



Multi-Donor Trust Fund

for Khyber Pakhtunkhwa, Federally-Administered Tribal Areas and Balochistan

December 2010

January 2011
Update

OVERVIEW

The overall objective of the MDTF is to support the implementation of a program of reconstruction and development aimed at recovering from the impact of the conflict and reducing the potential for renewed conflict. MDTF projects will be implemented by the FATA Secretariat and the provinces of KP and Balochistan.

Since the previous update, the MDTF Secretariat has engaged with the two provinces, the FATA secretariat and EAD to:

I) Allocate the pledged funds between the two provinces and FATA using the population size and the impact of the conflict in each of the three regions as basis for this allocation;

II) Agree on the project pipeline which includes financing of roads and bridges under infrastructure projects, livelihoods activities, support to communities' micro enterprises and a technical assistance facility to support reforms, build capacity and to shift the TARUCCI concept to an implementable framework.

III) Clarify the approval process, from the government perspective, of MDTF financed projects, through defining the required actions at the provincial and federal levels.

In parallel, World Bank teams were mobilized for the preparation and appraisal of projects. As of today the preparation work for two projects has been finalized. One is at the signature stage (Emergency Recovery Project for \$35 million) while the second (Economic Revitalization project for \$20 million) is expected to be negotiated before by the first week of February. Three projects are under preparation, namely the KP Roads for USD 8 million, the TARUCCI project (value of project is still under discussion) and the Technical Assistance Facility for USD 2.3 million. Three projects are still under discussion and these are the Enterprise Rehabilitation and Revitalization Project for USD 25 million, the FATA rural roads project for USD 12 million and the Balochistan Education project for USD 10 million.

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THANKS TO THOMAS BUCKLEY

The MDTF disbursement projections reflect that the first disbursement from the MDTF account is expected to take place early March for about USD 7 million.

As of January 20, 2011, the MDTF has received commitments in the amount of USD 140 million while funds in the amount of USD 94.6 million have been transferred to the MDTF account administered by the World Bank.

Administratively, the MDTF Secretariat has finalized the preparation of the MDTF Operational Manual and anticipates the launch of the MDTF website in the first week of February.

ALLOCATION OF GRANT PROCEEDS

The methodology applied to allocate the pledged funds between the two provinces and FATA was based on the assessment of the impact of the conflict in each region and the size of the affected population. This approach has been supported and endorsed by the government through the EAD as well as by the provinces and FATA. Based on this methodology, and after the deduction of the administrative costs, the MDTF pledges are allocated as follows:

KP	FATA	Balochistan	Total
53%	35%	12%	100%
US \$ 67.75 M	US \$ 44.45 M	US \$ 15.8 M	US \$ 128 M

The respective governments were advised that the above allocations will be revisited periodically. In the case that projects that are not progressing, due to implementation issues, funds may be allocated to other provinces where such delays are not faced. The purpose of such revision would be to ensure efficient flow of MDTF funds resulting in goods and services rather than having funds remain static in bank accounts.

PROJECT PIPELINE AND SELECTION OF ACTIVITIES

The strategic objectives of the PCNA are the primary point of reference in guiding the development of the MDTF project portfolio. The identification of projects is conducted in coordination with the provincial governments, the FATA Secretariat and the MDTF Secretariat. KP and FATA authorities both provided lists of urgently needed activities which fell within the PCNA recommendations and MDTF objectives. However, given the limitations of the MDTF resources, a further process of prioritization was required. Following a number of meetings between the KP provincial government, the FATA secretariat and the MDTF secretariat a final list has been developed. This list includes 7 projects to benefit from MDTF financing and to be implemented by the KP and FATA authorities in addition to allocations of funds for capacity building and technical assistance.

Provincial officials in Balochistan have reconfirmed the need to support the education sector through additional building of schools and the upgrading of the current physical infrastructure of a large number of community-led schools across the province.

In total eight projects plus a program of Technical Assistance (TA) and capacity building support constitute the project pipeline. Out of these projects, the preparation work of two has been completed while three are under preparation and three are still being discussed in order to define the locations, scope and the implementation arrangements to be applied.

These projects will support *infrastructure* (roads, bridges and rural roads plus support for the design of urban centers); *livelihood* i) support to the small and medium enterprises (SME) impacted by the conflict assisting them to rebuild assets and creating jobs, ii) cash transfers to 100,000 families over a period of six months to provide a stabilized income, provide consistent consumption power and avert any reversal in human capital formation due to the conflict, iii) community-level support to revitalize micro enterprises, improve financial literacy and provide infrastructure to facilitate the transfer of goods produced to the markets. A TA Facility is also being provided to build capacity and support reforms in KP and FATA.

Approval Process and Notification by the EAD

The process for approving MDTF financed projects has been clarified with all government parties. Through this process, the EAD has issued a request to the MDTF Administrator for the preparation and delivery of the projects identified and approved by the two provinces and FATA. However, the clearance of the projects at the federal government level is still under evaluation as the respective governments were advised to seek waivers from the Planning Commission of Pakistan (PCP) in order to expedite the approval process and match the MDTF Administrator's rapid preparation and rectification procedures. The World Bank (IDA), as administrator, requires that the Government of Pakistan send official letters, issued by the EAD, requesting the projects to be financed through the agency. Clarifying the process, especially under the 18th amendment, has required time and this has impacted the pace of project preparation. However, having this in place now will facilitate the approval process for future activities to be financed through the MDTF. The arrangements at the provincial levels and the communication mechanism between the provinces and the EAD have been all defined while the requests for waivers from the PCP are being prepared.

Status and progress of the MDTF financed projects

I. Projects whose preparation has been finalized

1) **MTDF Supporting Safety Nets in Areas Impacted by the Conflict (Emergency Recovery Project for \$35 million)**: Cash transfers help stabilize incomes, smooth consumption and avert any reversal in human capital formation. After a crisis, affected families often face problems of cash-flow which result in an inability to meet their basic needs, such as nutritional intake and schooling. By providing direct income support, the MDTF will help prevent this from happening and allow families to continue to meet their basic needs.

The project is the first to be financed through the MDTF and addresses one of the strategic objectives of the PCNA which is to build responsiveness and effectiveness of the State to restore citizen trust. This project has been re-negotiated as the original project design was revised to remove activities related to floods after the government's decision on foreign assistance for flood related activities was announced in Nov. 2010.

Project Information:

- **Expected Project Effectiveness Date:** Upon signature of the grant agreement which is expected to take place on February 21, 2011
- **Project budget:** USD 285 million (IDA: USD 250 million; MDTF: USD 35 million (MDTF funds to finance Component 1 of the project)
- **Project status:** Approved on January 20, 2011
- **Project geographical area:** 5 districts of KP- Swat, Shangla, Lower Dir Upper Dir, Buner, and 2 agencies of FATA- Bajaur, Mohmand

Provide Recovery Support to KP and FATA conflict affected areas through;

- Safety Net Support Grants to poor and vulnerable HHs affected by militancy crisis (*Component 1*)
- Conditional Cash Transfers for Human Development (*Component 2*)
- Capacity building and Implementation Support (*Component 3*)

- **Project beneficiaries:** poor and/or vulnerable households in the conflict affected areas selected through an objective targeting mechanism

Project Indicator and results: At least 100,000 households in the project have benefitted from Safety Net Support Grants.

- 2) **Economic Revitalization of KP & FATA (with \$20 million contribution)**: SMEs and the private sector are playing a bigger role in the country's economic growth and are becoming an important element in the job creation process. Providing immediate livelihood opportunities in KP and FATA will also contribute to the process of stabilization.

The proposed project aims to support the economic revitalization of KP and FATA through rehabilitation of the small and medium businesses affected by the crisis; attracting and promoting investment; and developing long term growth opportunities. The project addresses one of the strategic objectives of the PCNA, which is to stimulate employment and livelihood opportunities. The project includes three broad areas of support; and these are: 1) SME development through revitalizing and rehabilitating existing enterprises, 2) Investment Mobilization through Diaspora and Public Private Partnerships (PPPs); and 3) Investment and Regulatory Capacity Building. The project is expected to be appraised and approved by mid-February 2011.

The Project indicators are:

- 850 SMEs directly/indirectly benefited from the grants program, of which 2-3% businesses owned/ managed by women entrepreneurs
- 8,000 jobs (direct and indirect) generated in enterprises supported by the project
- 1,000 SMEs access business development services offered under the Project
- USD 10 million attracted for KP-FATA from Diaspora and migrant workers settled across the country
- Investment facilitation authorities established in FATA & KP

II. Projects under preparation

- 1)TA for the “Tribal Areas Rural to Urban Centers Conversion Initiative” (TARUCCI) (amount yet to be defined); this activity will develop a conceptual framework for TARUCCI, which would enable the initiative to be launched on a sound footing. This would also ensure development of a program that all funding sources could be aligned to, rather than each of the financiers developing different programs/projects through different approaches.
- 2)Technical Assistance facility (USD 2.3 million): The objective of the TA is to support the secretariats of the two provinces and FATA for the i) establishment of PCNA units at each of the secretariats, ii) development of sectoral policies and support reforms that will have direct impact on service delivery and iii) build and enhance capacity. It would also be used as a tool to support project preparation and monitoring of reforms outputs and results. The activities that will be defined and financed through the TA will be based on the PCNA findings and recommendations.
- 3)KP Roads project (USD 8 million); this project will finance the rehabilitation of the main portion of the Chakdara – Shamozaï road. The length of the road is 42 kilometers however due the limitation of funds a portion connecting two main urban centers has been selected to be rehabilitated under this phase of the project. Future funding by donors will allow completion of the project through rehabilitating the full length of the road.

III. Projects under discussion with the KP/FATA and Balochistan

- 1) Micro Enterprises and the Urgent Community Needs (USD 25 million): The PCNA recommends actions towards improving employment opportunities and income generation for men and women in militancy affected areas of KP and FATA with an emphasis on gender and disadvantaged youth. This project also addresses one of the strategic objectives of the PCNA which is to build responsiveness and effectiveness of the State to restore citizen trust.
- 2) FATA Rural roads: The project will finance rural roads that are presently being identified.
- 3) Balochistan Education project: The government of Balochistan has expressed its interest in financing physical infrastructure of schools in the province. During February 2011, a visit to Balochistan by the MDTF team and the project Task Team Leader will take place where the proposed project will be discussed with the Balochistan government, after which preparation work will commence.

Financial Position of the MDTF Reflecting the Status of Contributions and Signing of Agreements

As of January 20, 2011, the MDTF has received commitments in the amount of \$139.9 million. Funds in the amount of USD 94.6 million have been transferred to the MDTF account managed by the World Bank. All donors have signed the administration agreements with the World Bank, thereby solidifying their contributions to the MDTF.

More details on the status of contributions can be found in the table below.

Pledged					
Donor	Amt (m)	Currency	USD	Signed	Paid in
Australia	10.0	AUD	8.9	8.9	8.9
Denmark	40.0	DKK	7.1	7.1	7.1
European Union	15.0	EUR	19.2	19.2	7.0
Finland	5.6	EUR	7.2	7.2	4.9
Germany	8.0	EUR	11.2	11.2	11.2
Italy	4.0	EUR	5.4	5.4	5.4
Sweden	5.0	USD	5.0	5.0	5.0
Turkey	5.0	USD	5.0	5.0	5.0
UK	30.0	GBP	45.8	45.8	15.1
USA	25.0	USD	25.0	25.0	25.0
Total			139.9	139.9	94.6

Thanks to Thomas Buckley

Tom Buckley, former Pakistan Country Officer, has left the South Asia region to take a position in the Africa region. Tom was instrumental in establishing the MDTF. The MDTF Secretaria takes this opportunity to thank Tom and wish him all the best in his new endeavor. Before leaving, Tom was interviewed by the MDTF communications focal point. The following summarizes Tom's replies.



Q. Explain how the MDTF for KP, FATA and Balochistan was established.

A. As early as 2002, the Government of Pakistan (GoP) and development partners recognized the unique development challenges in Pakistan's northwestern border areas, including the colonial era governance arrangements and the impact of the war in Afghanistan. The Government was greatly increasing its development spending and several bilateral donors were also increasing their programs in the region. The issue gained even greater prominence and urgency with the increase in militancy in 2008 which created an IDP crisis, exacerbating the development challenges. Everyone recognized that the challenge of rebuilding was compounded by the need to counter extremism. This meant that government needed not only to rebuild damaged infrastructure and restore livelihoods, but also to address the underlying causes of instability: meet citizens' demands for public goods, administer justice, and provide basic services.

In the context of discussions taking place in the Friends of Democratic Pakistan (FODP) process, a consensus emerged that there were two essential elements for an effective response.

First, there had to be a comprehensive strategy based on an in-depth assessment of the conflict, its consequences and its causes. That's why the World Bank, together with the Asian Development Bank, United Nations and European Commission prepared a Post-Conflict Needs Assessment (PCNA) to assess damage and reconstruction needs and, more importantly, to provide a strategy for mitigating the underlying grievances fueling the conflict such as social inequities, endemic poverty and weak governance.

Second, a coherent vision and mechanisms for delivering reconstruction and development programs in the conflict affected area was seen as critical. It was clear that such a vision had to encompass not only what needs to be done, but how it gets done. In order to secure development there had to be a focus on building the legitimacy, capacity and credibility of the State. That meant supporting government owned and implemented platforms that can grow rapidly using government systems, procedures, and institutional arrangements rather than donor executed projects that can all too easily disempower government, create dependency and weaken existing capacity. To accomplish this, Government and donors requested the Bank to establish the MDTF in order to create a coordinated framework for pooling financial assistance under the overall leadership of the Government.

President Zoellick announced World Bank Management's intention to establish the MDTF at the FODP Summit in New York in September 2009. The creation of the MDTF was subsequently approved by the Bank's Board of Directors.

At that point, the Bank and donors developed an administration arrangement establishing the governance arrangements for the MDTF. Once this was agreed among all donors, individual donors signed agreements with the Bank and deposited their contributions to the Bank.



Q. Can you describe some of the challenges in setting up the MDTF?

A. A common platform for delivering assistance requires an agreement among all parties regarding mechanisms, strategic priorities and governance of the fund. In the case of the KP/FATA/Balochistan MDTF, we had the benefit of the PCNA process to help identify priorities. This was a big advantage. Nevertheless, it is always a challenge to get a government, the World Bank and 10 donors – each operating within its own authorizing environment and answering to different national headquarters and parliaments – to agree on the mechanisms for identifying priorities, financing programs and monitoring and reporting on progress. That took some time. Fortunately, we were able to arrive at what I think is a streamlined and transparent mechanism for all of this.

A second challenge was to try to make the MDTF a speedier mechanism since there is great urgency in attacking the problems that this fund is meant to address and a business-as-usual approach would not do. This continues to be a challenge. We invoked the Bank's rapid response procedures for projects financed under the trust fund in order to streamline the Bank's internal processes. That should help. Nevertheless, the conflict-affected regions of KP, FATA and Balochistan represent an enormously challenging operating environment and we have a great deal of work yet to do to set up projects that work and can satisfy the fiduciary standards that donors and Government expect. Fortunately, the Bank has gained considerable experience in working in conflict-affected countries so there is significant experience on which we can draw. Finally, we are also working with the Government to streamline its own procedures for project approval to avoid any delays from that direction.

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