The U.S. Aid "Surge" to Pakistan: Repeating a Failed Experiment?

Lessons for U.S. Policymakers from the World Bank's Social-Sector Lending in the 1990s

Nancy Birdsall and Molly Kinder

Abstract

During the 1990s, the World Bank and several donor partners provided a "surge" in external aid to support Pakistan's social sectors. Despite the millions of donor dollars spent, the program failed. Poverty was higher in Pakistan in 2004 than it was a decade earlier when the antipoverty program began. This working paper re-releases a CGD analysis of the World Bank's program, which was prepared in 2005 by CGD researchers Nancy Birdsall, Milan Vaishnav, and Adeel Malik. The analysis reports the many problems donors faced while working with Pakistan's government to improve health and education outcomes. A new preface by Nancy Birdsall and Molly Kinder identifies the key lessons from this massive donor experiment that are relevant today, as the United States and other donors prepare to increase their assistance to Pakistan to historic levels.

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Repeating a Failed Experiment?

During the 1990s, the World Bank and several donor partners provided a “surge” in external aid to support Pakistan’s social sectors. By most measures, the program failed. Despite millions of dollars of outside aid to support antipoverty programs, poverty was *higher* in Pakistan in 2004 than it was a decade earlier when the program began. Nearly a decade after the completion of the World Bank’s program, donors in Pakistan—including the United States, the World Bank, and the Asian Development Bank—are again poised to invest billions of dollars in development assistance in Pakistan. Will they repeat the same mistakes?

In 2005, along with CGD researchers Milan Vaishnav and Adeel Malik, one of us prepared an analysis of the World Bank’s social-sector lending in Pakistan from 1990 to 2003. The study reports in painstaking detail the problems of the World Bank and other donors in the 1990s working with the government on health and education in Pakistan. The lessons from this massive donor experiment in the 1990s are even more relevant today, as the United States and other multilateral partners prepare to increase their assistance to Pakistan to historic levels. Today Pakistan is increasingly viewed by U.S. policymakers as one of the most critical—if not *the* most critical—fronts in the U.S.-led efforts to combat extremism. Explaining that the United States cannot secure its interests in Pakistan with “bombs and bullets alone,” President Obama pointed to economic development as a central component of the United States’ security strategy in Pakistan, and Congress authorized a tripling of foreign assistance to Pakistan over the next five years to $7.5 billion. Ambassador Holbrooke has called for even *more* assistance to Pakistan.

Will tripling (or even quadrupling) U.S. aid money to Pakistan work? What lessons can the United States learn from past donor experiences in Pakistan? As the Birdsall et al. 2005 analysis illustrates, the challenges of effectively spending massive amounts of aid in Pakistan are immense. Despite huge inflows of assistance from donors and multilateral creditors, Pakistan has made little if any progress on the fundamentals of social development, state-building, growing the middle class, and reducing poverty. Its democracy is fragile, corruption and patronage are rampant in government, most of its children never complete primary school, and its health indicators lag far behind those of Bangladesh despite its higher average income. As of 2006, the proportion of people living under the poverty line in Pakistan was nearly 23 percent.[1]

As U.S. policymakers plan for spending vast new aid resources in Pakistan, they would be wise to consider several important lessons from recent donor experience there.[2]

The World Bank's $450 Million Experiment

In the early 1990s, the World Bank launched an ambitious, multiyear initiative in Pakistan called the ―Social Action Program" (SAP). Between 1992 and 2002, SAP aimed to address Pakistan's chronic underachievement in its social sectors. The program set out to improve the *quality*, *efficiency* and *coverage* of basic services like primary health, education, family planning, and rural water supply

[1] http://www.worldbank.org.pk/WBSITE/EXTERNAL/COUNTRIES/SOUTHASIAEXT/PAKISTANEXTN/0,,contentMDK:21845538~pagePK:141137~piPK:141127~theSitePK:293052,00.html

[2] This paper re-releases the original analysis of the Social Action Program and delineates the main lessons for U.S. policymakers from the challenges the World Bank faced in its "surge" of aid money to Pakistan in the 1990s.

and sanitation. The World Bank, in collaboration with several other donors,[3] disbursed $450 million over ten years. The idea was to provide sufficiently large support to provoke greater spending by the Government of Pakistan and to ensure leverage for key reforms, including reduced patronage and corruption.

The scale of the program was impressive. It spanned some 27 different sub-programs, four sectors, all four provinces, and the tribal belt. By almost all counts, however, the Social Action Program failed. Despite the enormous investment of donor resources, Pakistan's human development statistics showed little, if any, improvement. In the decade SAP was implemented, Pakistan's social indicators stagnated, improved only marginally, or—in some cases—even deteriorated. For instance, despite SAP's investments in the education sector, school-enrollment rates stagnated in the 1990s. Alarmingly, enrollment for boys and children in public schools actually declined. While SAP did result in some expansion of physical facilities, the extent to which this construction led to better health and educational attainment for Pakistani is unclear.

More disheartening still, despite the World Bank's perceived leverage, SAP failed in its express mission to increase the Government of Pakistan's financial investment in the social sector. When the program began, the government of Pakistan's contribution to SAP was 1.6 percent of GDP; by 2000–2001, the government's contribution was 1.4 percent of GDP, compared to a target of 1.9 percent.

What Went Wrong?

Compared to more conventional donor projects, SAP's unique program design of directly financing Pakistan's public-sector spending left the World Bank much more exposed to the risks associated

[3] The Asian Development, UK's DFID, the European Commission, and the Netherlands provided the bulk of the financial assistance to SAP.

with Pakistan's broader governance challenges: elite capture, governance failures, endemic corruption, lack of accountability, weak public institutions, and a lack of a timely outcome-monitoring system. This author's report brings these problems to light: *"The implementation failures were rampant—manifested in no-merit recruitment of staff, absenteeism of teachers and doctors, and frequent transfers of staff."* Critical gaps in leadership and continuity of leadership were also major challenges. For instance, the report cited that over a nine-year period, Balochistan had 13 different Secretaries of Education and the Government of Punjab had 14 different Secretaries of Public Health Engineering. The impact of these governance challenges was devastating to SAP's effectiveness.

"Injecting vast amounts of money into a dysfunctional system was unlikely to be successful. . . . Under circumstances of elite capture and misgovernance, more money may not necessarily buy social development. . . . The SAP . . . is an example of how easily social sector interventions can be hijacked by governance failures."

The World Bank's internal postcompletion report on the program pointed out several other design and implementation flaws.[4] During SAP's implementation, World Bank staff noted these challenges. In numerous staff reports and emails, they highlighted the tension between working with the Government of Pakistan to address the chronic, long-term implementation bottlenecks and, on the other hand, the need to disburse a large amount of money quickly. In the case of SAP, the donor bias towards disbursing (the next period will be better!) was paramount. As a result, donor resources continued to flow despite disappointing performance.

[4] These problems include an overly complex program design, lack of ownership and political commitment at the provincial level, insufficient accounting systems, and an overestimation of the (limited) provincial capacity and ability to bring about institutional reform in the public institutions.

"In the absence of clear rules for whether and how to stop disbursements (and perhaps fearing accusations of a lack of consistency across provinces), there was little they (donors) could do beyond highlighting and haranguing."

Poverty Reduction and Economic Policy

Moreover, the Bank's broader objectives of sustainable growth and poverty reduction were hijacked by SAP. In particular, poverty reduction boiled down to spending more on social programs. There was no serious dialogue on more fundamental economy-wide constraints: including fiscal and debt problems, political resistance to the critical imperative of changing the tax regime, and the abuse of the financial system. The SAP also largely ignored power relations in rural areas, where a quasi-feudal system dominated by a powerful landlord class perpetuates resistance to reform. Even short of encouraging greatly needed land reform, SAP missed opportunities to empower women and the poor in access to services, including small loans, agricultural extension, and legal aid for enforcement of rights to irrigation water.

New Lending Approaches

In the wake of SAP's failures, the Bank turned to new lending approaches that have achieved greater success than SAP program. In 1999 the World Bank launched the Pakistan Poverty Alleviation Fund (PPAF), which enables the World Bank to bypass Pakistan's problematic public sector altogether. The PPAF, now supported by the World Bank and several donor partners, provides more than a billion dollars to more than 80,000 community organizations, which in turn have provided nearly 2 million microcredit loans and grants to rebuild more than 110,000 houses damaged by the 2005 earthquake.[5]

"Support for the PPAF is a reasonable strategy for the Bank," concluded the evaluation, —*one that goes around the problems of governance that undermined SAP loans, by channeling these funds directly into the hands of local NGOs who can have an impact at the community level."*

In addition to launching PPAF, the Bank introduced a completely new approach to lending for education in Pakistan. Loans go directly to provincial governments and provide direct support to those governments' budgets tied to comprehensive reforms at the system level.[6] This approach has been successful in the province of Punjab. There the program includes a framework of sector-wide educational reforms as well as both supply-side and demand-side interventions aimed at improving school enrollment and quality. The World Bank cited achievements from 2004–2006 of increased budget allocations, a 48 percent increase in total primary school enrollment, and a decrease in the gender gap in enrollment.[7] In 2009, the World Bank pledged $350 million to support the program for an additional three years.

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[5] http://www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2009/07/10/000333037_20090710010914/Rendered/PDF/493510PJPR0P08101Official0Use0Only1.pdf

[6] The instrument used, the Structural Adjustment Credit (SAC), is thus akin to the well-known Structural Adjustment Loans and Credits, but at the sector (education) level.

[7] World Bank "Project Appraisal Document on a Proposed Credit in the Amount of SDR 234.1 Million to the Islamic Republic of Pakistan: Punjab Education Sector Project." May 4, 2009. http://www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2009/05/19/000333038_20090519014935/Rendered/PDF/475910PAD0P102101Official0Use0Only1.pdf

Lessons for the U.S. Government

1. **More aid money does not necessarily buy more (or better) results.** Including the Government of Pakistan's own spending, billions of dollars were channeled through SAP. More aid money did not buy more results. In a country plagued by widespread corruption and weak governance and institutional capacity, how donor money is spent in Pakistan is vitally important. The U.S. government would be well served to find ways to spend money in Pakistan *well,* instead of focusing on emphasizing that they are spending *more, e*ven if that ultimately means spending less. (See point 3.)

2. **Leverage is elusive.** The United States should be realistic about the extent of its leverage and influence over key economic policy reforms; it has virtually none. One of the lessons of the World Bank's SAP experience is that “leverage is elusive, and its limits should be recognized in any strategy to encourage progress against poverty.” Recognizing that any leverage that exists will come from joint constructive pressure on the Government of Pakistan, the U.S. government should lean on the main multilateral partners—including the World Bank, IMF, and ADB—to push for policy reforms in Pakistan.

3. **The temptation to disburse must be managed.** Another lesson from the World Bank SAP experience is the dangerous pitfalls associated with pressures to continue disbursing money, even in the face of poor implementation performance. The United States will likely face similar pressures to disburse, given the underlying motivation of the U.S. government to demonstrate their renewed “partnership” and friendship with Pakistan and their efforts to overcome the trust deficit of the Pakistan public towards the United States.

4. **Channeling aid resources through the Pakistan public sector is risky and is not in itself an effective strategy for improving governance.** The Obama administration has made clear its intention to channel an increasing share of U.S. assistance through the Pakistan public sector and local Pakistani NGOs, and to spend a smaller share of aid on unpopular U.S. contractors. The assistance strategy for Pakistan specifies that this “direct assistance through Pakistani institutions” is intended to “enhance their capacity and to bolster economic and political reform,” and “build long-term capacity at the sub-national government level.”

The World Bank’s SAP experience highlights the risk associated with this strategy and casts doubt on this assertion that funding the Pakistan public sector is in itself an effective capacity-building exercise. Pakistan is a daunting environment for administering effective aid through the Pakistan public sector. Even a strategy for improving governance and institutional capacity must confront the thorny issues of endemic corruption, local power relations and political economy. Simply directing more money to weak and corrupt institutions will not itself transform Pakistan’s public sector governance.

“One can hardly question that Pakistan needs to spend more resources better in its social sectors. But merely raising the expenditure levels is in itself not an assurance that outcomes will improve, particularly in a system characterized by endemic corruption. Indeed, it may be counter-productive, since it may entrench rent-seekers and thus complicate future efforts at reform.”

5. **Expectations should be managed, especially in the short run.** The World Bank's experience in the 1990s reveals a hard fact: it is difficult to spend large volumes of aid money well in Pakistan. Expectations for results, particularly in the short run, should be managed appropriately in both the United States and in Pakistan.

6. **Sustainable poverty reduction and development requires addressing structural problems and political economy issues.** The U.S. government has reiterated its pledge to form a "long-term" partnership with Pakistan and to contribute "sustainable" development in the country. The SAP illustrated a striking reality in Pakistan that continues to ring true today: successfully and sustainably attacking poverty in Pakistan is simply impossible without addressing the structures of economic and political power. "*Incremental programs—greater access to social services and greater access to microfinance—can help people, but will not make a sustainable difference. A country strategy to reduce poverty has to include politically sensitive economy-wide economic reforms, and focusing on making government, including local government, more accountable to people.*"

ANNEX: 2005 Analysis of World Bank Programs in Pakistan

Poverty and the Social Sectors: The World Bank in Pakistan 1990-2003

Prepared for the World Bank's Operations Evaluation Department

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June 1, 2005
Revised August 29, 2005

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Introduction

Over the past decade, the World Bank has consistently emphasized the importance of reducing poverty and improving the delivery of basic social services in Pakistan. Indeed, its resolve to do just that is evident in dozens of official and unofficial studies and assessments, in the Bank's country assistance strategies, and in the content of its loans.

However, a simple fact remains: since the early 1990s, no measurable progress has been made in reducing poverty in Pakistan. In fact, Pakistan remains among the worst countries in the world for a child (and particularly a girl) to be born into. That is so despite its relatively auspicious geographic position, its reasonably good colonial legacy in terms of a professional civil service and the existence of core infrastructure, and the world-class accomplishments of its educated citizens in politics, the arts, and academia.

Lack of income growth is not the culprit.[2] Growth rates were above the developing country average for the first three decades of Pakistan's independence. Though economic growth has been lower (at about 4 percent) in the 1990s, Pakistan has not suffered the virtually zero and even negative growth of many countries in sub-Saharan Africa where there have been greater gains in such social indicators as school enrollment and reduction of infant mortality.

This report focuses on the role of the World Bank in support of poverty reduction during the period beginning in 1990 and concluding in 2003. We review and discuss the Bank's analytic work and its efforts to bring change through policy dialogue and lending programs. Appendices on Bank activities in support of education, gender, health, poverty reduction, and the multi-year Social Action Programs provide detailed summaries of the situation in Pakistan in these areas and of Bank inputs in the 1990s and the first few years of this decade.

In this summary, we assess the reasons for the overall failure of the Bank to make significant, if any, difference (recognizing the limits of such a position

[2] Shahid Javed Burki estimates a 12-fold increase in the size of the economy between 1946 and 2002. Per capita income gains were much lower because of very high population growth. Pakistan's persistently high rate of population growth is as much, however, a symptom of its continuing poverty as a cause. In particular, it underlines the fundamental constraint to growth and social transformation posed by the continuing low status of women, with its effects on unusually high fertility. See Shahid Javed Burki, "Pakistan Country Assistance Evaluation," Draft working paper prepared for the World Bank's Operations Evaluation Department," June 28, 2002.

given we cannot know the counterfactual) and the choices the Bank now faces if it is to be more effective in its support in the future.

Background: Why So Little Progress Against Poverty?

Pakistan's people have suffered one of development's most worrying cases of growth without development.[3] Pakistan made measurable progress on very few dimensions of development—economic, political, or social—in the 1990s. Even the more recent signs of progress in managing the economy and implementing reforms are not institutionalized nor embedded in a resilient and transparent system of government accountability or of adequate checks on abuse of power. Thus, they may be vulnerable to the same setbacks that political change brought to past periods of apparent progress.

Over the last three to four decades, economic growth has not translated either into widespread improvements in economic opportunities and livelihoods for the great majority of its people, or into the building of stable and reliable political and economic institutions. Pakistan is ranked 142nd out of 175 countries on the UN Development Program's Human Development Index (HDI) – which combines measures of life expectancy, school enrollment, literacy and income to allow a broader view of a country's development.[4]

It lags well behind other countries with similarly low average income levels across almost all indicators of social and human development. Relative to countries with comparable levels of income, Pakistan has 20 percent fewer children of elementary school age enrolled in primary school and 40 percent fewer girls.[5] Its infant mortality rate of 84 per thousand is an astonishing 60 percent above Bangladesh's rate of 51 per thousand, and more than four times greater than Sri Lanka's rate of 17 per thousand. Its total fertility rate (more or less the average number of children that women have today) of 5.6 compared to 3.9 in India and 4.4 in Bangladesh) is a worrying symptom of the low status of women in Pakistan. Discrimination against women is most evident in the stark fact that girls between ages 1 and 4 had a 66 percent higher mortality rate than boys in the 1990s, contributing to Pakistan's lower than average female proportion of its population.[6]

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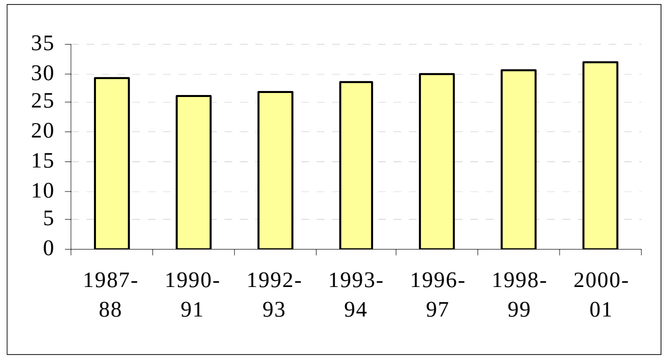
[3] For a more in-depth examination of this phenomenon, see William Easterly, "The Political Economy of Growth Without Development: A Case Study of Pakistan," Paper for the Analytical Narratives of Growth Project, Kennedy School of Government, Harvard University, June 2001.
[4] United Nations Development Program, *Human Development Report 2004: Cultural Liberty in Today's Diverse World* (New York: Oxford University Press, 2004).
[5] The World Bank, *Poverty in Pakistan: Vulnerabilities, Social Gaps, and Rural Dynamics* (Washington, D.C.: The World Bank, 2002).
[6] See Anne Tinker, *Improving Women's Health in Pakistan* (Washington, D.C.: The World Bank, 1998); and Easterly (2001): Table 4.

One-third of Pakistan's population is poor, using the World Bank's definition of people living on less that $1 a day.[7] Between 1990 and 2001, the evidence demonstrates that poverty actually rose (see Figure 1).[8] According to the World Bank's 2002 Poverty Assessment, this increase "is in sharp contrast to the previous decade, when poverty [throughout the country] is found to have declined sharply."[9]

Figure 1: Poverty Trend in Pakistan: Poverty Headcount (%)



Source: Poverty Reduction Strategy Paper, Government of Pakistan.

Though the Gini coefficient of income inequality is not high (compared, for example, to many countries in Latin America), social indicators exhibit stark differences by gender and between rural and urban areas.[10] A stunning illustration of the gender gap is that, in terms of literacy, women are further behind men than they were 30 years ago. In developing countries with comparable economic growth, that difference declined sharply.

The largest gaps across the board are those between residents of rural and urban areas, and these gaps deserve attention since approximately 71 percent of Pakistan's population lives in rural areas.[11] Among rural and urban boys and girls in the four provinces, rural girls in Sindh have the lowest primary and secondary school enrollment rates (about 25 and 12 percent, respectively). Nonetheless, *urban girls* have higher enrollment rates than *rural boys* everywhere

[7] The World Bank, *Poverty in Pakistan: Vulnerabilities, Social Gaps, and Rural Dynamics* (Washington, D.C.: The World Bank, 2002): i.

[8] Figure 1 is reprinted from the World Bank's 2004 Poverty Reduction Support Credit (PRSC) documentation.

[9] The World Bank, *Poverty in Pakistan: Vulnerabilities, Social Gaps, and Rural Dynamics* (Washington, D.C.: The World Bank, 2002): 20.

[10] A recent National Human Development Report published by UNDP documented marked and persistent differences in the Human Development Index (HDI) across provinces as well. See Akmal Hussain, *Pakistan National Human Development Report 2003* (UNDP: Islamabad, 2003).

[11] The World Bank, *Poverty in Pakistan: Vulnerabilities, Social Gaps, and Rural Dynamics* (Washington, D.C.: The World Bank, 2002): iii.

except the Northwest Frontier Province (NWFP), suggesting that the constraints to increasing school achievement of rural girls are not just cultural. [12]

The large gaps by gender and urban vs. rural areas are probably best captured in the difference in education between the richest 20 percent of households and the poorest 40 percent, considering that education is a good measure of permanent income. Filmer (2001), using household data, finds a difference between the median education level of those two income groups of 9 years, one of the highest in the world. This summary "gap" may best summarize the differences in power and access that are not captured in the traditional measure of income inequality, but do seem to affect the most straightforward measures of human well-being.[13]

Why so little progress?

What is behind Pakistan's lack of progress and resulting backwardness compared to its poor South Asian neighbors? We emphasize four deeply embedded political and social problems, the combination of which makes development a daunting challenge in Pakistan.[14] In discussing the Bank's programs below, we conclude that the failure to take these problems more explicitly and systematically into account in the its country strategy and lending was at the heart of what became the Bank's overly narrow approach to poverty reduction, including a near-exclusive emphasis on the social sectors.

The first is a continuation in the 1990s of the post-independence history of extreme political volatility. From 1990 to 2000, Pakistan experienced ten changes in regime (in one instance, the "caretaker government" of Balakh Sher Mazari stayed in office for a mere 39 days). Constant internecine battles between Pakistan's political parties, religious clerics, and powerful military leaders severely hampered the ability of any one government to rule effectively.[15] Compounded by heightened tensions with neighboring India over the disputed region of Kashmir, the decision to test a nuclear weapon in 1998, and subsequent

[12] The World Bank, *Poverty in Pakistan: Vulnerabilities, Social Gaps, and Rural Dynamics* (Washington, D.C.: The World Bank, 2002): Table A-3.1.
[13] Filmer (2001)
[14] It is striking that the Bank's extensive economic and sectoral studies do not include much, if any, comparative analyses across countries in South Asia. Such analyses could provide greater insight into the political and historical roots of Pakistan's growth without development.
[15] The ability and willingness of a powerful military to intervene when civilian leadership appears inadequate has probably institutionalized the risk of political volatility. Since General Ayub Khan first assumed power in 1958, the military has intervened in political life on three significant occasions: the military's dismissal of the democratically elected government in 1969; General Zia ul-Haq's coup of 1977; and General Pervez Musharraf's military intervention in October 1999, which displaced the then-Prime Minister Nawaz Sharif.

international sanctions, Pakistan's political instability reached new heights during the turbulent 1990s.

Political volatility has permitted and probably intensified the development of a political culture of spoils, in which both politicians and bureaucrats, anticipating a loss of position and power at a moment's notice, concentrate on extracting what rents they can from the system rather than investing in it. This creates a vicious cycle in which the resulting deterioration of rules and respect gradually undermines existing institutions (such as the initially effective and professional civil service).

Second is the economic costs over decades of conflict with India, not only in terms of military spending but lost opportunities for trade since "the heavy burden of defense on national budgets diverted resources away from a number of important sectors that needed public sector attention" and prospects for foreign direct investment declined dramatically. Burki (2002) estimates that the cumulative impact of 2001's near-war with India "may be of the order of 15 percent of Pakistan's GDP."[16]

The third is the power of the landlord class in the quasi-feudal settings of rural Pakistan, emphasized by Hussain (2003) and Easterly (2001).[17] Hussain focuses on the mechanisms by which landed elites wield control of the market, literally robbing the poor through monopoly-like pricing of input prices and monopsony control of output prices. Easterly emphasizes the landed elites' resistance to the education of the poor and to other investments which would empower the poor, particularly women.[18] Ali (2004) argues that the political resilience of the semi-feudal agrarian hierarchy helps explain longstanding resistance in Pakistan to consistent pro-business and pro-market reforms.[19]

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[16] See Shahid Javed Burki, "Pakistan Country Assistance Evaluation," Draft working paper prepared for the World Bank's Operations Evaluation Department," June 28, 2002.

[17] See Akmal Hussain, *Pakistan National Human Development Report 2003* (UNDP: Islamabad, 2003); and William Easterly, "The Political Economy of Growth Without Development: A Case Study of Pakistan," Paper for the Analytical Narratives of Growth Project, Kennedy School of Government, Harvard University, June 2001.

[18] Of course the landlord class is not the only powerful group with vested interests. In addition to the military and political and bureaucratic interests, a large and powerful urban industrial and financial class exists, and as elsewhere, resisted trade and financial reforms in the late 1980s and early 1990s. Most recently, export success in some sectors and more open capital markets have reinforced trade and financial reforms. Change appears to be coming much more slowly in rural areas, where more of Pakistan's poor reside. This is the case even though many of the same people are probably both members of both the landed and industrial elites.

[19] Imran Ali, "Historical Impacts on Political Economy in Pakistan", Asisan Journal of Management Cases, 2004.

The fourth is the problem of ethnic, religious and other divisions that plague Pakistan.[20] Urdu is the native tongue of only 8 percent of the population; at least 20 other languages are spoken in Pakistan. There are fierce and continuing tensions between natives of Pakistan at independence and the Muslim immigrants in Karachi (*Muhajirs*); between Shia and Sunnis; between Islamists and secularists; and Punjabis and natives of Sindh.[21] Since the move toward increased "Islamization" under Zia-ul-Haq, other divisions have been exploited in politics and by outside Islamic fundamentalist groups. The very definition of Islamic has become contentious and exclusive.

There are other ways to explain Pakistan's poor record in reducing poverty and improving social indicators. Each has its own logic, though we believe they are symptoms of the above underlying forces rather than causes in themselves.

Low spending on direct and indirect measures is an obvious one. In 2003-4, the Government of Pakistan aimed to spend a paltry 0.5 percent and 1.8 percent of GDP on health and education, respectively.[22] Development expenditures fell in the 1990s, from 6.4 percent of GDP in 1991 to 3 percent in 1999.[23] Why is spending so low? Easterly's statistical analysis suggests that Pakistan spends 3.3 percentage points of GDP more on defense than other countries of its income level, an amount roughly equal to Pakistan's under-spending (in a statistical sense) compared to other countries, given its income, on health and education.[24] "Inflexible" defense spending, rising debt servicing and stagnation in government revenues have contributed to the shrinking of fiscal space. Other explanations for low social spending include: the lack of political will, the low level of effective demand for spending, particularly among the rural poor who have virtually no political power, and the highly centralized nature of social programs at the provincial level, which undermines any political incentive to respond to local demands.

Regarding low spending on social programs, for the bureaucratic and technocratic elite at the federal and other levels, there is an important additional complication, prevalent in all countries but almost surely (based on anecdotal

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[20] Easterly (2002); Hussain (1999)

[21] "With an insecure elite preferring cultural and religious atavism to social and institutional change, major gender, caste and ethnic contradictions remain unresolved." (Ali, 2004, p. 144).

[22] International Monetary Fund, 2003, *Pakistan: Sixth and Seventh Reviews Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility*, Staff Report, Washington, D.C.

[23] World Bank, *Pakistan – Public Expenditure Review*, 2003. Development expenditures as used here refers to new investment.

[24] William Easterly, "The Political Economy of Growth Without Development: A Case Study of Pakistan," Paper for the Analytical Narratives of Growth Project, Kennedy School of Government, Harvard University, June 2001.

evidence) worse in Pakistan. Spending on social services is heavily concentrated in spending on salaries of providers. The relatively low non-salary expenditures on health and education in the 1990s were additionally squeezed by the slow down in development spending.[25] Along with spending on local infrastructure that would meet the immediate needs of the poor, such spending is highly vulnerable to patronage and corruption. As desirable as it might seem to increase spending in these areas, even reformers who might otherwise champion increases are unlikely to do so.

As we emphasize below, other symptoms of the political economy constraints to reducing poverty (and achieving sustainable growth) manifest themselves in the political impossibility of taxing agricultural land; the abuse of the irrigation system by those with privileged access or power and the related continuing deterioration of the natural resource base on which the poor depend for their livelihoods; the continuing difficulty of creating an open and competitive financial and banking system (though in this area there appears to have been more progress recently) which might make credit available to the poor and working classes; the periodic overspending of limited public resources on white elephants such as the motorway between Lahore and Islamabad, with high opportunity costs for investments in rural roads and community infrastructure; and so on.[26]

In the 1990s, longstanding problems were exacerbated by another round of political volatility, with the advent and decline of four civilian administrations headed alternately by Benazir Bhutto and Nawaz Sharif from 1988-1999; by low growth and the burden of high debt (public debt as percentage of GDP approached the 100 percent mark in the year 2000, much of it inherited from the 1980s and 1990s); and by the resulting intensification of longstanding fiscal pressures. These had the effect of reducing spending on poverty reduction programs and social services below what they might have been, while providing an immediate explanation for the government's failure to reach spending targets. Ironically that created increased pressure on the World Bank to sustain its own commitments in the social sectors – despite failed commitments on the part of the government. This is an issue we discuss below.

[25] The World Bank, *Pakistan Public Expenditure Management: Strategic Issues and Reform Agenda*, Volume 1, Report No. 25665-PK, January 28, 2004: 10-11.

[26] The Work Bank cited the Lahore-Islamabad Motorway as "the most egregious example" of a large-scale "low priority" public investment undertaken by the government. See The World Bank, *Pakistan Public Expenditure Management: Strategic Issues and Reform Agenda*, Volume 1, Report No. 25665-PK, January 28, 2004: 38.

The World Bank's Programs: A Flawed Strategy for Attacking Poverty

In the 1980s, World Bank lending in Pakistan for poverty and social programs was relatively small – amounting to an accumulated $415 million out of $5.5 billion (or around 8 percent of all lending). Of this sum, nearly 95 percent was allocated for education. By the early 1990s, however, following the emphasis in the 1980s on support for macroeconomic and structural reform, and in response to the backlash that emphasis had generated in the broader development community, the Bank resolved to substantially increase its support for programs that would bring direct benefits to the world's poor. In Pakistan, that resolve was reflected in an increase in the proportion of total lending directed to the social sectors, from 8 percent in the 1980s to approximately 27.5 percent in the 1990s, and to the decision to finance a large and ambitious program across all social sectors and in all parts of the country, called the Social Action Program (SAP).

The Bank's first Country Assistance Strategy (CAS) of the review period was issued in 1992.[27] The 1992 CAS sets out four priorities for the Bank's program in Pakistan; the fourth of these calls for "accelerating growth efforts to tackle poverty…through preparation and implementation of a Social Action Program, including policies and programs which improve the coverage and quality of basic social services and infrastructure."[28]

In order to achieve "the twin goals of poverty reduction and sustained growth", the Bank—in its 1994 Country Assistance Strategy – reiterated renewed commitment to the social sectors as one of its four priority areas.[29] The Bank strategy emphasized improving the quality and coverage of basic social services, the overall efficiency of the health and education sectors, and improving and expanding local community participation. The CAS once again cited the centrality of Bank support for the Social Action Program, a Government initiative that had been proposed by the new Sharif government. (At the time, Bank staff were cautiously optimistic: "The SAP offers no instant solutions, but will help improve social indicators over time, assuming it continues to receive the funding, implementation, and political support needed."[30])

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[27] The 1992 CAS was not issued as a stand-alone document; rather, it was submitted to the Board as an attachment to the Fordwah Eastern Sadiqia (South) loan on June 11, 1992.
[28] World Bank, *Fordwah Eastern Sadiqia (South) Irrigation and Drainage Project*, Report No. P-5749-PAK, June 11, 1992.
[29] World Bank, *Pakistan Country Assistance Strategy*, 1994. The other priority areas were infrastructure, agricultural productivity and management of natural resources, and structural adjustment.
[30] *Ibid*, p. 5

Throughout the remainder of the 1990s, the Social Action Program became the country's and the Bank's primary policy vehicle for expanding the coverage, quality, and effectiveness of basic social services including primary education, primary health, family planning, and rural water supply and sanitation. A multi-year, multi-disciplinary strategy to reverse Pakistan's poor performance in the social sectors, SAP was a central feature of the Bank's Country Assistance Strategies throughout the decade. Additional social projects financed by the Bank were implemented under the loose "framework" of the SAP (though it is unclear what this relationship meant in practice).

Put another way, the SAP also became the Bank's central vehicle more generally for poverty reduction and broad-based growth. Through the SAP, the Bank's strategy, in terms of its policy dialogue and lending, was reduced for all practical purposes to an almost singular concentration on social service delivery. The SAP, in turn, was—at least in its early years—heavily focused on the goal of increasing public spending on social services (this was the initial reasonable goal of the reformers in government who created the program; if they had stayed in office longer, perhaps they would have made the adjustments that time and experience called for).

The advent of the military government of General Pervez Musharraf in 1999 marked a "second phase" of Bank operations in Pakistan. When the Musharraf government assumed power, it placed a relatively high premium on liberalization, fiscal reform, a return to privatization and regulatory reform, and devolution of fiscal and administrative responsibilities to the district level (and below). This new phase coincided with the winding down of the SAP, the Bank's shift to new modalities of lending directly to the provinces (this is discussed in greater detail in a later section), and amplified rhetoric about "pro-poor" growth, "empowerment," and reducing "vulnerability." Yet with a few exceptions, the Bank's essential poverty reduction strategy remained the same: encouraging increased government spending on social services such as health, education, and family planning. Although with experience and information accruing over the review period, issues of management, implementation, "governance" (patronage, staff turnover, corruption) became increasingly visible, they have continued to be discussed and addressed primarily in the context of encouraging increases in spending (with increasing emphasis on "effectiveness" of programs, at least on paper) on social services.

Three sins of omission

The Bank's poverty strategy thus abstracted from certain realities, all of which affect the livelihoods of the poor, and the vulnerability of their livelihoods to factors beyond their control:

- Economy-wide constraints to reducing poverty were not frontally addressed as critical constraints to attacking poverty (though they were on the IMF and World Bank's macro-reform agendas, consistently emerging in the form of oft-repeated conditionalities). These constraints included not only the obvious fiscal and debt problems that restricted expenditures on rural roads, drainage, power, and maintenance of deteriorating irrigation systems, but the political resistance to changing the tax regime (which is critical for creating incentives for the sale of highly concentrated land) and the abuse of the financial system.

- Power relations in rural areas were largely ignored for much of the review period, especially in terms of lending. Even without land reform (though this is fundamental and was also repeatedly discussed in the context of adjustment loans), some progress might have been made with greater initial attention to community development and community-based infrastructure, access to small loans, agricultural extension, and legal aid programs for enforcement of rights to irrigation water on behalf of the poor. The opportunity cost of the inability of women to exploit opportunities to improve their own productivity in rural areas, in part because of their disempowerment, was not raised.[31] Equally ignored were power relations in urban areas; it seems likely that bureaucratic politics, regulatory burdens and tax harassment affect the ability of the poor to start and manage small businesses in Pakistan's cities, and that the increasing presence of small arms and of criminality and ethnic violence disproportionately hurt the poor.

- The effects on the poor of the deteriorating natural resource base, particularly the irrigation system, were not analytically linked to the persistence of poverty and the failure of the rate of poverty to fall in the 1990s. Evidence that landlords are increasing the proportion of irrigation charges that sharecroppers must pay is an alarming sign of the increasing cost of running the system as well as of the latter's lack of market power.

[31] Country assistance strategy documents of 1995, 2002, and 2003 all discuss what came to be called (in 2002) "pro-gender equity" policies. However, the strategy is essentially to "highlight expanded access to quality education and health services for women and children." (2003). Although there is reference to other possible "gender-specific" programs such as rural employment, it is not clear whether and how the Bank pursued these in the country dialogue throughout the 1990s. The October 2003 appraisal of the Second Pakistan Poverty Alleviation Fund (PPAF) project does refer to women's "lack of control over financial/productive assets" as a finding of the 2002 Poverty Assessment. This is one of the first clear statements we could find. See also Appendix on Gender.

Many of the above issues that should surely be central to the Bank's overall strategy in Pakistan are referred to in the CASs and discussed in economic and sector work, but almost always in general terms, and typically then followed by a concrete allusion to social services (See Table 1).

Table 1: Boiling down poverty reduction to social service delivery

…World Bank's assistance strategy focuses on two closely linked development goals: poverty reduction and reducing constraints to sustained growth. To address the poverty reduction objective, the Bank's approach highlights improving inadequate basic social services and so improving weak social indicators… -- Country Assistance Strategy Progress Report (July 11, 1994)
The Bank Group will assist the Government's poverty reduction efforts by supporting the SAP and complimentary projects in education, health, and population… The SAP represents the Government's best effort yet to address a root cause of poverty in Pakistan by improving systematically access and quality of basic social services… -- Country Assistance Strategy (November 22, 1995)
Helping Pakistan to reduce poverty through investing in people, raising productivity, and promoting economic growth remains the core of the Bank's country assistance strategy… …poverty reduction remains constrained by Pakistan's long neglect of basic social services… -- Country Assistance Strategy Progress Report (March 20, 1997)
Because a strong foundation of literate, numerate, and healthy people is essential for growth and poverty reduction, the Bank's strategy is to help Pakistan expand access to and improve the quality of its social services. -- Country Assistance Strategy Progress Report (December 28, 1998)

As evidenced by the Bank's Country Assistance Strategy documents, the Bank's basic mantra throughout the 1990s was that efforts to reduce poverty were seriously constrained by the Government of Pakistan's historical neglect of basic social services. That this is true is obvious. That it does not go to the heart of the challenge is a fundamental analytic omission.

In contrast is the 2003 Pakistan National Human Development Report, prepared by an independent Pakistani consultant, which includes the following language: "[T]he poor face markets, state institutions and local structures of power that discriminate against [them]. . .[They are] "locked in a nexus of power that systematically perpetuates poverty…unable to access public entitlements like political processes, or goods and services."[32]

[32] We were told that the author of the 2003 Pakistan Human Development report had offered to work on the Bank's poverty assessment, without a fee, but had his offer turned down.

The Bank's strategy in support of women has the same characteristic. On the one hand, during the review period, the Bank was in no way hesitant in promoting policies and programs to improve women's status and opportunities. Analysis of the problem and statements about its centrality are evident in Bank documents, including numerous CASs and in the project appraisal and supervision reports of the Social Action Program, as well as in the Bank's support for reproductive health and family planning, both directly and in the context of broader health sector loans.[33] In education loans in the latter part of the review period, there is considerable emphasis on subsidies and other approaches (more female teachers, more attention to safety, security, and convenience – latrines for girls) to increase the incentive of families and of schools to enroll girls in school. Given the dismal state of health and education indicators for girls, such a focus on social services was appropriate. On the other hand, there was strikingly little emphasis, in strategic work or in lending, on creating income-generating activities for women or finding ways to increase their political and social empowerment.[34] The only (and partial) exception is the targeting of micro-credit to women in the poverty alleviation programs supported by loans approved in 1999 and 2003. [35]

Knowing but not saying . . .

This is not to say that Bank management and staff were ignorant of these issues of power and political economy, only to suggest that the failure to come to grips with them in any official statements inhibited a broader and healthier dialogue, and narrowed the lending program to the familiar, conventional "social" programs. In fact, by the end of the 1990s and in the last few years, there was better articulation in Bank documents of some fundamental problems plaguing Pakistan's poor, especially in the agriculture sector. Annex 1 offers an accounting of World Bank most relevant analytic and advisory (AAA) work in the social sectors from 1990-2003.

The Bank's 2002 poverty assessment, issued at the tail end of the period under review, provides an excellent discussion of rural landlessness, and brings out the growing evidence of a negative effect of land inequality on agricultural productivity. It is also the case that by the late 1990s and in the first few years of this decade, there has been more attention paid to participatory development in the CASs, and the lending program has included support for the PPAF (Pakistan Poverty Alleviation Fund) under which grants are made available to NGOs to

[33] For details, see Appendix C.

[34] For instance, there is not yet an analysis of the implications of devolution for women, given the political quota system.

[35] Pakistan Poverty Alleviation Fund (PPAF) Project I and II, are discussed in greater detail in Appendix D.

provide direct programs and services to the poor (a second, much larger loan in support of the PPAF was approved in late 2003).[36] And starting in 1996, the Bank began financing small community infrastructure programs (for which the Government has recently suggested dropping World Bank support), which rely on motivating and empowering local citizens.[37]

Overall, however, the picture is one of reluctance in AAA work to grapple directly with the political economy problems so fundamental to Pakistan's historic and ongoing failure to make significant progress in reducing poverty; and a resulting inability on the part of the Bank to support reformers in Pakistan, if and when opportunities might have arisen, to go beyond the social services in dialogue and lending. It may be that, in this respect, the Pakistan AAA work and lending program does not differ much from that in other countries. The Bank is not known for its political economy analysis; and lending in support of the agriculture sector and rural development, for one example, was low in all regions in the 1990s. Nevertheless, the fact is that the reduction of a "poverty strategy" to a near-exclusive focus (in policy dialogue and in lending) on the social sectors appears to have been all too easy and convenient, as it justified a relatively large lending program in sectors where the Bank was accustomed to make loans.

Even the move toward more direct support with the two PPAF loans in the last few years is consistent with the discovery of a relatively easy vehicle for lending—and there is some controversy over whether the PPAF is reaching community groups as grants are often channeled through large NGOs (such as the national and provincial rural support programs) that are themselves seen as part of the power structure in some quarters. As we discuss below, the near-willful abstraction from political economy and so-called governance problems as they affected poverty reduction also adversely affected the design and implementation of Bank loans in the period under review.

The World Bank's Programs: Lending

Comparing the Bank's role in Pakistan prior to the 1990s and after, Burki (2002) suggests that in the earlier period the Bank's lending priorities more or less matched the priorities of the various Government administrations, but that starting in the early 1990s, "the Bank groups began to aggressively pursue a

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[36] For more discussion of the Bank's AAA work on poverty, and its lending for poverty alleviation, see Appendix D.

[37] Despite reports of the Government of Pakistan's lack of enthusiasm concerning slow-disbursing, community based projects (vice quick-disbursing adjustment loans), in May 2004 the Bank approved a $37.1 million loan in support of a second phase of the NWFP Community Infrastructure Project (CIP).

development agenda that did not win easy ownership amongst Pakistani policymakers."[38]

A major difference was the Bank's emphasis on social programs to address Pakistan's low social indicators. (This disjuncture is perhaps best represented by Burki; his comparison is reprinted in Annex 2). The principal victims were the Social Action Programs supported by the Bank, along with other donors, throughout the 1990s. In retrospect, it is clear that the two pillars of the broader Bank strategy in the early 1990s—ownership by governments of Bank-supported reform programs, and a focus on reducing poverty—could not be easily reconciled in Pakistan, at least not in the short run with the blunt instrument of "social" lending.

We divide this discussion of lending into two periods: the first period, which consists of the two loans in support of the Social Action Program, along with an accompanying set of smaller and more conventional projects supporting health, education or family planning programs at the provincial and federal levels; and a second period, roughly coinciding with the advent of the Musharraf government.

In broad terms, the first period was marked by a single-minded effort to disburse funds for social sector programs, with at most marginal adjustments of tactics in the face of fundamental problems of a centralized system plagued by corruption and lack of accountability, and with little political ownership at the provincial level. In the second period, the strategy remained similar—to increase spending on social programs, though with more emphasis on effectiveness and results via the use of "program" lending which is in principle tied to demonstrated performance.

[38] Shahid Javed Burki, "Pakistan Country Assistance Evaluation," Draft working paper prepared for the World Bank's Operations Evaluation Department," June 28, 2002: 13.

Table 2: Social sector projects, 1990—2003 (including Provincial SACs)

Phase One (1990-1998)	*Phase Two (1999-2004)*
1990 – Sindh Primary Education Development 1991 – Family Health 1993 – Family Health II 1992 – Middle Schooling 1993 – Balochistan Primary Education 1994 – Social Action Program 1995 – NWFP Primary Education Project 1995 – Population Welfare Program 1996 – Northern Health 1998 – Northern Education 1998 – Social Action Program II	1999 – Poverty Alleviation Fund 2002 – Sindh Structural Adjustment Credit 2002 – NWFP Structural Adjustment Credit 2003 – Poverty Alleviation Fund II 2003 – National Education Assessment System 2003 – Partnership for Polio Eradication 2003 – HIV/AIDS Prevention Project 2004 – Punjab Education Reform Adjustment Credit 2004 – NWFP Structural Adjustment Credit II

Phase I: The 1990s and the SAPs – Feeding the beast

The Nawaz Sharif government that took office in 1990, with the leadership of a small but sophisticated and committed group of technocrats, created (and initially "owned") the Social Action Program. The Government, its leadership, and an increasing number of ordinary Pakistanis recognized that Pakistan suffered from a massive social deficit.[39] From the reformers' point of view, a critical first step was to lock in a healthy increase in public spending on social programs. The Sharif government was also opening the economy and initiating a program of privatization, and making efforts to reduce the budget deficit and halt what had been a rapid build-up of public debt in the 1980s. In this resource-constrained environment, there was, as it turns out, a need simply to *protect* existing social expenditures from further cuts.

Against this background, the World Bank and other donors collaborated with the Government in what was meant to be a massive new initiative for

[39] At that time, in fact, seminal work was being done by Pakistani economist Mahbub ul Haq at UNDP where he created and led the work on the Human Development Report, based on the idea that "human development" is the real objective of growth.

improving social service delivery. The Social Action Program was launched in 1992-93 and implemented in two phases. Support for the SAP (in the form of Social Action Program Projects I and II) was a controversial innovation for the Bank, and was recognized as such at the time.[40] The premise of the Social Action Program Projects was to finance a portion of the country's social sector budget (on a reimbursable basis) sufficient to allow the Bank to leverage its influence and to ensure that the donors were in a position to strengthen the hand of those reformers in Pakistan who wanted to address the country's social deficit.[41]

Table 3: World Bank Social Action Program Loans

					ICR Rating for			OED Rating for			CAE Rating for		
Fiscal Year	**Project Name**	**IDA Amount**	**Amount Disbursed**	**Status**	**Outcome**	**Sustainability**	**IDI**	**Outcome**	**Sustainability**	**IDI**	**Outcome**	**Sustainability**	**IDI**
1993/4	SAP-I	200	200	Closed	S	M	U	UN	UN	N	UN	UN	N
1997/8	SAP-II	250	250	Closed	U	M	U	UN	UN	M	UN	UN	N

The original intention of the donors was to finance as much as 10 percent of all social spending by the federal and provincial governments excluding the recurrent spending on salaries and other operating costs which most donors are traditionally reluctant to finance. In the end the donors as a group, and principally the Bank, financed about 6 percent of all spending. (Several former government officials complained that the original plan had been for donors to finance much more than 10 percent, and that 6 percent was too small. In fact, with the possible exception of some countries in sub-Saharan Africa, external financing of 6 percent of all social spending in a given recipient country is exceptional. It is not at all clear that a higher proportion would have made a difference in terms of "leverage"). [42]

The SAP was, for all practical purposes, meant to mirror adjustment loans in policy intent, though disbursements were still linked to the government's

[40] For a detailed discussion of the SAP objectives, see Appendix E.
[41] In addition to the World Bank, the Asian Development Bank, the United Kingdom's Department for International Development (DFID), the European Commission, and the Government of Netherlands provided the bulk of donor support for the Social Action Program (SAP). In the end, DFID did not disburse funds for SAP II and ended up withdrawing its technical assistance following Pakistan's nuclear testing and the arrival of a military government led by Pervez Musharraf.
[42] The initial plans drawn up by the Government of Pakistan in the early 1990s envisioned a 5-50 burden-sharing agreement under which the Government would contribute 50 percent of SAP project costs while donors (led by the World Bank) would come up with the remaining 50 percent.

submitting evidence of sector-specific expenditures. It was from the beginning an ambitious and massive effort, supporting 27 different sub-programs in four sectors (basic education, primary health, population welfare, and rural water supply and sanitation) in all four provinces and in the federally administered territories, and including direct support to certain federal programs.

The SAP proved to be a major disappointment. The gains, if any, were marginal. If there was any success, it was defined mainly in terms of quantitative expansion of physical facilities, but whether these led to better outcomes for impoverished Pakistanis is not clear. To be fair, the SAP did bring much-needed attention, both on the part of elites and the populace, to Pakistan's abhorrent social gap.[43] It provided a vehicle for increasing awareness, changing attitudes, and raising understanding of Pakistan's pressing social needs. But while not insignificant, this outcome does not adequately justify what was a decade-long, multi-billion dollar "experiment."

While the gains were marginal, the failures were visible. The period during which the SAP was implemented witnessed stagnation, marginal improvement, or – in some cases – even a decline in social indicators. For example, aggregate education enrollment rates stagnated during the 1990s, with enrollments for boys and children from public schools registering a modest decline. The SAP was also unsuccessful in meeting a primary objective of raising the Government's financial contribution towards the social sector: for example, in 2000-01 the Government's contribution to SAP expenditures reached a low of 1.4% of GDP against the targeted 1.9%. In a 2002 report, Bank staff wrote: "A disquieting feature [of the 1990s] has been that the gap between the Government's targeted and actual expenditure on the SAP as a percentage of GDP has been increasing since its inception and has increased rather sharply [between 1999-2002]."[44] (See Table 4).

Table 4: Government Allocations and Expenditures on SAP *(Percent of GDP)*[45]

	SAP Allocations and Expenditures (as % of GDP)								
	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02
Allocations	1.6	1.7	1.8	1.8	2.3	2.3	2.1	1.9	1.8

[43] One prominent social phenomenon that received a great deal of attention was "ghost schools." Ghost schools are schools that exist only on paper—often created by corrupt individuals seeking to bilk the government out of money by pledging to establish schools, but pocketing the money instead. In 1998, the military dispatched 1,400 army teams charged with verifying the existence of over 50,000 schools in Punjab alone. See BBC News, "Pakistan army seeks out phantom schools," March 23, 1998, available at http://news.bbc.co.uk/1/hi/despatches/68762.stm.
[44] The World Bank, *Pakistan Development Policy Review: A New Dawn?*, April 3, 2002: 27.
[45] See The World Bank, Social Action Program Implementation Completion Reports (various years).

Expenditure	1.6	1.6	1.7	1.6	1.7	1.6	1.4	1.4	1.5

What went wrong with the SAP? Why did a sound idea turn into a practical disaster? Clearly, a coordinated donor attempt towards improving social service delivery was a good idea in principle. At the very least, this was supposed to have granted greater leverage to the donors. Failure can be explained in terms of two shortcomings: the initial *design* abstracted from the fundamental problems; and during *implementation*, the necessary major adjustments were never taken.

- *Design shortcomings*

Regarding *design*, the lending instrument was too blunt, and an extremely complicated design made it too easy to focus on getting plans and reports and reimbursement arrangements organized – independent of whether resources were being spent effectively. We emphasized above that the Bank's appropriate concern to support poverty reduction boiled down in practical terms, in the lending program, to an increase in the proportion of its total lending going to social programs. The design of the SAP "assumed a direct causal link between poor social sector outcomes and a low level of public funding," yet from the beginning, "there was…no demonstrated linkage between the proposed incremental funding (input), the additional service coverage and quality improvements targeted (outputs), and the improved level of social indicators (outcomes)."[46]

The SAP program, in contrast to earlier more conventional projects supported by the Bank, exposed the resources of the Bank and the other donors in a larger and visible way to the risks faced by the government's own spending in these sectors: political patronage and corruption that were deeply rooted and widespread. The donors were not unaware of the risks of political volatility, elite domination, and ethnic factionalism set out above, in terms of social expenditures. Early on in the 1990s, Bank staff were fully aware of the risks present in Pakistan: "Political difficulties and governance concerns will continue to slow implementation and impact negatively on the efficiency and effectiveness of Pakistani development efforts," stated the Bank's 1994 CAS. "Potential difficulties include political interference which could weaken the impact of policy and other reform." [47]

Internal World Bank emails, memos, and meeting minutes that were circulated during the SAP-I project preparation phase demonstrate how well

[46] Asian Development Bank, *Project Performance Audit Report on the Social Action Program (Sector) Project in Pakistan*, PPA: PAK 26017, November 2001: 16.
[47] World Bank, 1994, "Pakistan—Country Strategy Paper": 3.

known the risks of the SAP were at the time. Several Bank officials expressed concern at the complexity, timetable, and strategic underpinnings of the SAP as well as the historical dearth of demonstrated Government commitment to the social sectors. In retrospect, these Bank officials appear quite prescient about the pitfalls of the SAP. While their objections were duly noted and raised in meetings over a period of two years, in the end their warnings were not heeded (See Table 5).

Table 5: Bank Officials Foresaw SAP-I Problems

"[T]here is a tension between disbursing a large amount of money quickly (i.e. in two years) and working with Government to resolve a number of chronic, long-term implementation bottlenecks. The IEPS [Initial Executive Project Summary of SAP-I] states that there are problems at all levels which constrain implementation capacity. In such case, and given the large sums already in the pipeline, it is not clear how additional resources would be spent.[48]
"[W]ith some 25 action programs including specific policy reform measures, budgets and plans to be agreed, the complexity of the operation remains daunting to say the least, and the time-frame quite unrealistic. The section dealing with lessons from the past seems rather perfunctory and doesn't deal at all with the lessons we have painstakingly learned in designing and implementing the kinds of policy and administrative reforms…either in Pakistan or in other parts of the world."[49]
"The project time table is so tight that it drives the proposed operation towards an enabling environment for "spending more" whereas the priority objective clearly is "spending more efficiently…In sum, an attractive project concept…which however, may not be feasible under the existing time table."[50]
"It is not correct to assume that improving the delivery of basic services…is necessarily an effective self-targeting mechanism for the poor… I see nothing…in the design of the overall project that would lead me to believe that project beneficiaries would necessarily be poor or reside in remote areas. Weak provincial governments are likely to be less effective at providing services and my sense is that poverty is more endemic in areas of Pakistan with weak government institutions."[51]

Even firm proponents of the project, while ultimately pushing for Bank support, also flagged several concerns that such an ambitious, complex project

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[48] Memorandum from Gobind Nankani (SASVP) to John Wall (SA3PK) and Salem Gafisi (SA3PH), February 3, 1993.
[49] Memorandum from Martin Karcher (SA1PH) to Salem Gafisi (SA3PH), February 3, 1993.
[50] Memorandum from Adrian Verspoor (ESP) to John Wall (SA3PK), February 3, 1993.
[51] Memorandum from Valerie Kozel (SASVP) to Salem Gafisi (SA3PH) and John Wall (SA3PK), June 24, 1993.

raised along the way. The Bank staff charged with preparation of SAP-I characterized the Social Action Program concept as a "high-risk-high gain" opportunity.[52]

A 1993 memorandum from the Pakistan Country Director to the Regional Vice President for South Asia read:

> "As you know, this has been a controversial project…The governments have made a good start but need to do a great deal more. Many pitfalls still remain open. The current political turmoil is an obvious one. Another is the weak administrative set up. The government's poor track record and spotty compliance in all areas…is another. The unprecedented nature of this approach, both from the donors' standpoint and from that of the Governments, is yet another…We have dealt with some of the risks in the project design…If this approach does not work, we have the option of dropping the whole idea; or we might take another approach, based on what we learn from the first operation."[53]

When the project documentation for SAP-I was sent to the regional loan committee in August 1993, the members of the committee gave a green light to project staff to continue preparation for Board approval and eventual implementation of the SAP. They did, however, voice a number of concerns:

> "The Committee recognized that this project took an unusual approach to addressing social sector development, was ambitious in its objectives and subject to a variety of risks. The Committee urged candor on what can be achieved feasibly and a recognition that the basic goal is steady progress toward improving implementation of the entire program of delivering basic social services and not perfection in one investment project…The Committee cautioned that project monitoring would be the key to the success of this project."[54]

The issue, after the fact, is whether there might have been more attention to the overall design of SAP-I, taking into account these concerns. For example, the effort to coordinate donor support in the form of a single large project was an attempt to secure leverage. But the design of the project failed to build in mechanisms of leverage or monitoring of intermediate, measurable efforts/inputs. Attention was paid to the need to gather and monitor data on changing social outcomes (in the form of important support for surveys of living standards), but that could not substitute for more timely measures of intermediate performance. Though Government officials responsible for administering the SAP's 27 subprograms each had to prepare periodic plans and reports, they were not in any way competing for scarce resources. Indeed in the

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[52] Memorandum from Paul Isenman (Country Director) to Joseph Wood (SASVP), July 26, 1993.
[53] *Ibid.*
[54] Memorandum from John Wall to project personnel regarding the minutes of the Regional Loan Committee, August 6, 1993.

early years when several lagged, the others who were ready with their plans actually had to wait for all to catch up before receiving funds.[55]

Similarly, were there ways to simplify the components or otherwise limit the scope of risks? The SAP design was cumbersome in its administrative requirements – both for the donors and for the federal and provincial governments. According to documentation of the Bank's negotiations with the Government when SAP-I was agreed to by both parties in early 1994, the Bank "clarified that it would make every effort to simplify procedures for processing of SOEs to ensure expeditious processing for reimbursing claims."[56] We now know that that never took place. Former officials familiar with the initial arrangements for reimbursement against statements of expenditure (SOEs) complain that the Bank and the donors brought in outside consultants to design an accounting system that was different from the local systems already in use, and created new demands, confusion, and delays. In the words of the Bank, the cumbersome requirements to reimburse expenditures and reconcile accounting mechanisms "created an administrative nightmare" for government officials.[57] Might it have made sense to address selected components in selected provinces, instead of all four in all provinces?

In addition, it may be the case, though this is difficult to judge today, that whatever ownership, understanding and commitment to the larger objective of the SAP existed at the federal level, was never acquired at the provincial level, and particularly not among political players in the provinces.[58] The latter rely heavily on social programs as a source of political trading and patronage, in a system in which bureaucrats are both victims and partners in crime. We wonder whether sufficient effort was put into obtaining the critical buy-in of provincial ministers – both in the finance and social program arms – either in preparation or during implementation, or whether the implications of insufficient interest were squarely faced. Irrespective of provincial ownership, the Bank was unrealistic about the capacities and resources available at the provincial level to meet the desired targets and outcomes. From the point of view of provincial resources, "the project was over-designed…and did not sufficiently account for limited

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[55] Conversation with World Bank staff.

[56] Islamic Republic of Pakistan, Social Action Program Project: Agreed Minutes of Negotiations, February 18, 1994.

[57] The World Bank, *Pakistan Development Policy Review: A New Dawn?*, April 3, 2002: 27.

[58] According to an audit done by the Asian Development Bank: "SAPP I was formulated largely at the federal level. Some consultation occurred with provinces but with insufficient real participation. As a result, [provincial officials] had little ownership and while some provincial officials recognized the rationale for the program and the need for it, others felt that the federal Government and the foreign funding agencies imposed it on them." See Asian Development Bank, *Project Performance Audit Report on the Social Action Program (Sector) Project in Pakistan*, PPA: PAK 26017, November 2001: 17.

provincial capacities and time required to bring about far-reaching institutional reform and behavioral change."[59]

Without more discrete and fine-tuned mechanisms of leverage, and given the understandable bias toward disbursing (the next period will always be better; the last period was always especially difficult for government given fiscal pressures), it was almost preordained that resources would flow despite problems. Table 6 contains excerpts from multiple donor supervision reports concerning the SAP from 1998-2000. Each new report repeated the previous mission's concerns that the SAP reform record was abysmal. The government's performance varied little from year to year, but nothing in the design of the project invited effective use of whatever leverage its large size and coordinated donor support was supposed to provide.

Table 6: A False Sense of Optimism over SAP

"The mission finds the overall performance in FY98 very disappointing. The mission is concerned that the gap between the FY98 Operational Plans and actual performance is so large that it will be difficulty to come to agreement in July on plans for FY99 that are credible and realistic…progress in program implementation and policy reforms…has been very uneven…the mission is concerned that there is a serious lack of understanding of the SAP at various levels in the concerned departments." -- Aide Memoire (May 19, 1998)
"It is disappointing, after the considerable effort by all involved in government in preparing SAPP II, to formally report that the mission finds the overall implementation performance in FY98 far from satisfactory…the mission has found that the agreed benchmarks for 'satisfactory progress' incorporated in the credit agreement has not been met. However, the mission concluded that, given the strong indications of commitment…the program can be brought back on track." -- Aide Memoire Cover Letter to Government of Pakistan (June 18, 1998)
"The mission is profoundly concerned that the progress of SAP is being severely jeopardized by the weaknesses in institutional capacity, the rapid, indiscriminate and disruptive transfer of key managers in all SAP departments…Assurances were sought and given, on the last mission and previously, that transfers would be minimized. The mission is concerned to note that on the contrary transfers have continued and in some instances their frequency increased." -- Aide Memoire (December 9, 1998)
"The review team notes some improvements in the efforts to design and implement the SAP program. However, the overall allocation of resources and focus of management attention is not yet sufficient to achieve the significant impact on service delivery that is sought by all…Government's response to [recent audit reports] indicates growing commitment to

[59] The World Bank, *Implementation Completion Report for a Second Social Action Program Project*, Report No: 26216, June 25, 2003: 4.

improving accountability for expenditures on SAP and to take action where cases of corruption are identified."   -- Aide Memoire (May 17, 1999)
"The mission was encouraged by the statements from both the Provincial and the Federal Governments confirming the overall priority accorded to the Social Action Program…however, the mission is concerned that the Government's general commitment is not fully reflected in progress on the current year's Operational Plans."   --Aide Memoire (February 23, 2000)
"The Government…has reaffirmed its commitment to the people of Pakistan to improve the delivery of basic social services…[and] the Government has called for a revitalization of the Social Action Program's efforts to improve service delivery…The progress is fragile and uneven…In general, implementing agencies do not have a stable capacity to design, plan, implement, and monitor improvements in policies and programs, nor are there signs that this capacity is being systematically developed…As a result, the programs that deliver basic social services are not improving at the pace necessary to meet the needs of Pakistan's people, especially the poor"   -- Aide Memoire (June 2, 2000)

- *Implementation without adjustments*

Given the reasonable concern with documenting and tracking expenditures, annual operational plans for each of the 27 sub-programs at the provincial and federal levels were drawn up and administered by the relevant responsible government. Supervision missions were unusually large, in part because all of the donors insisted on being represented, and focused on in depth critiques of the plans and detailed suggestions and demands for progress in the subsequent year. The monitoring and evaluation tasks were so large that the donors created a stand-alone Multi-Donor Support Unit (MSU) in Islamabad to provide support for the monitoring, and coordination of the SAP. The large missions were demanding, time consuming and expensive – and proved an additional burden on already weak administrative capacity of the implementing governments.

According to the Bank's Implementation Completion Report for SAP-II, the "rolling expenditure plans; financing and procurement plans for each sub-program; process and institutional changes; new policies, instruments and innovations for service delivery improvements; and expenditure reimbursement mechanisms" made the implementation of SAP-II a daunting task that "was unnecessarily complicated for…provincial governments with hardly any experience or capacity."[60] In short, the SAP seems to have *sapped* administrative energies. Given the recurrent delays in financial disbursements from donors and

[60] The World Bank, *Implementation Completion Report for a Second Social Action Program Project*, Report No: 26216, June 25, 2003: 5.

the existence of considerable overlap between SAP and non-SAP programs, local government officials were often left with the impression that the SAP lacked any additionality (ironically undermining whatever idea of leverage initially envisioned by the Bank).

Apart from its complexity and ambition, the SAP was also narrowly focused on the quantitative expansion of social services. Issues of quality, demand, and participation were reported on and discussed but did not affect disbursements.[61] An evaluation of SAP-I prepared for the Government of Netherlands claimed that "focus groups interviewed for the World Bank ICR [Implementation Completion Report]…were of the opinion that too much emphasis had been put on quantitative and financial targets and not enough on the quality of delivery or on the policy reforms."[62]

Research in Pakistan, some sponsored by the Bank and some undertaken by other groups, had convincingly demonstrated that the issues of quality and quantity cannot be de-linked. It was clear from this analytical work that parental demand for education – determined in part by the quality of education and community participation – can influence enrollments. This work also suggested that the demand for private sector education was rapidly growing and that per-student expenditures could actually be lower in some cases for private schools. Some of these insights were eventually reflected in the poverty work and the related economic and sector work done by Bank staff throughout the 1990s. However, for the most part, they did not prompt any adjustments to the SAP (or other ongoing education projects) throughout the period of implementation.

The SAP, as suggested above, is an example of how easily social sector interventions can be hijacked by governance failures. Though the Bank's pre-SAP appraisals concluded that "there is no immediate need for a separate project to build institutional capacity,"[63] the performance of the SAP was significantly and consistently hampered by weak capacity of public institutions responsible for social service delivery. The implementation failures were rampant – manifested in non-merit recruitment of staff, absenteeism of teachers and doctors, and frequent transfers of essential staff. According to one third-party

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[61] An audit conducted by the Asian Development Bank (ADB) reached a similar conclusion. It argued that SAP's "reimbursement mechanism of rewarding incremental expenditure was an incentive to use more inputs rather than produce better results." See Asian Development Bank, *Project Performance Audit Report on the Social Action Program (Sector) Project in Pakistan*, PPA: PAK 26017, November 2001: 37.

[62] Ministry of Foreign Affairs, Government of Netherlands, *Gender Equity in Education in Pakistan: Evaluation of the education component of Social Action Program Project I (SAPP I),* 1999, http://www.unicef.org/evaldatabase/PAK_99-800_Part1.pdf.

[63] Memorandum from John Wall to project personnel regarding the Initial Executive Project Summary of SAP I, October 29, 1992.

evaluation of the SAP, during 1993-2000 Balochistan had 13 different Secretaries of Education, averaging 5.7 months on the job before being transferred; and during the same period, the Government of Punjab had 14 different Secretaries of Public Health Engineering.

That politicians used staff recruitment, construction contracts, and site selection for schools and clinics to enrich their kith and kin is reported in SAP supervision reports and independent field surveys. A reading of the (many and lengthy) supervision reports for SAP-I suggests that Bank staff and the other donors were fully aware of, and indeed plagued by, their understanding of these implementation problems. But in the absence of clear rules for whether and how to stop disbursements (and perhaps fearing accusations of a lack of consistency across provinces), there was little they could do beyond highlighting and haranguing. As time passed by, their concerns were more explicitly incorporated as objectives in the CAS Progress reports.[64] And following on the experiences of SAP-I, the second phase of SAP placed a greater emphasis on issues of governance, quality, and community/NGO participation. But during SAP-II as well, in the absence of explicit and agreed-upon indicators defining acceptable performance, the tendency was to hope for improvement in the next period, maintain engagement, and continue disbursing.

Though the Bank became more alert to governance issues affecting the SAP each year, its view of "governance" remained narrow and technocratic. The emphasis was on concern about financial transparency and procurement reform. By the time of SAP-II there is also more discussion of the need to implement agreed promises to reduce staff turnover and politically driven site selection of new construction, and to make operational such ideas as restricting local teacher appointments to local merit lists. But there is also no sign of straightforward "triggers" for exit from the program in each province or other unit, if progress could not be shown.

There is also convincing evidence, from the Bank's own supervision assessments and external evaluations, that NGO or community participation in the implementation of SAP was minimal in both SAP-I and SAP-II.[65] Under the SAP framework, the Participatory Development Program (PDP) was supposed to

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[64] The Bank's 1995 CAS cites an important feature of its support in the social sectors as "improving governance by, *inter alia*, emphasizing the application of objective criteria for hiring and posting staff, selecting sites for services, improving financial and management information system, and strengthening performance-based staff rules." See The World Bank, Pakistan *Country Assistance Strategy*, 1995: 14.

[65] According to several people both inside and outside of the Government of Pakistan, one of the initial designs of the Social Action Program dictated that all assistance would be channeled through NGOs, such as the National Rural Support Program.

be the primary vehicle for promoting the role of civil society and NGOs for improving both the delivery and quality of social services. Yet according to the Bank's own documents, this component of the SAP never fully materialized. During SAP-I, partnerships with community groups "were often superficial" and "others existed on paper or were empty formalities."[66] As for SAP-II, the participatory development component "proved to be a non-viable mechanism to foster community and NGO participation… PDP was an initiative imposed by donors with little support at the provincial level…communities were not seen as key partners in the process."[67] The SAP-II Mid-Term Review stated that "While community participation was identified is SAPP2 as a vehicle for both resource management and social service delivery, there was little early conceptualization or analysis of what this meant in practice, and no formulation of guidelines or any implementation strategy."[68]

The problem appears to have been resistance, within the provincial departments and ministries, to implementing any program outside the bureaucratic system (as was the case in many other countries). Though the problem is highlighted, it is not clear that any particular adjustment within the SAP was ever explicitly considered. Yet, at a very basic level, the SAP did result in a larger policy shift toward community involvement and civil society participation. Despite the dearth of immediate results, available evidence does point to potentially significant attitudinal changes within the Government of Pakistan vis-à-vis civil society. Beginning in 1999, the Bank began direct support for NGO-managed programs via the Pakistan Poverty Alleviation Funds I and II (described in the Appendix D).

In the end, in the face of persistent implementation difficulties and the new government's decentralization strategy, the Bank's final recourse was to divert the remaining money in SAP-II to federal programs. The Bank's Mid-Term Review (MTR) of SAP-II noted Pakistan's lack of progress toward the pre-agreed project objectives: "Overall, it appears that despite the Social Action Program and complimentary sector investment projects, improvements in service delivery are either not happening, or occurring at a very slow pace."[69] Coupled with the government's decision to shift service delivery responsibility to the local, rather than provincial, levels, the Bank decided to restructure the

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[66] The World Bank, *Implementation Completion Report for Social Action Program Project*, Report No: 18043, 1998: 9.
[67] The World Bank, *Implementation Completion Report for a Second Social Action Program Project*, Report No: 26216, June 25, 2003: 9.
[68] The World Bank, *SAPP2 Mid Term Review: Report on the Community Participation Component of SAPP2*, October 2000.
[69] The World Bank, "Social Action Program/SAP II Mid Term Review," Draft MTR Discussion Note for the SAPP II Wrap Up Meeting, October 23, 2000.

project in fiscal year 2002 and restrict project support to federal programs, which had achieved greater progress and were unaffected by decentralization. At the request of the government, the Bank also made available a portion of the remaining SAP-II money for emergency drought relief assistance. Then in June 2002, at the request of Government, IDA agreed to end disbursements and close the project.[70] By that time, frustrations had been mounting on both sides to the point where neither party sought to continue implementation of SAP-II.

In the final analysis, the SAP did entail some (perhaps intangible) benefits – though whether these gains were worth billions of dollars in taxpayer money is arguable. The SAP appears to have raised public awareness of social sector issues and solicited greater official commitment towards social sector development. It has also generated rich lessons for the reform of social service delivery in Pakistan.

At a broader level, the fact that the SAP consistently fell short of its objectives is easy to understand. The SAP was based on an incomplete understanding of Pakistan's social and political context. For example, an evaluation of gender equity in education in Pakistan stated the following:

> When analyzing the design of SAP a weak point seems to be the underpinning of the plans. There is no situational analysis on the sector and on gender issues in the SAR [Staff Appraisal Report], and targets appear to come out of the blue sky, being rather a result of wishful thinking than of realistic planning. Several reform measures seem to be introduced on a trial-by-doing basis instead of on the basis of careful analysis about their possibilities.[71]

Perhaps the most astonishing feature of the SAP years was the Bank's inability to internalize lessons learned. Given the scale of the problems experienced under SAP-I, the Bank proceeded to give the project a "satisfactory" rating in its Implementation Completion Report (ICR). To some Bank staff, this was unconscionable. Table 7, which provides excerpts of one Bank staff member's reaction to an initial draft of the ICR, demonstrates how well known SAP's shortcomings were.

[70] The World Bank, *Second Social Action Program Project Implementation Completion Report*, Report No: 26216, June 25, 2003: 3-4.
[71] The World Bank, *Education reforms in Balochistan, 1990-1998 – a case study in improving management and gender equity in primary education*, September 30, 1999: p. 26.

Table 7: SAP-I's Weaknesses Revisited[72]

Overall Though [SAP I] was the most dramatic effort in Pakistan this decade I have not seen much debate about this important ICR…My basic impression is that the ICR struggles to put a brave face on a project that did not achieve any of its stated key objectives.
SAPP Objectives One can hardly question that Pakistan needs to spend more resources better on its social sectors. But merely raising the expenditure level is in itself not an assurance that outcomes will improve, particularly in a system characterized by endemic corruption. Indeed it may be counter-productive, since it may further entrench rent-seekers and thus complicate future efforts at reform.
Appropriateness of the SAPP Mechanism In hindsight the appropriateness of a policy-based operation like SAPP into an environment characterized by weak implementation capacity, systemic governance problems, no timely outcome monitoring system and very limited ownership of program objectives is doubtful. Experience has shown that such operations only work when ownership is strong and the reforms are executed before financing is made available. The complexity of the operation itself, the incompatibility of SAPP requirements with regular government procedures, and the novelty of many of its features to government officials, strained government capacity to the breaking point.
Bank performance In my view, one of the major shortcomings of SAPP was precisely that it required dealing with every issue. There is no way the Bank can keep abreast of every sectoral issue, and one of the major problems for SAPP was precisely its ever increasing scope, or 'mission creep.'
Lessons learned A major lesson is also that the Bank needs to stick to agreements made and not yield to pressure to disburse since this reduces future effectiveness by eliminating the credibility of 'tranching' mechanism.

SAP-I's design and implementation woes were well known, but were neither adequately internalized by senior Bank officials nor properly fed into the

[72] E-mail from Ivar J. Anderson to John Wall regarding SAP I Implementation Completion Report, May 22, 1998.

planning process for SAP-II, which to no one's surprise, encountered many of the same problems as its predecessor. In 2000, the Multi-Donor Support Unit performed an analysis of third party validations (TPV) of SAP-II extending from July 1997 to June 1999. Its results confirmed that the governance problems highlighted under SAP-I continued to plague the effective implementation of SAP-II: "According to the TPV results, out of the four governance areas [site selection, procurement, recruitment, and absenteeism], only site selection has show improvements in the last three years."[73]

Injecting vast sums of money through a dysfunctional system was unlikely to be successful. Under circumstances of elite capture and misgovernance, more money may not necessarily buy social development. "The emphasis of SAPP-II on enhanced allocations, and releases and expenditures appear to have been misplaced," concludes the 2001 annual report of the Multi-Donor Support Unit, "as it has yet to produce the desired improved service delivery and any major outcomes."[74]

Phase I: The other loans

After 1993, the size of the SAP loans, the leadership the Bank assumed for supervision of the overall program supported by many donors (including the senior staffing of the Multi-Donor Support Unit in Pakistan), and the ambitious scope and objectives reflected in the SAP approach, took up the bulk of the Bank's staff support, and seems to have been the overriding focus of its dialogue on social issues in Pakistan. (In the period 1994-2003, Bank commitments amounted to $450 million for the two SAP loans, and $160 million for four other loans.) During 1993-2000, the Bank also made six new loans of the traditional project type (three in education, two in health, and one in population). (In 1999, the Bank approved a loan to support transfers to nongovernmental organizations from a new Poverty Alleviation Fund. We discuss this loan below under "Phase II", where it belongs in concept if not in its actual date of approval). Table 8 shows these six loans, plus three others of the same stand-alone type that were under supervision in the mid and late 1990s.

[73] Multi-donor Support Unit for the Social Action Programme, *Social Action Programme Third Party Validation: Analysis of the Last Three Rounds*, Governance Issues, August 2000.
[74] Multi-donor Support Unit for the Social Action Programme, *Annual Report 2001*: 4.

Table 8: Phase One (non-SAP) loans, 1993-1999

					ICR Rating for			OED Rating for			CAE Rating for		
Fiscal Year	**Project Name**	**IDA Amount**	**Amount Disbursed**	**Status**	**Outcome**	**Sustainability**	**IDI**	**Outcome**	**Sustainability**	**IDI**	**Outcome**	**Sustainability**	**IDI**
1990	Sindh Primary Education Development Program	112.5	96.1	Closed	S	L	M	MS	L	M	M	UN	N?
1991	Family Health I	45.0	28.2	Closed	S	L	SU	S	L	SU	MS	UN	SU
1992	Middle Schooling	115	68.13	Closed	S	L	M	MS	L	M	M	UNC	UN
1993	Family Health II	48.0	22.0	Closed	S	L	SU	S	L	SU	S	UN	?
1993	Balochistan Primary Education	106.0	77.6	Closed	S	UN	N	S	UN	M	M	UN	N
1995	Population Welfare	65.1	37.0	Closed	S	L	M	MS	L	M	MS	L	M
1995	NWFP Primary Education Project	150.0	88.9	Closed	S	L	M	MS	L	M	S	L	M
1996	Northern Health	26.7	18.0	Closed	S	L	M	S	L	M	S	UNC	M
1998	Northern Education	22.8	13.2	Active	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

In retrospect it is notable that these projects had what might be called acceptable performance. For the most part, they were rated as satisfactory with reasonable likelihood of some institutional impact and some sustainability. For the most part, our judgment is similar, except on sustainability which in 2004/5 after several more years, we judge at best "uncertain" and probably negligible. Our reasoning is that the kinds of problems that plague the delivery systems in general, are mitigated during the execution phase of Bank-supported projects because of the outside attention, but cannot be sustained beyond the project period, once the ongoing attention and outside scrutiny ends.

In fact, certain components of the health and education projects were successful. In education, programs that emphasized teacher training and text book development were implemented and reasonably effective. In health, the training programs included in the Family Health II loan were viewed by current officials as very important (though they ended when the "project" was completed), and the incorporation of preventive programs into the provincial administrative functions—e.g. immunizations—has been sustained though immunization coverage remains far from complete.

The population (family planning) project was managed at the federal level, where a separate ministry and a strong results-oriented culture inherited from the 1980s seem to prevail. The project was managed effectively. The question of what is meant by sustainability in this case is a difficultone, however, most family planning information and services are more efficiently delivered when integrated into basic health services, certainly from the point of view of women users; and a successfully federally managed program, even though decentralized, will be with delivery systems that are financed and administered at the provincial level.

Notwithstanding these successes, the sustainability of these projects is an issue. In general, project sustainability was high when: there was sufficient government commitment, the projects were well aligned with official objectives, fiscal sustainability existed, and subsequent donor commitment was ensured. Several sub-components of the non-SAP health and education projects were particularly successful. These included, for instance, teacher training, textbook development, family planning and immunization elements of the programs.

The Bank projects in the health and education sectors shared some of the same problems encountered by the SAP projects, including: excessive ambition, weak implementation capacity, frequent transfer of critical management-level staff and political interference. Project delays were common due to a general lack of familiarity with the Bank's accounting systems, managerial inefficiencies, budgetary crises, reimbursement delays from the Bank, and prolonged bans on official recruitment. In the health and family planning programs, there were also several incidents of misprocurement. As with the SAP, the commitment to involve NGOs and community groups was more rhetorical than substantial.

What was the overall impact of the traditional projects in the 1990s? Bank staff answered the question implicitly in their ambitious (and *ex ante* reasonable) emphasis on the need and the centrality of the SAP. Though the traditional projects fared better than the SAPs overall, it is clear that Bank staff saw a need for something bigger, more visible, and with it was hoped more leverage—because modest success with selected components of traditional projects was not adding up to the change in the overall priorities of the government nor contributing to fundamental institution-building.

Table 9 provides selective but representative detail on some of these projects as well as on the SAPs.

Table 9: Health and Education — A Balance Sheet of Progress and Setbacks

Progress	Setbacks
Social Action Program	
▪ Contraceptive prevalence increased from 7% in 1990-91 to 17% in 1998-99. ▪ The percentage of deliveries conducted by qualified personnel in Pakistan increased from 45 percent in 1990-91 to 61 percent in 1998-99. ▪ Contraceptive use among married women increased from 24% in 1996/7 to28% in 2001 ▪ The infant mortality rate declined from 89 per 1000 births in 1998 to 82% per 1000 births in 2002.	▪ Primary gross enrolment rates for boys decreased from 81% 1995 to 78% in 1999. female enrolment stagnated at 60%. ▪ Against a target of universal immunization coverage by the end of 1990's, only less than 50 per cent of 1 year olds were fully immunized by the end of the decade. ▪ Total SAP allocations declined from 2.3% of GDP in 1997 to only 1.8% of GDP.
NWFP Primary Education Project	
▪ Total project enrolment increased by 309,000 during the project period, including a 36% increase in female enrolments ▪ From 1995-2000, the project was able to produce and supply more than 10.9 million subsidized textbooks and workbooks based on integrated core curriculum ▪ In the two program districts 34% and 46% of teachers demonstrated pupil-centered/active behaviors, while only 4% of such behavior was found in the non-program schools	▪ The project was rated as unsatisfactory in improving organizational framework ▪ The rate of dropouts increased from an average of about 8% in 1994-95 to 12% in 1998-99. ▪ Village level beneficiary involvement was thought to have a sustainability issue. The pilot activities were not yet absorbed into the government system
Northern Health Program Project	
▪ The number of female paramedics has risen by more than 70% and the coverage of community based services increased from 52 to 62% of the population	▪ Immunization coverage of children has shown little improvement: in 1999 the proportion of fully immunized children was 40% in AJK and NA, against a project target of 60%
Family Health Project	
▪ The contraceptive prevalence rate has risen from 8.6% to 18.7% in NWFP and from 12.4% to 23.4% in Sindh ▪ Coverage of antenatal care through qualified providers has doubled in rural NWFP rising from 14% in the early nineties to 28% in 1996-97.	▪ Although immunization coverage has increased over the duration of the project it is far short of universal coverage ▪ In Sindh only 52% of the primary health care facilities have female paramedics despite more than a two-fold increase in their number over the life of the project

Source: World Bank Implementation Completion Reports.

Phase II: Devolution, NGOs, and the SACs

Phase Two of the Bank's involvement in Pakistan's social sectors roughly coincided with the advent of the Musharraf government in October 1999. The Bank's lending portfolio in Phase Two was made up of three, distinct components. The first consisted of three relatively small health and education projects which were funded at the federal level. These loans ($60.7 million, or 8 percent of all Phase Two loans) are a continuation of the types of federal programs the Bank funded toward the end of Phase One, when it restricted all support to federal programs following decentralization and an acknowledgment of the flagging progress of the provincially-based programs. By all accounts, the three national programs (HIV/AIDS, Polio eradication, National Education Assessment) have received high marks from senior Government officials as well as Bank staff.

The second component represents the Bank's support for the Pakistan Poverty Alleviation Fund (PPAF), a micro-credit initiative developed by the government. The first tranche of support for the PPAF (roughly $90 million) was approved in 1999. While the project's first phase is scheduled to come to an end in December 2004, its success has been widely heralded by the Bank and the Pakistani development community. In fact, its success has already prompted a second tranche of Bank support two and a half times the size of the initial loan ($238 million). The combined total of $328 million represents 43 percent of Phase Two loan commitments). Support for the PPAF is a reasonable strategy for the Bank—one that goes around the problems of governance that undermined the SAP loans, by channeling funds directly into the hands of local NGOs who can have an impact at the community level.

The final component of the Bank's Phase Two lending is a set of structural adjustment credits (SACs) implemented at the provincial level. These loans (which account for 50 percent of Phase Two loan commitments) were established in three provinces (NWFP, Punjab, and Sindh) and portend the core of the Bank's lending strategy in the years ahead.

Table 10: Phase Two loans, 1999-2004

					ICR Rating for		
Fiscal Year	**Project Name**	**IDA Amount**	**Amount Disbursed**	**Status**	**Outcome**	**Sustainability**	**IDI**
1999	PPAF-I	90	62.6	Active	N/A	N/A	N/A
2002	Sindh SAC	100	100	Closed	S	L	M
2002	NWFP SAC	90	90	Closed	S	L	M
2003	National Education Assessment System	3.6	N/A	Active	N/A	N/A	N/A
2003	Partnership for Polio Eradication	20.0	N/A	Active	N/A	N/A	N/A
2003	HIV/AIDS Prevention Project	37.1	N/A	Active	N/A	N/A	N/A
2004	PPAF-II	238	N/A	Active	N/A	N/A	N/A
2004	Punjab Education Reform Adjustment Credit	100	100	Closed	N/A	N/A	N/A
2004	NWFP SAC II	90	N/A	Active	N/A	N/A	N/A

- *Provincial Structural Adjustment Credits (SACs)*

In the post-SAP phase, the Bank has continued its support for the Government's poverty reduction strategy through the introduction of a new lending instrument – the Structural Adjustment Credit (SAC). SACs are intended to provide budgetary support to provincial governments for a comprehensive reform program, ranging from macroeconomic and governance reforms to improvements in social service delivery (see Table 6). Negotiated with each province on an individual basis, the SACs are set up as a series of single-year loans under a single "program" renewed annually based on performance in the core reform areas. The Bank has approved SACs for three provinces: NWFP, Punjab, and Sindh. As an illustrative example, Table 11 lists a sampling of the Bank's conditionality for the first NWFP credit, issued in 2002.

Table 11: Sample Conditionality of NWFP SAC I (2002)[75]

Entry Triggers

▪ There is a reforming government with committed "reform champions"
▪ Initiated good governance reforms
    ▪ Fiscal discipline
    ▪ Improved performance of Financial Management Committees
    ▪ Civil service reform
    ▪ Improvement in civil service delivery

Outcomes	*Prior Actions Taken*	*Indicative Triggers for Follow-up Operation*
I. Strengthening Accountability and Professionalism of State Institutions		
▪ Devolution reforms	▪ Ban on new recruitment ▪ Restructuring of departments	▪ Annual review of restructuring and staff rationalization
▪ Promoting merit and professionalization of civil service	▪ Establish full authority of Public Service Commission; Introduce merit-based promotion system	▪ Computerize HR database; reduce recruitment time; pilot contract-based employment
II. Education and Health Sector Reforms		
▪ Education reforms	▪ Introduce teacher absenteeism monitoring; approve program to recruit 2000 primary teachers	▪ Implement absenteeism monitoring system; complete expanded recruitment
III. Improving Fiscal Sustainability and Restoring Financial Accountability		
▪ Improve development effectiveness of expenditures and fiscal discipline	▪ Introduce agriculture income tax; reduce wheat subsidy; rationalize total number of taxes	▪ Implementation of FY03 budget consistent with enhanced social expenditures; tax rates/policy revised
IV. Promoting Growth		
▪ Improve business environment	▪ Establish deregulation committee; close 3 agricultural and commercial autonomous bodies	▪ Implementation of deregulation plan; rural/agricultural strategy developed

Exit Triggers
▪ Reversal of social sector/governance reforms ▪ Substantial borrowing to finance deficit ▪ Expansion of public sector contingent liabilities

[75] This is a sample list and, therefore, is incomplete. For a comprehensive listing of conditionalities, see The World Bank, *Structural Adjustment Credit for NWFP Program Document*, Report No. 24188-PAK, May 31, 2002.

In Punjab, the Bank is providing budgetary support to the provincial government in response to reform in the education sector. Unlike SACs in NWFP and Sindh, the Punjab loan is exclusively geared toward education reform; thus, the conditionality is solely focused on education benchmarks and outcomes. The Bank decision to focus narrowly on the education sector in Punjab was probably due to the fact that the Asian Development Bank had already launched a provincial SAC in Punjab. In addition, some Bank officials claim they found champions for education reform at the provincial level with whom they could work on an ambitious reform agenda and they moved to exploit the opportunity.[76]

The stated purpose of the Punjab Education Reform Adjustment Credit is to provide financing for implementation of "a wide-ranging reform agenda to improve fiscal management, promote devolution and improve service delivery starting with education." The first of three (potential) credits – each of which amounts to $100 million – was approved in February 2004 and is due to close in September 2004. If the Bank determines that Punjab has fulfilled its commitments, it will issue a second credit; but if Punjab falls behind, the Bank can withhold the second credit until Punjab's performance improves or discontinue support altogether.

In fact, this has already taken place in Sindh and NWFP. The second credit for Sindh has been indefinitely postponed due to the borrower's poor reform record. Much of that poor record can be blamed on the sub-optimal political alignment in Sindh where political tensions between the districts, where the opposition to the military (such as the Pakistan People's Party) still has some influence, and the provincial government, where the pro-Musharraf parties hold sway, have stymied reform efforts. In NWFP, the second credit was approved only in June 2004, after a several month delay due to NWFP's failure to meet mutually agreed-upon outcomes. While NWFP's achievement of objectives under the first SAC was rated "satisfactory" by the Bank, its follow-on program had not fully met the Bank's indicative triggers for the second SAC.[77] The slow progress in NWFP was also partially the result of increasing political tensions between the provincial and district governments.

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[76] One of the first policy announcements made by the new Punjab Government was their intention to make education completely cost-free until the 10th grade. In addition, the Punjab Government is the most aligned provincial Government in Pakistan, at the political and bureaucratic levels, making it particularly attractive to such an investment. See The World Bank, "Summary of Comments and Discussions during the Punjab Education Sector Adjustment Program IM Review Meeting," September 15, 2003.
[77] The World Bank, *NWFP SAC Implementation Completion Report*, Report No. 25157, June 19, 2003.

Since the implementation of the provincial SACs is ongoing, the assessment of this report is preliminary and based only on initial impressions. On the plus side, implicit in the design of the SACs is recognition of the Bank's "difficulty of exit" during the SAP period. In contrast to the SAP, the single-year SAC loans make exit the easier default if a program is not working. Because money is disbursed under separate single-year loans, the Bank can exercise leverage by stopping funds in response to poor government performance (as was done in Sindh) and re-starting funds once the reform program gets back on track (as was done in NWFP).

Another potential advantage of the SACs is that by creating the much-needed fiscal space for financially constrained provinces, the SACs can help to keep social sectors on the policy agenda (though this, of course, was also the primary motivating idea behind the SAP). More importantly, the SACs have played an important role in extending and deepening the reforms identified by previous social sector interventions, such as the SAP. Thus, the education components of the SACs are extending the policy areas of the SAP by emphasizing facility-based recruitment, regularizing the status of School Management Committees (SMCs), and issues of public-private partnership and quality. In the health sector, the SACs have emphasized the continuance of the Lady Health Worker's program (LHW).

Since the SACs are annually reviewed, the Bank has, in principle, greater leverage to influence the Government. There is evidence that in some cases, it made use of this leverage—an important example being the NWFP SAC, where the Bank delayed the approval of a second credit until performance improved.

But, the SACs carry significant risks as well. The money channeled to provinces is more fungible than is the case with conventional projects. This has the advantage of focusing all parties' assessments on actual performance and results—as opposed to accounting for expenditures or other intermediate outcomes. It has the disadvantage inherent in limited experience on the part of the Bank on what are reasonable measures of "performance" or "results" within short single-year periods. Because assistance flows directly to the provincial finance departments, the Bank could once again be essentially processing money through an inefficient system – a factor responsible for the failure of earlier social sector interventions.

The financial assistance provided through the SACs can also be politically misused – either by being spent on non-priority areas and/or simply through corruption. Here, the financial transparency at the provincial and district levels is likely to be an important determinant of the success of SACs. In Sindh, for instance, non-merit recruitment of teachers conducted through means other than

Provincial Public Service Commissions persists. In Punjab, the members of the provincial assembly continue to interfere in the prioritization of education projects, the selection of school sites, and the investments made in basic infrastructure.

The tense relations between some provincial and district governments highlight the risk that increased financial support for social sectors may not get translated into efficient provision of social services. More money injected into the provincial financial pool does not necessarily mean that financial resources will actually be released to district governments that are directly responsible for the delivery of services. In provinces where relations between the provincial governments and the district governments are stressed (such as Sindh) the release of development funds to the districts could be considerably delayed or – even denied.

A broader critique of the provincial SAC approach is that—as with earlier Bank programs – the design does not take into account the difficult political economy problems described above and so starkly highlighted by the experience of 1990s. The term "governance" has become part of the Bank's development lexicon and "improving governance" is a key plank of the reform strategy in all three SACs – but the objective is narrowly defined in terms of "quality of the public expenditure program", "greater transparency and accountability", "civil service reform", and the like.

Under the SAP, the donors instituted a complex and cumbersome process that was marked by an over-emphasis on statements of expenditure (SOEs) and a never-ending set of bureaucratic procedures. With the advent on provincial SACs, the Bank has moved to the opposite extreme: direct budget support to the provinces that hinges on a set of prior actions and benchmarks. The former is characterized by donor micromanagement and the latter is, perhaps, too flexible (although the Bank's stance vis-à-vis NWFP and Sindh is encouraging in this respect).

- *Devolution*

The three components of the Bank's "Phase Two" lending strategy have been implemented in the context of devolution, the Musharraf government's move to decentralize power away from the provinces toward newly created local administrative structures. Similar to previous local government schemes promoted by Pakistan's military leaders, Musharraf's "Devolution of Power Plan" called for re-establishing elected councils at the district and sub-district levels.[78] Under this plan, local governments were to be elected in a non-partisan fashion (in fact, political parties were officially banned from participating) in phased elections over a period of nine months, beginning in December 2000. Administrative powers were also to be devolved from the provinces to district governments.

To implement this decentralization plan, Musharraf established the National Reconstruction Bureau (NRB) in Islamabad, initially headed by General Tanvir Naqvi. NRB drafted a "Local Government Ordinance" that each of Pakistan's four provinces was subsequently ordered to adopt as its own law. The Local Government Ordinance (LGO) called for the creation of three new local levels of government: the union council (to be directly elected by the people), the tehsil (comprised of union council *nazims* or mayors), and the district council (comprised of tehsil *nazims)*. The representatives of the latter two, unlike the union council, are indirectly elected. As part of the devolution reform, 6,455 new indirectly elected local governments were created.

Of the many changes brought about by devolution, two deserve to be highlighted. First, the devolution plan abolished old power structures and created the post of district coordinating officer (DCO), charged with overseeing all administrative procedures at the district level. This change had the practical effect of subordinating the elite civil service district management group (DMG) to the new district administrator. Prior to devolution, the DMG virtually controlled all aspects of district administration. Many critics saw this weakening of the civil service as a deliberate power play perpetrated by military officials in Islamabad who sought to expand military control at the local levels.[79]

Second, the devolution plan instituted a quota system ensuring minimal representation of women among union councils. The union council, the only directly elected local body, is comprised of a chairman and 26 councillors. According to the devolution blueprint, 50 percent of the union council seats were to be reserved for women. Along the way, as the plan was refined, that percentage was reduced to 33 percent.[80] Nonetheless, under devolution, women are given an unprecedented voice in politics. Yet it is too early to tell what practical impact this is having. While government and NGO officials are implementing plans to educate the thousands of women councilors, according to one Pakistani government official a large percentage of them are illiterate and

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[78] Musharraf's devolution plan is reminiscent of similar plans implemented by his military predecessor Ayub Khan and Zia ul-Haq, both of whom instituted lower tiers of government as a way of consolidating their power under the aegis of democratization. See International Crisis Group, *Devolution in Pakistan: Reform of Regression*, Asia Report No. 77, March 22, 2004.
[79] *Ibid*, 7.
[80] *Ibid*, 10.

know very little about the system in which they are serving. And very few women possess leadership positions within the new tiers of local government. According to the International Crisis Group, out of Pakistan's 101 districts, only two *nazims* (mayors) are women.[81]

Many Bank documents towards the end of the review period have recognized the potential risks and opportunities inherent in the devolution program. First, administrative capacity at the local level is grossly inadequate. There is a greater need for developing better understanding of the institutional inadequacies at the local level. Second, the empowerment of local communities may not be possible without disempowering the local elites. In the presence of asymmetric structures of power at the local level, decentralization of administrative powers may make things worse for the poor. In a society with an entrenched rural elite, the devolution of power suffers from the risk of elite- or feudal-capture and is likely to reinforce existing power structures and strengthen rural inequalities. Already, according to the Economist Intelligence Unit, there is evidence that the "rural gentry" captured 70% of the seats in local elections in December 2000. [82] Analysis from independent surveys confirm that land ownership and *beraderi* (clan) appeared critical for explaining electoral success. Quantitative analysis from surveys in selected districts reveals that the average landholding of the winning candidate was six times more than that of the losing candidate. Furthermore, 82% of the candidates contesting the *nazim* (mayor) seat and 73% contesting a general seat indicated land as their primary source of income.[83]

Second, even though the administrative powers have been devolved to the local level, political powers still remain highly centralized. There is a common belief among independent analysts that the devolution plan was politically motivated, designed to consolidate power for the military regime rather than to deepen democracy. One report argues that "devolution…has proved little more than a cover for further centralized control over the lower levels of government…the military is far more interested in political manipulation than political devolution."[84] The systematic exclusion of political parties from contesting local government elections reinforced the impression that the

[81] *Ibid*, 14.

[82] Quoted in William Easterly, "The Political Economy of Growth Without Development: A Case Study of Pakistan," Paper for the Analytical Narratives of Growth Project, Kennedy School of Government, Harvard University, June 2001.

[83] The surveys were conducted by the Sustainable Development Policy Institute (SDPI) in Islamabad. For a summary of findings, see, Shahrukh Rafi Khan, *Pakistan Under Musharraf: Economic Reform and Political Change*, Vanguard Publishers, 2004.

[84] For a detailed articulation of this view, see International Crisis Group, *Devolution in Pakistan: Reform of Regression*, Asia Report No. 77, March 22, 2004.

devolution reform was merely an exercise in self-perpetuation of the military rule.

Third, devolution has given local governments responsibility without much authority. For instance, local governments lack powers for local taxation. The provincial governments still retain many important roles, including the provision of critical infrastructure (e.g. irrigation and infrastructure) and the responsibility for fiscal transfers. The devolution reforms cannot be viewed in isolation from the broader issue of provincial autonomy. Thus, the success of local governments also depends on reforms in provincial governments, which suffer from low tax capacity and dependence on the center for funds (federal transfers account for 80% of provincial resources).[85] There is stiff resistance on the part of provincial governments to relinquish their own limited authority (and power over jobs and contracts).

The Bank is of two minds as far as devolution is concerned. Its overall response to the devolution initiative has been ambivalent – confined to a verbal, rather than proactive support. The World Bank's ambivalence is perhaps best captured in the 2004 CAS Progress Report:

> While there has been considerable progress in implementation during the first 18 months of the CAS, it was also recognized that the process of institutionalizing the new roles and responsibilities of the various levels of government will be lengthy and challenging. The federal, provincial and local governments are re-thinking various aspects of devolution. In this context, it is important for the Bank and other donors not only to be careful to support devolution as it takes shape (e.g., through district capacity building and support for financial management improvements), but also to ensure that their interventions do not contradict the devolved environment and encourage the still nascent system to improve local service delivery while addressing urgent service delivery priorities.[86]

Rhetorically speaking, the Bank has supported the devolution initiative. It has hailed the devolution reform as an important opportunity for the delivery of social services and better accountability of the government and service providers. Yet, the Bank has also wisely recognized some of the risks contained in the devolution plan. On the one hand, the Bank argues that devolution offers significant potential for social sector reform, yet its lack of programmatic support for devolution implies that it is still unsure about the staying power and popular benefits of the plan: "While there are early signs that devolution is beginning to

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[85] The World Bank, Report No. 24193-PAK, 28 May 2002.
[86] See The World Bank, *Country Assistance Strategy Progress Report,* April 28, 2004.

yield positive results in the form of improved and more responsive service delivery in the districts…it is also clear that much remains to be done."[87]

The Bank's ambivalent stance is contrasted by the proactive roles major donors such as DFID, UNDP, or the ADB have played in promoting devolution. UNDP, in particular, viewed the 1999 coup and subsequent devolution agenda as an opportunity for the donor community to push for democratic reform in Pakistan. UNDP found itself intimately involved in the inner workings of the NRB and the government's design of its devolution implementation plan. A UNDP representative in Pakistan argued that devolution represented what was perhaps the most transformative social force in the country's history—though far from perfect, a phenomenon worth shaping rather than shunning. ADB has also embraced devolution in its lending program, providing significant support for devolution through its Devolution Support and Access to Justice programs.

Some government functionaries and experts hold the view that the Bank seems uncomfortable with financing arrangements that move beyond traditional support at the federal and provincial levels and is thus "sitting on the sidelines while the fight is going on." In particular, it was felt that the Bank ought to offer direct support for building domestic capacity. Some contend that its ambivalence has to do with the Bank's close ties to the elite bureaucracy, elements of which are threatened by greater power at the local levels. In fact, one senior Government official noted that at times, "it is hard to tell where the World Bank ends and the Government of Pakistan begins." Others argue that the Bank's stance has more to do with its structure of governance: at present, the World Bank is structured to conduct supervision missions at the provincial and federal levels; undertaking missions in 101 districts is quite another story.

Whatever the real reason is for the Bank's ambivalence, its hesitation is not unjustified. Pakistan's military leaders have long used "democratization" and "local governance" as a ruse for further military domination and control. Why is this time any different? The phased local elections of 2000-2001 were accompanied by cries of military rigging and accusations of intimidation; the transfer of administrative *and* financial functions from the provincial to local levels has been incomplete; and political interference in local decision-making has been rife in certain areas.

At the same time, devolution could be an opportunity for the Bank to think creatively about how to make an inherently "political" decentralization process more sustained and lasting. Other donors who have embraced devolution are under no illusions about its sanctity. One aid official is quoted as

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[87] See World Bank, *Pakistan Country Assistance Strategy Progress Report*, April 28, 2004.

saying: “we did and still have serious reservations about the local government plan but we could either equivocate and risk reform failure, or put our money behind [the military government] to gain a voice.”[88] In Pakistan, as in most other developing countries, the line between promoting democratic governance and rule of law is inevitably blurred with “politics.” The jury is still out on whether the Bank is willing to engage in “political activity” as other major donors have done, or if it will continue to outwardly shun politics where it could have a significant positive impact.

Conclusions and Lessons

With its high and persistent levels of poverty and its large and widening social gaps, Pakistan has the dubious distinction of being a classic case of growth without development. In the face of a hostile social and political setting, repeated and apparently enlightened programs of outside support for poverty reduction and social progress have failed. Efforts to help run up against constraints that domestic reformers themselves face in shaping pro-poor policies and programs: historically high levels of political instability (with among other things resultant fiscal and institutional weakness); the power of the semi-feudal landed elite; deep ethnic divisions; longstanding disempowerment of the poor, especially of women.

The World Bank has dedicated considerable financial resources towards reducing poverty in Pakistan. The Bank’s economic and sector work (particularly in the latter part of the review period, culminating in its 2002 poverty assessment) shows good understanding of the conditions and policies that hurt the poor, with repeated mentions of the high levels of land inequality, the role of rural power structures, and the political resistance to taxing large landowners, for example. But those conditions and policies did not get translated systematically into the Bank’s country strategy, nor into lending priorities. In particular, the economy-wide policies that might make a difference for the poor – such as better pricing of irrigation to reduce the loss of natural resource assets on which the poor depend, and land taxation to reduce distortions which inhibit development of land markets – were not explicitly addressed in the Bank’s poverty strategy. No doubt that was because they seemed politically impossible to achieve – but over the long run that might be said of other policies -- fiscal, monetary, financial, energy, trade, privatization – that the Bank did persist in pushing, with varying degrees of success.

[88] International Crisis Group, *Devolution in Pakistan: Reform of Regression*, Asia Report No. 77, March 22, 2004: 23.

Instead, for all practical purposes the Bank's strategy for reducing poverty boiled down to increased lending for the social sectors. In the 1990s, the main vehicle for increased lending was the Social Action Program (SAP), the idea of which was to use the leverage of a large external financial commitment to encourage increased domestic spending and expansion of services. Apart from being narrowly focused as a poverty reduction strategy, the Bank's social sector programs, particularly the SAP, were over-ambitious and suffered from weak implementation capacity and a variety of other governance failures. Though the deep problems of patronage and corruption in social programs were recognized, at least implicitly, early on in the program, the Bank did not find ways to use the leverage the size of the program was meant to provide. In addition, the complicated procedures for procurement and financial reimbursements, intended to minimize cheating, only compounded the problems due to weak administrative capacity. And the SAP relied heavily on provincial buy-in, without providing the clear financial incentives and the transparency to cut through the heavily politicized and patronage-based system for social spending in most provinces. To compound the situation, the SAP was an administrative and logistical beast; it featured 27 different components (covering different sectors in different provinces, and components managed by the central government), resulting in huge bureaucratic burdens for government and the donors alike.

The problems of weak administrative capacity and poor governance in the social sectors were not just specific to the SAP but affected Bank's social sector programs more generally. In the more traditional social lending programs, these problems were better contained, and in some cases there was progress – with more trained and dedicated government staff, more focus in health on preventive programs, and more schools built. But in the face of the fundamental lack of accountability and transparency, it is not clear that the benefits of the Bank's traditional programs have been sustained beyond the project periods.

The Bank was not naïve about the problems, as is clear from an abundance of supervision assessments, aide memoires, audit reports, and third-party validations. But the approach was to keep urging and hoping for better the next quarter or the next year, perhaps in the absence of any obvious alternative other than to stop disbursing altogether.

In the post-SAP phase, the Bank launched a major micro-credit initiative, the Pakistan Poverty Alleviation Fund (PPAF). The first phase of PPAF has made a measurable contribution in the provision of micro-credit, and by relying on NGOs, the PPAF has tended to evade some of the governance problems that plagued earlier social sector interventions. More recently, the Bank has provided budgetary support to the provincial governments through single-tranche

Structural Adjustment Credits (SACs), with the promise of additional loans linked to pre-defined progress in social programs among other things. The SACs do not escape the problems of weak governance, but like the SAP are meant to provide the Bank with leverage, and in this case leverage at the provincial level. This seems to be a reasonable step. The SACs are a blunt instrument but have the advantage of making a halt in lending the default. For the bureaucracies (the governments involved and the Bank itself), it is easier to delay arranging another loan than to stop disbursing on an existing loan.

The post-SAP phase has also been marked by a potentially important political restructuring in Pakistan: the Musharraf regime's devolution program. On the one hand, Pakistan's decentralization program may be designed fundamentally to strengthen the hold of the military wing of the ruling party (particularly in provinces where that party is less popular). On the other hand, it does involve some transfers of administrative responsibility, with resources (though often with large time lags), to sub-provincial governments and were it to take hold could make some local and district governments more accountable to their own constituents, with healthy consequences for the delivery of social services. The Bank has been cautiously supportive of devolution, but has not found ways to support its positive potential without buying into the political and other risks it brings. This has placed it in an awkward position vis-à-vis other large donors, such as UNDP and the Asian Development Bank, both of which have placed a large stake in the successful implementation of the devolution program.

Lessons learned

First, it will continue to be difficult to attack poverty in Pakistan without addressing the structures of economic and political power. Incremental programs – greater access to social services and greater provision of micro-credit – can help people, but will not make a sustainable difference. A country strategy to attack poverty has to include politically sensitive economy-wide economic reforms, and a focus on making government, including local government, more accountable to people. Encouraging expansion of social programs through lending should not be the centerpiece of the Bank's poverty reduction strategy.

Second, efforts to encourage improved social programs need to take into account the political, institutional and governance problems in those sectors. At the least, Bank-sponsored programs should be less ambitious. Given the grossly inadequate levels of public spending on the social sectors, encouraging increased expenditures on social services makes sense – but only given at the same time improvements in the effectiveness of that spending, with a major focus on issues of demand and quality, and considerable attention to empowerment and participation of communities.

Third, leverage is elusive and its limits should be recognized in any strategy to encourage progress against poverty. That is one lesson of the Bank's efforts in the social sectors in the 1990s. The current approach to leverage with the SACs makes it easier bureaucratically to reduce the risk of disbursing against programs that are not working, which is a sensible improvement. But all the lending eggs should not be placed in the SAC basket. SACs should continue to be complemented by the PPAF program and by smaller, more traditional projects (especially in such areas as community development and empowerment) which if successful could then be taken to scale by the government. (The Lady's Health Worker program created by the government and initially small-scale but not being rapidly expanded, is a good example.)

Fourth and finally, though governance has become a part of the World Bank's vocabulary, its meaning and context in the Pakistan program is still largely confined to managerial, procurement, and financial issues. There is a need to take a broader view of governance, which includes the wider issues of local power relations; corruption, rule of law etc. Recent Bank reports, such as the 2002 *Poverty Assessment*, have taken a useful first step in analyzing these issues in the context of poverty. More analytic work (through AAA) should go to issues of political economy; this is particularly the case in the social sectors and in any gender or community development studies: devolution, the role of private schooling, the effect of political institutions on the risks of corruption, all deserve attention.

Annex I: World Bank AAA work in the social sectors, 1990-2003

Document Title	Date	Report Type
Women in Pakistan: an economic and social strategy	03/30/90	Publication
Women in Pakistan: an economic and social strategy	06/30/90	Publication
Household consequences of high fertility in Pakistan	12/31/90	Publication
Costs and finance of higher education in Pakistan	06/31/91	Policy Research Working Paper
The role of credit in poverty alleviation: the Asian experience	01/01/92	WBI Working Paper
Sources of income inequality in rural Pakistan: a decomposition analysis	01/31/92	Policy Research Working Paper
Food security and health security: explaining the levels of nutrition in Pakistan	02/29/92	Policy Research Working Paper
Pakistan—higher education and scientific research: strategy for development and reform	07/22/92	Sector Report
Pakistan—Poverty Assessment	09/25/95	Sector Report
Pakistan: social assessment demonstrates successes of participatory processes	05/31/96	Newsletter
Pakistan—improving basic education: community participation, system accountability, and efficiency	06/06/96	Sector Report
Agricultural growth and poverty in Pakistan	09/30/96	Human Capital Working Paper
Pakistan—Recent development policy issues, and an agenda for change	03/25/97	Working Paper
Profiles on children in South and East Asia and the Pacific	05/02/97	Working Paper
Learning and institutional capacity-building in South Asia	01/01/98	Working Paper
Pakistan—towards a health sector strategy	04/22/98	Sector Report
Improving women's health in Pakistan	05/31/98	Publication
Pakistan—public expenditure review: reform issues and options	10/07/98	Economic Report
1994 and 1995 questionnaires: NWFP surveys	08/31/99	Working Paper
Education reforms in Balochistan, 1990-1998—a case study in improving management and gender equity in primary education	09/30/99	Working Paper
Evaluation of the Balochistan Rural Girls' Fellowship Program—Will rural families pay to send girls to school?	11/30/99	Departmental Working Paper
The urban and rural fellowship school: experiments in Pakistan—design, evaluation, and sustainability	07/31/00	Departmental Working Paper
Household schooling decisions in rural Pakistan	02/28/01	Policy Research Working Paper
Afghanistan Border States Development Framework Approach	11/12/01	Working Paper

Pakistan—interim poverty reduction strategy paper and joint assessment	11/15/01	Poverty Reduction Strategy Paper (PRSP)
Pakistan—Development policy review: a new dawn?	04/03/02	Sector Report
Pakistan—Poverty assessment: poverty in Pakistan—vulnerabilities, social gaps, and rural dynamics	10/28/02	Economic Report
Pakistan—Poverty Reduction Strategy Paper (PRSP) Preparation Status Report	01/31/03	Poverty Reduction Strategy Paper (PRSP)

Annex II: Governments and World Bank's sectoral priorities[89]

Period	Government's Priorities	World Bank Group's Priorities
1951-58	▪ Refugee rehabilitation ▪ Rapid industrialization to deal with the scarcities created by a trade war with India ▪ Maintenance and improvement of irrigation infrastructure inherited from the British	▪ Transport infrastructure ▪ Irrigation ▪ Capital for industrialization through public sector intermediaries (development finance corporation)
1958-69	▪ Industrialization by guiding private sector intro various industries ▪ Generating rural employment ▪ Creating rural infrastructure such as farm to market roads ▪ Increasing agricultural productivity	▪ Irrigation ▪ Development Finance Corporation ▪ Transport (highways, railways) ▪ Natural gas development ▪ Education ▪ Food storage
1969-77	▪ Nationalization of large privately owned financial and commercial houses ▪ Nationalization of some private schools and colleges ▪ Public sector investment in large industrial enterprises	▪ Further expansion of DFC programs ▪ New sectors introduced in to lending programs including livestock, seed development, and urban sewerage ▪ First program loan aimed at supporting policy reform
1977-88	▪ Revitalization of the private sector ▪ Expansion of public sector expenditure by heavy domestic borrowing ▪ Introduction of some Islamic features into the economy	▪ New set of activities supported by the Bank, continuing the earlier tradition ▪ Decision to phase out the support of public sector expenditures in salinity control and reclamation
1988-99	▪ Initial opening of the economy to the outside ▪ Removal of controls on private sector investment ▪ Initiation of a program of privatization ▪ Further progress with Islamization ▪ Use of public sector banks and corporations for political purposes ▪ Expenditure on large projects of dubious economic value ▪ Policy to encourage private sector participation in power generation	▪ Social action programs launched to address the problem of persistent social backwardness ▪ Policy advice on improving the efficiency of public sector enterprises ▪ Policy advice and lending for power generation by the private sector
1999-2002	▪ Successful implementation of a program aimed at stabilization ▪ Sharp reduction in public sector expenditures including those on	▪ Refocusing Bank Group's lending to promote economic, social, and institutional reforms ▪ Technical advice on reforming

[89] This chart is reprinted from Burki, *Pakistan Country Assistance Evaluation*, 2002.

	development ▪ Establishment of local governments with power to tax and spend	the Central Board of revenues ▪ Policy advice, technical assistance and financial support to the provinces pursuing reforms.