2010-2012

	Outputs	1 <sup>st</sup> Tranche	2 <sup>nd</sup> Tranche	3 <sup>rd</sup> Tranche	Key Performance Indicators for the Outputs
		(US\$ million)			
<b>Pillar #1</b>	<b>Restoration of Damaged Infrastructure &amp; Disrupted Services</b> 1. Reconstruction of damaged/destroyed public facilities 2. Reconstruction of damaged/ development of new infrastructure 3. Cash grants and CDD programs for reconstruction of damaged property and infrastructure, restoration of services due to floods and conflict	50.0			1. # primary /# secondary schools; # health facilities, # government buildings 2. # communities with water and sanitation, % villages with electricity/LPG/renewable energy, #Km roads/bridges 3. # Public Works Program: e.g. roads, power, construction and # jobs generated # communities building grant supported infrastructure
<b>Pillar #2</b>	<b>Improved Local and Provincial Service Delivery</b> 1. Strengthen education coverage and quality 2. Strengthen quality of primary and secondary healthcare system 3. Improve and expand the Social Protection System 4. Initiate Communications Program 5. Initiate work on urban centers (TARUCCI)	35.0			1. #/coverage of staffed/operational literacy programs/primary/secondary schools/VTEC institutes 2. # communities with paramedics services; # existing clinics/# hospitals staffed/equipped and operational 3. cash transfer/in-kind support provided to: 30% population (330,00) needy/vulnerable; families below 16.7 on Score Card (220,000); # TVET, secondary, primary students; power users in FATA 4. % population reached with messages/information about government services, support and ways of engaging 5. Work progressing well on two pilot urban centers
<b>Pillar #3</b>	<b>Supporting livelihood &amp; Creating Employment Opportunities</b> 1. Agriculture support 2. Livestock support 3. Firm Support 4. Public Works programs ( on-farm and off-farm) 5. Skills training, including TVET skills 6. Provision of targeted cash grants to those affected by conflict and floods	40.0			1. # reconstructed post harvest storage, irrigation, flood control schemes; # farmers provided tools, inputs; 2. #/% animals restocked; Volume fodder provided; vet services (coverage) provided 3. # Damaged shops restored; # matching grants provided; # Business support and \$/vol. credit available 4. # farm and non-farm infrastructure construction projects/# local job generation 5. # young people participating in targeted vocational and skills enhancement programs 6. #/% affected receiving cash transfer/in-kind support
<b>Pillar #4</b>	<b>Capacity Building &amp; Institution Strengthening</b> 1. Initiate FATA Political Reforms 2. FATA legal/judicial infrastructure reforms 3. Strengthen FATA DMA and KP PaRRSA 4. Strengthen communities and local governments	5.0			1. Progress with FATA Political Reforms 2. Progress with Levies Force law; Governors' Inspection Team; PGR Ombudsman; Media campaigns 3. PFM capabilities established, SOPs/ Management Systems installed, #/% employees trained/certified, benchmarks/guidelines operational, coordination mechanism operational 4. # CBOs and VBOs qualified and accessing CDD grants for building productive infrastructure. 5. Investment promotion and capabilities established/strengthened that target investors, including the diaspora 6. Institutional & regulatory for private/public dialogue established

