Budget Support to Education in Pakistan

Options and Recommendations for Education Sector
Budget Support in Pakistan
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Introduction

Given the growing importance of budget support as an aid modality and the growing interest among donors in its likely impact, a study on options and recommendations for education sector budget support in Pakistan has been undertaken.

The objective of this study is to provide a technical analysis of the options available for budget support to the education sector in Pakistan. It also marks a starting point for engaging with Federal and Provincial governments about support modalities.

For reasons of reduced transaction costs, greater coherence in investment and policy change and financial flow, it is desirable that education sector budget support from different agencies should be aligned as far as possible. However, given that policy priorities, plans and budgets are set within a devolved system of government in Pakistan, and that funds are channelled to districts for education spending, it is important to have a better understanding of the way policy priorities are set and implemented in Pakistan and the way that funding is used to incentivise improved education outcomes. It was agreed that jointly funded and collectively owned analyses should be conducted as a way to begin greater harmonisation between USAID and DFID education budget support programmes and between all donors.

The purpose of this study is to generate more harmonised financial aid to the education sector. Ultimately it should lead to an agreement between the Government of Pakistan and funding partners on a preferred modality for financial assistance to a common policy framework and with unified monitoring and reporting processes. The objective for this particular study is clearly to present the different options for modalities of financial assistance, together with their advantages and disadvantages.

The report is divided into the following:

- Report Overview
- Chapter 1: International Experience in Direct Budget Support
- Chapter 2: Pakistan Experience of Direct Budget Support
- Chapter 3: Major Issues for Education Budget Support in Pakistan
- Chapter 4: Options and Modalities for Education Sector Budget Support in Pakistan.
### Abbreviations

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<thead>
<tr>
<th>Abbreviation</th>
<th>Full Form</th>
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<tr>
<td>A/C-1</td>
<td>Account Number 1</td>
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<td>A/C-4</td>
<td>Account Number 4</td>
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<tr>
<td>ADB</td>
<td>Asian Development Bank</td>
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<td>BANBEIS</td>
<td>Bangladesh Bureau of Education Statistics</td>
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<td>BOFED</td>
<td>Bureau of Finance and Economic Development</td>
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<td>CF AAA</td>
<td>Country Finance Accountability Assessment</td>
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<td>CPI</td>
<td>Consumer Price Index</td>
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<td>CPRGS</td>
<td>Comprehensive Poverty Reduction and Growth Strategy</td>
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<td>CSA</td>
<td>Central Statistical Authority</td>
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<td>CWIQ</td>
<td>Core Welfare Indicators Questionnaire</td>
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<td>DAG</td>
<td>Donor Assistance Group</td>
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<td>DBS</td>
<td>Direct Budget Support</td>
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<td>DCO</td>
<td>District Coordination Officer</td>
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<td>DFID</td>
<td>Department for International Development</td>
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<td>DoE</td>
<td>Department of Education</td>
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<td>EAD</td>
<td>Economic Affairs Division of the Federal Ministry of Finance</td>
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<td>EDI</td>
<td>Economic Development Institute</td>
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<td>EDO(E)</td>
<td>Executive District Officer for Education</td>
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<td>EDO (Works)</td>
<td>Executive District Officer for Works</td>
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<td>EFA</td>
<td>Education for All</td>
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<td>EMIS</td>
<td>Education Management Information System</td>
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<td>EPERs</td>
<td>Education Sector Policy and Expenditure Review</td>
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<td>ESR</td>
<td>Education Sector Reform</td>
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<td>FRA</td>
<td>Fiduciary Risk Assessment</td>
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<td>GBS</td>
<td>General Budget Support</td>
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<td>GDP</td>
<td>Gross Domestic Product</td>
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<td>GER</td>
<td>Gross Enrolment Ratio</td>
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<td>GoAP</td>
<td>Government of Andhra Pradesh</td>
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<td>GoB</td>
<td>Government of Bangladesh</td>
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<td>GoE</td>
<td>Government of Ethiopia</td>
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<td>GoP</td>
<td>Government of Pakistan</td>
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<td>GoV</td>
<td>Government of Vietnam</td>
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<tr>
<td>HIPC</td>
<td>Highly Indebted Poor Country</td>
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<td>IBRD</td>
<td>International Bank for Reconstruction and Development</td>
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<td>IDA</td>
<td>International Development Association</td>
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<td>IFAD</td>
<td>International Fund for Agricultural Development</td>
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<td>IFC</td>
<td>International Finance Corporation</td>
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<td>IMF</td>
<td>International Monetary Fund</td>
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<td>I-PRSP</td>
<td>Interim Poverty Reduction Strategy Paper</td>
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<td>KPP</td>
<td>Khushhal Pakistan Programme</td>
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<td>LGO</td>
<td>Local Government Ordinance</td>
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<td>MDG</td>
<td>Millennium Development Goal</td>
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<tr>
<td>M&amp;E</td>
<td>Monitoring and Evaluation</td>
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<tr>
<td>MEFF</td>
<td>Macro-Economic and Fiscal Framework</td>
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<td>MIS</td>
<td>Management Information System</td>
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<td>MoE</td>
<td>Ministry of Education</td>
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<td>MoFED</td>
<td>Ministry of Finance and Economic Development</td>
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<td>MPA</td>
<td>Member Provincial Assembly</td>
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<td>MTBF</td>
<td>Medium Term Budget Programme</td>
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<tr>
<td>Acronym</td>
<td>Full Form</td>
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<tr>
<td>MSU</td>
<td>Multi-Donor Support Unit</td>
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<td>NEMIS</td>
<td>National Education Management Information System</td>
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<td>NER</td>
<td>Net Enrolment Rate</td>
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<td>NFC</td>
<td>National Finance Commission</td>
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<td>NGO</td>
<td>Non Government Organisation</td>
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<td>NHF</td>
<td>National Health Facility</td>
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<td>NPER</td>
<td>Net Primary Enrolment Ratio</td>
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<td>OECD</td>
<td>Organisation for Economic Cooperation and Development</td>
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<td>O&amp;M</td>
<td>Operations and Maintenance</td>
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<td>PC-1</td>
<td>Project Concept Form 1</td>
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<tr>
<td>P&amp;D</td>
<td>Planning and Development</td>
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<td>PEDPC</td>
<td>Punjab Education Development Policy Credit</td>
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<td>PESRP</td>
<td>Punjab Education Sector Reform Programme</td>
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<tr>
<td>PFC</td>
<td>Provincial Finance Commission</td>
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<td>PIHS</td>
<td>Pakistan Integrated Household Survey</td>
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<td>PLA</td>
<td>Purchase Ledger Account</td>
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<td>PMIU</td>
<td>Project Monitoring and Implementation Unit</td>
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<td>PRMP</td>
<td>Punjab Resource Management Project</td>
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<td>PRS</td>
<td>Poverty Reduction Strategy</td>
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<td>PRSC</td>
<td>Poverty Reduction Support Credit</td>
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<td>PRSP</td>
<td>Poverty Reduction Strategy Paper</td>
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<td>SAC</td>
<td>Sector Adjustment Credit</td>
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<td>SBP</td>
<td>State Bank of Pakistan</td>
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<td>SBS</td>
<td>Sector Budget Support</td>
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<td>SDPRP</td>
<td>Sustainable Development and Poverty Reduction Programme</td>
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<td>SEBS</td>
<td>Sector Earmarked Budget Support</td>
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<td>SMCs</td>
<td>School Management Committees</td>
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<td>SPDC</td>
<td>Social Policy and Development Centre in Karachi</td>
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<td>SWAp</td>
<td>Sector Wide Approach</td>
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<td>TA</td>
<td>Technical Assistance</td>
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<td>TAMA</td>
<td>Technical Assistance Management Agency</td>
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<td>TOP</td>
<td>Terms of Partnership</td>
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<td>UPE</td>
<td>Universal Primary Education</td>
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<td>USAID</td>
<td>United States Agency for International Development</td>
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<td>WMU</td>
<td>Welfare Monitoring Unit</td>
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Overview – Options and Recommendations for Education
Sector Budget Support in Pakistan

1. What is Direct Budget Support?

Although Direct Budget Support (DBS) is a relatively new aid modality, its use is becoming a policy priority among some donors (e.g. DFID, Ireland, and The Netherlands) where the conditions within the recipient country are judged to be appropriate. A number of other donors are observing international DBS experience with interest.

The movement towards DBS reflects a desire to move away from the delivery of aid through projects to delivery through programme support. This results from a realisation that fiduciary risk is not necessarily minimised by project aid. Moreover, growing evidence on the high transaction costs, lack of government ownership, unpredictability in funds flow and the development of parallel systems associated with projects has caused donors to look for alternatives.

At the same time, the donor community has increasingly realised that successful and sustainable reforms require a movement away from straightforward policy conditionality (i.e. donors ‘buying reforms’) towards a shared dialogue on the development of policy and its implementation through government systems. This approach to policy and conditionality has been a key feature of international experience in DBS design.

DBS can be defined as: the provision of donor funds to a recipient government using its own allocation, procurement and accounting systems and can be provided in the form of General Budget Support (GBS) or Sector Budget Support (SBS). DBS policy measures (i.e. DBS conditionalities) typically derive, in the international application of DBS, from output and outcome targets associated with the PRS framework. ‘Policy conditionality’ under DBS, therefore, has typically been arrived at through partnership and dialogue, reflecting a reform process that is both government led (through policy design and review) and accountable (to the electorate and Parliament).

Key characteristics of DBS include:

- the transfer of financial resources direct to governments for expenditure through public financial management systems;
- no restrictions on the specific items to be purchased with the DBS resources or where purchases should be sourced;
- policy design and development associated with DBS being government led;
- policy conditionalities developed through a process of dialogue which focuses on national policies, particularly those emerging from the PRS process;
- support to the development and improvement of government systems, procedures and institutions;
- improved donor coordination to enhance ownership and reduce transaction costs; and
- the use of transparent release and transfer mechanisms to improve predictability and minimise transaction costs.
Expected benefits of DBS include:

- Increased ownership of budgets and policies by increasing the proportion of donor funds under domestic financial management and accounting systems.
- Improved dialogue between donors and governments over key public expenditure priorities.
- Increased donor harmonisation (policy targets, reporting requirements, synchronising missions).
- Improved predictability in resource flows (although the ease with which DBS may be switched off means that donors and governments need to work to make this benefit effective).
- Lower transaction costs (although experience to date suggests there is a risk that transaction costs may increase over the short term before this benefit is fully realised).
- Incentives for improving government systems.
- Increased democratic accountability (with accountability to Parliament for DBS expenditures made through government systems rather than accountability to donors).

2. **International Experience of DBS**

International experience demonstrates that an appropriate environment for DBS is required for donors and governments to commit to a DBS instrument. The key requirements for an appropriate DBS environment typically include:

- systems and procedures that are oriented towards poverty reducing budget priorities;
- a clear commitment on the part of government to improve technical and financial systems and procedures; and
- an assessment that DBS benefits (for the situation in question) outweigh the benefits from alternative means of aid delivery.

Improved donor harmonisation has been a feature of international experience of DBS, with good progress in some cases, although much slower progress in others. This experience demonstrates that DBS alone does not automatically guarantee better harmonisation. Improved harmonisation in a DBS environment, therefore, requires commitment on the part of both donors and government and the creation of specific mechanisms through which improved harmonisation can operate (e.g. Ethiopia). Donor harmonisation has also involved the establishment of monitoring mechanisms associated with DBS. In many countries, the PRSP reporting framework has been utilised as the key monitoring mechanism for DBS.

DBS seeks to improve predictability and minimise transaction costs through the establishment of transparent release and transfer mechanisms. International experience, however, shows the ease with which DBS may be switched off means, in practice, that donors and governments need to make specific efforts for these benefits to be effective. DBS is also associated with lower transaction costs. International experience suggests, however, that transaction costs may increase over the short term before this benefit is fully realised.
Assessment of fiduciary risk\(^1\) is a key factor in determining whether DBS proceeds in specific cases. International experience has shown that donors will often provide DBS even when fiduciary risk assessments are ‘high’, so long as the recipient government has a credible strategy for managing and reducing fiduciary risk and is demonstrably committed to it.

\(^1\) i.e., the risk that funds provided are not used for their stated intention or cannot be accounted for.
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3. Pakistan Experience of DBS

Pakistan has had substantial experience of DBS-type instruments over the last several years. This includes experience of General Budget Support (GBS), Sector Budget Support (SBS) and Sector Earmarked Budget Support (SEBS). It also includes experience of DBS interaction with multi-lateral (e.g. World Bank, Asian Development Bank) and bi-lateral (e.g. DFID) donors.

All of Pakistan’s recent DBS instruments have had common features with regard to fiscal flows. This has involved the establishment of an account specially opened for the purpose in the State Bank of Pakistan (SBP) into which donor DBS funds are paid. These are then converted to Rupees and are transferred to the consolidated fund account of the level of government where the funds are intended to be received. DBS funds are planned, budgeted and accounted for through GoP systems and procedures in exactly the same manner as for funds raised directly by the GoP (e.g. through tax revenues).

Pakistan experience of DBS shows that the 'entry point' for DBS funds (i.e. the level of government which receiving DBS resources) can be either the federal government or provincial governments. In principle, the ‘entry point’ could also be district governments, although this has yet to occur in practice. The choice of 'entry point' in Pakistan experience has depended principally on the nature of the policies that the DBS intends to support. Where the policies have been mainly national in nature (e.g. trade reform, broad governance issues, etc.) the ‘entry point’ has been the federal government. Where the policies and/or the associated functional responsibilities have been mainly provincial in nature, the 'entry point' has been at the provincial level.

In all cases, irrespective of the 'entry point', the Federal Government has had an important role to play. Aside from the role of the SBP in managing the flow of resources from the donor to the recipient level of government, all DBS agreements must incorporate the participation of the Economic Affairs Division of the Federal Ministry of Finance (EAD).

Pakistan DBS to date has tended to support Government-owned policies as articulated in key policy documents and key policy statements (e.g. the PRSP for the Federal Government and broad sector strategy documents for the provincial governments). A key area of weakness in Pakistan’s experience of DBS is that of donor harmonisation, which has tended to be fragmented and weak. Monitoring systems in Pakistan tend also to be weak, which makes for difficulties in utilising these for DBS monitoring purposes. Pakistan’s recent experience of monitoring associated with DBS has attempted to focus on GoP’s existing monitoring systems. Where these monitoring systems are understood to be weak (whether for financial or non-financial indicators), however, the approach has largely been to support improvements to the existing systems rather than to create entirely new systems which bypass them. Complementary assessment mechanisms have sometimes been used whilst measures to improve existing systems have been in process.

Pakistan’s experience of DBS in support of the federally planned and managed National Health Facility\(^2\) illustrates the extent to which monitoring and evaluation of DBS can

Overview

be time consuming and expensive in its early stages – a conclusion reflected in international monitoring and evaluation experience also.

Assessments of fiduciary risk over recent years in Pakistan have been judged to be ‘high’. A number of DBS instruments have been utilised over these years in spite of this as a result of Pakistan’s demonstrable commitment to manage and reduce fiduciary risk. This has included direct efforts to enhance governance (e.g. anti-corruption) as well as tangible measures to improve financial and accounting systems and procedures. Fiduciary risk has recently been assessed to have moved from ‘high’ to ‘medium’ as a result of this.

4. The Education Sector – a Brief Overview

The Government of Pakistan (GoP) recognises education as a fundamental right and is committed to providing access to every citizen. However, education institutions are currently under resourced and GoP expenditures have been insufficient to address critical quality and access issues. The result has been low enrolment rates for boys and substantially lower rates for girls at both primary and, particularly, the secondary level – a feature of the education system in every province.

National Education Management Information System (NEMIS) data indicates that the availability of public schools has worsened over recent years – a factor in the recent stagnation of enrolments. School construction has not kept pace with population growth in the school-going age-group. Problems in school construction are reflected also in the poor physical condition of public schools, many of which are without boundary walls, electricity, and water and toilet facilities. Moreover, a very high (and increasing) percentage of students drop out of school before completing either the full primary or secondary cycle. At the national level the drop out rate increased from 40 percent in 1997 to 54 percent in 1999-2000.

On average, slightly more than half of the education budget, at the national level, goes to primary education, whilst the remainder is distributed evenly between secondary and other levels. These percentages differ between provinces. Punjab allocates the highest proportion (over 65 per cent) to primary education whereas Balochistan allocates less than half of its education budget to primary education.

A substantial increase in funding and an effective restructuring of education budgets will be required to improve both access and quality. From the information available, however, it is not possible to judge whether devolution is beginning to result in greater allocations for education at the district level, where functional responsibility for delivery of primary and secondary education effectively lies. This will require improvements in district level systems and procedures as well as improvements in the capacity of district level staff to manage them.

Improving education budgets is but one part of the story. Expenditure as a proportion of budget has been 71, 89, 82 and 92 percent on average for Punjab, Sindh, NWFP and Balochistan respectively over recent years. Within these figures, utilisation rates for recurrent

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3 This was the outcome of a recent Fiduciary Risk Assessment carried out by DFID for the Federal Government.
allocations have been relatively high and the utilisation rates for the salary component higher still. Low utilisation rates, therefore, impact mainly on the non-salary component of recurrent expenditure and on development expenditure.

Whilst education is a provincial function and activities at the primary and secondary levels are carried out at the district level, the full management structure is complex and involves inputs at federal, provincial and district levels. At the district level, the Executive District Officer for Education (EDO(E)) is effectively the chief executive of the District Education Department. Field observations suggest, however, that many of the EDO(E)’s responsibilities are only partially carried out or are not carried out at all, particularly with regard to budget preparation, implementation and accounting.

5. National Policy Targets

The Government has attempted to address key deficiencies in education through support for ambitious policy targets articulated in key education policy statements, including: National Education Policy 1998-2010 (of 1998); Education Sector Reforms (ESR) 2001-2005; the “Devolution Plan” which was launched in 2001; and the Poverty Reduction Strategy Paper (PRSP).

There is a potentially large gap, however, between projected education resources and expenditure requirements to meet key policy targets even if public spending on education does meet the targets set in the PRSP, for example. There are also a number of technical issues that need to be addressed to make costing analysis related to these key policy statements more accurate and more representative of the true projected costs of meeting PRSP, ESR and EFA targets. These include a need to improve the database of information upon which the analysis has been based. A much closer account of province-specific reform programmes will also be required so that the total cost of policy targets can be estimated in a bottom-up manner by aggregating estimates for province-specific reforms.

6. Education Systems at Provincial and District Level

Whilst issues are similar between provinces, specific needs do differ, implying that provinces need to have control over policies and resources. Districts, however, have ultimate responsibility for identifying needs and allocating resources for primary and secondary education. Problems in the way funds are transferred and with regard to district government autonomy, however, make the use of those funds ineffective and inefficient.

Analysis suggests that education sector monitoring is weak. The design of an appropriate monitoring system has been piecemeal and a comprehensive and coordinated monitoring program has yet to be developed. There is no consistent reporting of financial information for education across districts and provinces. This is true both for government and external funds. The lack of consistent and reliable indicators, both statistical and financial, makes it difficult to plan for and evaluate education policy outcomes.

The expansion of duties and responsibilities at the district level with devolution, underlines the importance of having a good district management (information) system.
Although EMIS and ESR units have been established in some districts, the district offices still lack sufficiently trained and experienced staff to make them effective. Likewise, the capacity at district level to use monitoring indicators is also limited due to staff shortages and human resources constraint.

In addition, little has been achieved to date in co-ordinating and harmonising donor approaches to monitoring, even though many operate within the framework of the PRSP/ESR where a common set of education monitoring indicators has been agreed.

One key objective of devolution is to begin the process of achieving sustainable improvements in education service delivery. Among other things, the intention under devolution has been for the district (rather than province) to become the operational tier, with responsibility for determining the level of district resources for education. To facilitate this, in an ideal situation there would be:

- consistency in the responsibilities of sector managers and the resources and sanction powers they have;
- consistency between political accountability and the responsibilities of different tiers of government;
- a stable, unitary (i.e. not much off-budget or informal sector interference) and predictable governance and financing environment for effective sector planning and management; and
- general and widespread capacity commensurate with planning, managing and executing a sound education strategy.

In reality, however, whilst devolution has been fully adopted, the Local Government Ordinance (LGO) requires a degree of interpretation for its implementation and the devolution process will require further implementation measures before provinces effectively devolve all of these responsibilities. Moreover, districts currently lack much of the capacity required to fully undertake all of the above tasks. As a result, there remain a number of functions which require both provincial and district action.

7. **Fiduciary Risk in Education Systems**

Evidence from field visits has shown that it is difficult for anyone currently involved in the education sector to have a comprehensive view of the education budget or education expenditures. This is true for district EDO(E)s, who apparently do not have access to full information on education for their respective districts (part of which is effectively retained at the provincial level and part of which is held elsewhere in the district, particularly with the EDO [Works]). Field visits have shown that this is true also for Provincial Government Education Secretaries who do not have sufficient information to know whether funds are being expended against provincial education priorities, or even how they are being expended at all.

In addition to straightforward funding constraints affecting resource transfers from the provincial level, district governments have had to deal with a number of additional difficulties following devolution. Most of these difficulties appear to result from problems in district level operating systems and procedures and from human capacity resource constraints.
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Systems and procedures for planning, budgeting, managing and accounting for resources at both provincial, and especially, district level are extremely weak. This represents, perhaps, the most significant area of fiduciary risk for a potential DBS for the education sector. It is one for which a credible strategy, that all levels of government are committed to, would need to be developed for a DBS instrument to be successfully designed and implemented.

There is a clear requirement for additional funding if key quality and access issues are to be addressed in the education sector. This funding can be provided partly through DBS resources and also through a greater volume of (increasingly predictable) GoP resources. In addition, there is a need for substantial improvements in systems and procedures for planning, budgeting, managing, monitoring and accounting for education activities. These improvements will be required to address the fiduciary risk concerns that donors will inevitably raise with regard to the potential provision of DBS for the education sector. They will also be required to secure improvements in the productivity of both GoP and DBS resources, without which the policy ambitions of the ESR, the PRSP and the provincial governments may be unachievable and/or unsustainable.

8. Establishing an Approach for Designing a DBS for the Education Sector

The following presents the key points that would need to be addressed to establish the design of a DBS for the education sector

Transfer of DBS Funds from Donors to GoP

International and Pakistan experience suggests a straightforward design for the transfer of donor DBS resources to the GoP. This would involve the donor currency being paid into an account opened specially for the purpose in the State Bank of Pakistan (SBP), the currency then being converted into Rupees and transferred to the relevant consolidated fund (i.e. to the consolidated fund for the Federal Government or to the consolidated fund of one of the four provincial governments). The Economic Affairs Division of the Federal Ministry of Finance (EAD) would need to be involved in any international negotiation and agreement for a DBS instrument. The sovereign debt for any loan component would need to be undertaken by the Federal Government (with on-lending to provincial governments as appropriate). The recipient level of government would be required to plan, budget and account for the DBS funds in the same way as for funds raised by the Government of Pakistan (e.g. in the same way as for taxes raised and distributed through the NFC award mechanism).

DBS ‘Entry Points’

The ‘entry point’ for an education DBS (i.e. the consolidated fund(s) to which the DBS resources are transferred from the SBP) can be either the Federal Government, one or more of the provincial governments or one or more of the district governments. In practice, ‘entry points’ for DBS to date have either been the Federal Government (where the policy framework being supported by the DBS is national in nature) or one of the provincial governments (where the policy framework is provincial in nature). The policy thrust of an education DBS is likely to focus on achieving significant improvements in primary and secondary education, which are mainly provincial functions (with service delivery.
responsible at the district level). It is likely, therefore, that the main 'entry point' for an education DBS instrument would be the provincial level.

Whilst an 'entry point' at the district level would function in principle, this would effectively need to by-pass the Provincial Finance Commission (PFC) mechanism, which would run counter to one of the central principle of DBS (i.e. that it utilises, supports and strengthens existing systems and procedures). Moreover, significant fiduciary risks at the district level suggest that DBS donors will want to see a credible and effective commitment on behalf of provinces (and the Federal Government), to manage and reduce these risks, before making any plans to disburse at the district level.

Significant improvements in primary and secondary education are likely to require supporting improvements in other aspects of the education system, possibly incorporating the federal level. Moreover, a crucial design aspect for an education DBS will be to improve predictability and flow of (non-DBS) resources for education service delivery at the provincial and district level. This is likely to require interaction and agreements with the Federal Government (Ministry of Education and Ministry of Finance in particular) for improving the volume, transparency and predictability of NFC resources as well as resources from vertical funding lines (e.g. the ESR programme). It may also require some agreement over policy issues which are established at the federal level. An issue to be resolved at the design stage, therefore, would be whether these issues could be facilitated through the designation of the Federal Government as an additional 'entry point' for DBS.

**Province-Specific Policy Reform Issues**

Whilst policy issues with regard to education are similar between provinces, each province has its own specific scheduling of priorities and requirements as reflected in the current policy reform process for each. A ‘one size fits all’ approach to the design of a common DBS instrument is unlikely to be optimal for supporting education reform in Pakistan. Rather, a distinct (albeit similar) instrument is likely to be required based on a government-donor dialogue for each province, with policies and strategies to be supported emerging from this.

**Fiduciary Risk**

The treatment of fiduciary risk is likely to be at the heart of the design of an education DBS for Pakistan. Some aspects of fiduciary risk are likely to be covered by recent fiduciary risk assessments (and by existing GoP plans for managing and reducing these risks), particularly at the federal level. A range of detailed fiduciary risk issues associated with budget planning, management, accounting and reporting systems and capacities at the provincial and district level would also need to be appropriately addressed in the design of an education DBS. Formal (provincial) fiduciary risk assessments for an education DBS would, therefore, need to be carried out, focusing particularly on these issues. Such assessments would draw, to a large extent, on the output of the provincial education sector policy and expenditure reviews (EPERs) that are proposed below.

**Establishing a Policy Dialogue for an Education DBS**

The establishment of a policy dialogue between the main DBS stakeholders, led by the GoP, will also be key to the design of an education sector DBS. This would need to focus
on how best to achieve the ambitious quality and access improvements articulated in the ESR and the PRSP. Given the province-specific nature of education reform requirements and activities in Pakistan, it is likely that a distinct dialogue process would need to be established for each participating province, with overall linkage established through the Federal Ministry of Education.

The policy dialogue process would need to identify province-specific policies and associated targets to be supported through a DBS instrument. It would also need to address how strategies can be developed and supported from the province level upwards to achieve policy targets and what the design of a DBS should be to facilitate these objectives. The identification of policy objectives and associated implementation strategies would form the basis for establishing DBS conditionalities for each province. The specification of policy targets, strategy development and DBS design should not be seen in isolation from one another. Rather, the policy dialogue should bring all three together through sector wide discussions on supporting education delivery through a DBS instrument.

**Education Policy and Expenditure Review Requirements for DBS Design**

The development of policy targets and associated strategies to be supported under an education DBS will require separate and distinct EPERs for each province with an interest in an education DBS. Whilst the design of each EPER would be similar, the terms of reference for each would need to be province-specific to ensure that any policy targets and implementation strategies flowing from the EPERs are also province-specific. The EPERs would need to identify province specific requirements for addressing weaknesses in monitoring and donor harmonisation and for identifying and managing the main fiduciary risks associated with budget, planning, management, accounting and reporting systems and capacities. The output from the EPERs would determine much of the design of an education DBS. It would be essential, therefore, for the stakeholder forum to convene at an early date and to agree Terms of Reference for this work. Management of the EPERs would need to be GoP-led, presumably by the Education Department of the province in which any particular study is taking place, with overall coordination between provinces and linkage to national policy statements on education provided by the Federal Ministry of Education.

Key outputs from the EPERs would include a clear specification of education sector policy targets and an associated implementation strategy for each participating province. These outputs would need to be approved by the provincial government Education Departments and would then form the basis of a conditionality framework for any associated DBS instruments.

**9. Initial Design Steps**

Initial steps to prepare for the design of an education DBS would include; bringing key stakeholders together (ministries and departments of education and finance, some finance and education representation from district governments, donors and NGOs interested in supporting education) to discuss the implications of this report and to determine a programme of work based upon it. This is likely to require recommendations from the key stakeholders on:
Overview

- membership and constitution of a stakeholder forum;
- identification of potential donor interest in supporting an education DBS instrument;
- identification of potential GoP interest in receiving education DBS support;
- developing an initial programme of analysis for the detailed design of an education DBS instrument, including the (potential) use of provincial education sector policy and expenditure reviews (EPERs); and
- identifying a ‘road map’ of tasks for developing an education DBS instrument.
Chapter 1: International experience in Direct Budget Support

10. Background and Introduction

The purpose of this Chapter is to provide a description of international experience of DBS\textsuperscript{4}. This will provide important background information to assist with the development of options and recommendations for a DBS modality for the education sector in Pakistan.

Direct Budget Support (DBS) is a relatively new aid modality which has evolved from a family of programme aid instruments which have delivered donor funds through government systems. Notwithstanding the fact that it is a relatively new instrument, its use is becoming a policy priority for some donors (e.g. DFID, Ireland, and The Netherlands) where the conditions within the recipient country are judged to be appropriate. Many other donors are observing how DBS is being established in a range of countries around the world. These donors are noting with particular interest the extent to which the partnership between donors and recipients is evolving and the impact this appears to be having in the struggle to eradicate poverty.

DBS is used by bilateral donors (either alone or in partnership with one another) and by multi-lateral financial institutions (e.g. World Bank Poverty Reduction Support Credits; European Commission Macroeconomic Budget Support).

Much of the rest of this Chapter will focus on how DBS has been established in a number of countries with lessons that may be applicable to Pakistan. The purpose is to provide a starting point to determine how a DBS modality might operate for the education sector in Pakistan. This will include a discussion of issues such as: the movement away from donor imposed conditionalities and the growing importance of a shared policy dialogue among donors and recipients; the importance of donor coordination for maximising the impact of DBS; the nature of the transaction costs under DBS; and the means by which DBS designs aim to minimise transaction costs and maximise the institutional and service delivery benefits of DBS.

Given the growing importance of DBS as an aid modality and the growing interest among donors of its likely impact, at least two major international evaluations of DBS are on the point of preparation\textsuperscript{5}. When completed, these studies will provide rich benchmark information to inform the future design and development of DBS in a range of countries around the world. To date, however, relatively little evaluation of DBS has been published. This Chapter will focus, therefore, on: those countries for which formal evaluation work has been carried out to date\textsuperscript{6}; some of the key design aspects of DBS in a number of countries\textsuperscript{7} with some similarity to Pakistan; and lessons from a range of other countries that may be found elsewhere in the literature. This information will feed into and inform the development of subsequent chapters, particularly those focussing on the potential design issues of a DBS modality for the education sector of Pakistan.

\textsuperscript{4} For the purposes of this Chapter, DBS will refer both to bilateral application of the DBS modality as well as the use of its corollary by multi-laterals (particularly the World Bank).

\textsuperscript{5} These have been commission by DFID and the European Commission respectively..

\textsuperscript{6} India (Andhra Pradesh), Mozambique and Uganda.

\textsuperscript{7} Bangladesh, Vietnam, Ethiopia and Albania.
Before moving to the specific international experience of DBS, however, Section 2 of this Chapter provides a description of: the evolution of the DBS modality; its relationship with similar aid modalities; the key underlying design elements of DBS; and the rationale and policy objectives of DBS. The purpose of Section 2 is to provide a better understanding of the actual design elements of DBS type instruments in practice in those countries under review in this Chapter. In turn, this should facilitate a better understanding of the key issues to be addressed in the design of a DBS modality for the education sector in Pakistan.

10.1 Evolution of the DBS Modality

The recent evolution of DBS as an aid modality has been driven largely by two key factors:

- a desire to move away from delivering aid through projects to the delivery of aid through programme support (i.e. the delivery and use of funds through government financial systems); and
- a movement away from straightforward policy conditionality (i.e. donors ‘buying reforms’) towards a shared dialogue on the development of policy and its implementation through government systems.

Why a Movement Away from Projects?

The overwhelming reliance on projects in the past arose partly because of a belief in capital investment being the principal constraint to development and partly because donors felt that the separate accounting arrangements administered by donors (or by consultants on behalf of donors) would minimise fiduciary risk.

Experience has now shown, however, that fiduciary risk is not necessarily minimised by delivering aid via projects. Furthermore, a range of other difficulties have emerged with projects, including:

- high transaction costs associated with the large number of different donor accounting systems and reporting schedules;
- policy priorities and ownership tend to be driven by project requirements and procedures rather than the holistic needs of the sector;
- tied aid arrangements tend to lead to expenditure inefficiency;
- unpredictability in funds flow resulting from disbursement arrangements and associated conditionalities;
- the undermining of government financial and management systems, reliance on parallel donor systems and the divergence of skilled staff away from government; and
- a general erosion of accountability systems resulting from government becoming increasingly accountable to donors rather than to their own electorates.

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8 Fiduciary risk broadly incorporates the risk that funds provided are not used for the purpose intended (whether as a result of fraud or of weakness in policy, planning and budgeting systems) and the risk that the funds cannot be properly accounted for (as a result of weaknesses in the accounting systems and or auditing process).
Budget Support to Education in Pakistan

Why a Movement Away from Traditional Conditionalities?

The movement away from ‘traditional’ policy conditionalities has been largely driven by a realisation that projects are relatively ineffective (and perhaps inappropriate) in facilitating the development and implementation of a sound policy framework. A number of recent research papers demonstrate that ‘domestic political considerations ... are the prime factors in determining economic and political reform ... domestic considerations have proven immune to donor pressures ... in large part because donors are under pressure to disburse funds and, historically, have proven to [disburse funds] even where agreed conditions are not met’.

The success and sustainability of traditional conditionality influencing policies have also been substantially undermined by:

- over-detailed and often unrealistic conditionality matrices;
- a general lack of ownership of conditionality-led policy reforms (with donor priorities rather than government priorities driving the reforms);
- an erosion of accountability resulting from expenditure and legislative agreements being made with the Executive without due reference to the Legislature; and
- a lack of transparency with regard to conditionality negotiations, which often involved participation from a relatively small group within the Executive.

This has led to a realisation that policy reforms for poverty reduction should emerge instead from a partnership approach which is led by government and supported by donors. The movement away from projects and from traditional conditionality approaches to programme support has led to the recent development of DBS-type aid instruments.

Evolution of DBS

Although DBS per se is a relatively new aid modality, it has evolved from a family of programme aid instruments, including balance of payments support (in the 1980s and 1990s) under structural adjustment programmes which would be provided either in the form of debt relief or import support.


Two important features distinguish the previous use of balance of payments support from the modern arrangements for DBS. First, recipients often had to demonstrate that imports purchased from balance of payments support did not include prohibited items. In practice, aside from being a special and restrictive case of conditionality, this often meant scarce government administrative resources being diverted to provide the evidence for this\(^1\). Second, comprehensive policy conditionality matrices would be associated with balance of payments support. The lack of effectiveness of this traditional conditionality approach is noted in Section on moving away from traditional conditionalities, above.

**Direct Budget Support\(^1\)**

DBS can be defined as: *the provision of donor funds to a recipient government using the recipient government’s allocation, procurement and accounting systems*. The foreign currency is deposited in the Central Bank and the local currency counterpart is credited to the government’s account and is made available to the budget. There are no restrictions on the process of conversion into local currency and no specific restrictions on the items that may be purchased (although there may be some notional earmarking in terms of conditionalities emerging from policy objectives that are developed in partnership between the donor(s) and the government concerned).

DBS can be provided in the form of General Budget Support (GBS) or Sector Budget Support (SBS). GBS can be defined as: *DBS which is delivered as financial assistance to the overall budget*. Conditionalities would typically focus on broad budget policy objectives. SBS can be defined as: *DBS which is earmarked to one or more sectors*. The main conditionality in this regard would be an agreement that the DBS would be expended in the sector(s) concerned, with some form of ‘additionality’\(^1\) guaranteed by the government. Agreements between donor(s) and government would also be expected with respect to specific policy objectives for the sector concerned.

**‘Policy Conditionality’ under DBS**

It is important to note that, although the term ‘conditionality’ has been used in each of the above definitions, the DBS approach to conditionality differs to that for previous forms of financial programme aid. In particular, there has been a growing realisation that poverty reduction requires effective and sustainable government policies that respond to the needs and requirements of citizens. This has been the key driving force for the emergence of national poverty reduction strategies (PRSs) – i.e. the (domestically-led) development of effective and sustainable government policies that respond to poverty eradication requirements.

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\(^1\) Fungibility, of course, simply weakened the effectiveness of these restrictions in any case.


\(^1\) ‘Additionality’ in the sense that the DBS expenditure in the sector would be additional to the level of expenditure that the government would have undertaken in the absence of the DBS resources. ‘Additionality’ may be defined in one of several ways, as noted in the Chapter on Pakistan experience of DBS.
Budget Support to Education in Pakistan

PRS processes in countries throughout the world provide a country-led and government-led national policy vision for the eradication of poverty and a description of the means by which that policy vision may be achieved. As a result, they provide a framework around which donors and governments may work in partnership together to develop a shared policy vision at both a general level (e.g. policies for growth, fiscal stability, good governance) and a more specific level (e.g. sector policies for improving health and education). The emphasis is on dialogue and partnership rather than the previous focus on externally developed policy conditions.

DBS policy measures (i.e. DBS conditionalities) typically derive from output and outcome targets associated with the PRS framework. ‘Policy conditionality’ under DBS, therefore, is arrived at through partnership and dialogue, reflecting a reform process that is both government led (through policy design and review) and accountable (to the electorate and Parliament).

**Key Characteristics of DBS**

The key characteristics of DBS include:

- the transfer of financial resources *direct* to governments for expenditure through public financial management systems;
- no restrictions on the specific items to be purchased with the DBS resources or where purchases should be sourced;
- policy design and development associated with DBS is government led;
- policy conditionalities developed through a process of dialogue which focuses on national policies, particularly those emerging from the PRS process;
- support to the development and improvement of government systems, procedures and institutions;
- improved donor coordination to enhance ownership and reduce transaction costs; and
- the use of transparent release and transfer mechanisms to improve predictability and minimise transaction costs.

Expected benefits of DBS include:

- Increased ownership of budgets and policies by increasing the proportion of donor funds under domestic financial management and accounting systems.
- Improved dialogue between donors and governments over key public expenditure priorities rather than the detail of specific aid-funded interventions.
- Increased donor harmonisation (policy targets, reporting requirements, synchronising missions).
- Improved predictability in resource flows (although the ease with which DBS may be switched off means that donors and governments need to work to make this benefit effective).
- Lower transaction costs (although experience to date suggests there is a risk that transaction costs may increase over the short term before this benefit is fully realised).
• Incentives for improving government systems.
• Increased democratic accountability (with accountability to Parliament for DBS expenditures made through government systems rather than accountability to donors).

What is an Appropriate Environment for DBS?

The above sections describe the rationale for moving towards a DBS-type instrument, the deficiencies the DBS instrument seeks to address in previous donor financial support and the benefits that DBS seeks to deliver (in addition to the straightforward transfer of a cash sum). Whilst there is a clear rationale for a general movement towards a DBS modality, it is not necessarily the case that DBS will be appropriate for all recipient government environments all the time.

Whilst an ‘appropriate environment’ for DBS is likely to differ to some extent from donor to donor, a good idea of the required characteristics can be found in DFID’s current policy paper on DBS. DFID will consider circumstances for DBS to be appropriate when:

• Partner government planned budget priorities support poverty reduction. For DFID, this requires a ‘formal strategic framework and review process’ between the government and the donor community which incorporates the principles of a good PRS.
• Commitment exists to making administrative, technical and financial systems robust and reliable, so that funds help to reduce poverty effectively. What this means in practice is that: a thorough evaluation of public financial management, accountability systems and associated risks has been carried out; government has a credible programme to improve system standards; the potential benefits justify the fiduciary risks (i.e. the risks that expenditure will not be properly accounted for, not used for its intended purpose or not represent value for money); and these assessments are explicitly recorded as part of the decision-making process.
• DBS will produce significant benefits relative to other forms of aid delivery (e.g. through improved donor coordination or lower transaction costs). It is important to note that although DBS is intended to lower transaction costs of aid delivery, this feature is not necessarily automatic or immediate. The means to achieve it need to be built directly into the design of the DBS support mechanism.

An appropriate environment, therefore, would be one where the emphasis is on improving policy formulation and financial management such that the Government’s strategy for poverty reduction becomes increasingly realistic and effective.

\[15 \text{ Reference to DFID’s policy paper in this regard is of particular relevance, of course, to the possible design of a DBS instrument for the education sector in Pakistan.} \]
11. Some Examples of DBS-Type Instruments

Ethiopia - Poverty Reduction Support Credit

The Government of Ethiopia (GoE) receives support from the World Bank for its PRSP under a Poverty Reduction Support Credit (PRSC). This has been designed to operate according to DBS characteristics. The PRSC provides a good example of donor harmonisation around a country-owned poverty reduction strategy.

Policy Dialogue and Conditionality

The GoE has developed the Sustainable Development and Poverty Reduction Programme (SDPRP) as its poverty reduction policy. This policy aims to strengthen planning and budgeting processes; stabilise the public sector during a period of rapid state transformation, maintain and increase pro-poor expenditures; and improve the investment climate (including for the rural sector). The World Bank PRSC policy conditionality is based on this set of reforms.

The PRSC is set up as a series of one tranche operations over three-years with the conditions for each being finalised through dialogue on an annual basis.

Fiscal flow

The financing needs of the SDPRP are based on the medium-term financing plan contained in the Government's Macro-Economic and Fiscal Framework (MEFF).

The flow of funds for the PRSC supports the devolution process by adding to the divisible pool of funds for allocation to regional governments. The PRSC would therefore be analogous in Pakistan to the allocation of donor funds through the NFC mechanism.

Donor Harmonisation

Budget support, such as that provided through the PRSC, is prepared by a common donor process through a group called the Donor Assistance Group (DAG). This group is co-chaired by UNDP and the World Bank.

Through the DAG, Ethiopia has agreed on a set of policy triggers and indicators, which are based on the SDPRP policy matrix, for all donors to use in their budget support instruments. Although development partners can select which of the triggers they wish to support, they must come from the single set of triggers agreed through the DAG. Through this process GoE has streamlined conditionality and reduced reporting requirements and parallel missions. Some concern has been expressed over the size of the matrix, however, with around 200 indicators suggested for inclusion by donors.

GoE efforts for greater donor harmonisation have grown out of progress in developing harmonised programmes in three key sectors: health, education and transport. Harmonisation has further benefited from Ethiopia’s inclusion as one of three pilot countries in the Initiative for Harmonisation of Donor Policies, Procedures and Practices. In this context, a High Level Forum for harmonisation has been created and agreement was reached.
in April 2003 between the DAG and the government on a partnership architecture. This includes a harmonisation task force and a secretariat in the Ministry of Finance and Economic Development to support the coordination process.

GoE actively challenges donors to support its policies through DBS, with the State Minister for Finance and Economic Development taking in the lead in this initiative. Several donors are now planning to make multi-annual budget support commitments.

A key objective of donor coordination in Ethiopia is for donors to harmonise procurement, financial management, disbursement and environmental appraisal and implementation procedures and assessments.

**Monitoring**

Monitoring and Evaluation (M&E) relies heavily on GoE systems. M&E arrangements for multi-sector programme and budget support operations are linked with the preparation of Annual Progress Reports (APRs) for the SDPRP and the integration of the existing M&E arrangements for health, education and roads into the overall M&E process.

The “Technical Steering Committee” for SDPRP preparation has become the SDPRP “Implementation Monitoring Committee”. Other (existing) government monitoring arrangements are also being utilised, through the Multilateral and Bilateral Departments of the Ministry of Finance and Economic Development (MoFED) and the use of the Welfare Monitoring Unit (WMU) of MoFED as the secretariat of the Implementation Monitoring Committee.

The Central Statistical Authority (CSA) will play a key role in data collection. The SDPRP progress reports will focus on updating indicators and revising the SDPRP policy matrix. The Government has emphasised the importance of fitting this report into Ethiopia’s annual planning and budgeting calendar. This would enable donor disbursements to be reflected in the Government’s expenditure guidelines to regions, federal public bodies and ministries.

**Fiduciary Risk**

The World Bank’s Country Financial Accountability Assessment (CFAA) rates Ethiopia's financial integrity as 'above average' and notes that fiduciary risk is being managed pragmatically (although the process for this is considered to be ambitious and rapid) through the establishment (by the GoE) of a CFAA Development Action Plan. This is being implemented within the broader context of a Civil Service Reform Program and a Public Service Delivery Capacity Building Program.

**Outstanding Issues**

The example of the PRSC in Ethiopia raises a number of interesting issues which are relevant to the design of a DBS for the education sector in Pakistan. They include the following:

- The World Bank conditions are a sub-set of the GoE’s planned reforms under the SDPRP. Further information on the process for choosing this sub-set and
• for reaching agreement with the GoE would be useful in understanding how a similar process may be developed in Pakistan.
• Further information on how the GoE has estimated the cost of the SDPRP and how these cost estimates have influenced the development of the Government's Macro-Economic and Fiscal Framework (MEFF) would be useful. This would shed light on how the overall size of the PRSC is arrived at and how the PRSC is being used to support the SDPRP.
• The DAG has been the key to the establishment of budget support instruments in Ethiopia. A better understanding of how this group operates and the role of the Government (including regional government officials) would be helpful in understanding how Pakistan might benefit from a similar process.
• It is not clear from available documentation what progress has been made on improving the procurement process. Further information on this would be helpful.
• A better understanding of the specific role the Central Statistical Authority (CSA) in data collection, particularly through existing MIS systems, would be particularly relevant.

Ethiopia – Ireland Aid Direct Budget Support to Tigray Region

Ireland aid funding to Tigray in Ethiopia provides an example of DBS provision direct to the sub-federal (regional) level of a large federal country and presents some useful lessons on how a federal country manages donor interventions at sub-federal levels, not all of which are positive. To understand these lessons it is helpful to know about the flow of resources from the central government to lower tiers of government.

Revenue is mainly collected by the federal government and distributed to regional governments through a non-earmarked block grant (similar to Pakistan’s NFC transfer mechanism).

The formula for revenue sharing for regions is such that all federal and all donor resources (including those provided at the regional level) are included in the regional total (i.e. equivalent to Pakistan’s federal divisible pool). Therefore if region ‘A’ receives funds from a donor, the block grant to region ‘A’ is adjusted downwards to take this into account.

Unlike Pakistan, the Federal Government exerts a great deal of influence over the regions, mainly through the Constitutional requirement that both federal and regional governments follow national strategies, rather than through line management and specific purpose grants. Although sector ministries do not have line authority over regional bureaus, therefore, the formulation of national sector programmes sets policy targets for all levels of government.

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16 Based on information from: ‘Aid Modalities in Ethiopia, Development Cooperation Ireland, (undated).
17 Ethiopia is a federal country. Its second tier of government is Regional Government under which Woreda governments operate.
18 The net increase in resources to region A therefore is marginal, as the donor support funds are effectively shared between all regions.
In this context, Ireland Aid is in the process of establishing a DBS modality at the regional level (in Tigray). The following sections explain how they are doing this and why Tigray region finds this attractive.

**Policy Dialogue and Conditionality**

Ireland Aid is in the process of agreeing with the Regional Government of Tigray, through the Tigray Bureau of Finance and Economic Development (BOFED), a regional policy matrix and set of performance indicators. These policy conditions and performance indicators are drawn from regional level plans. In addition, Ireland Aid will provide funds for capacity building for BOFED, including a three-person advisory unit in the BOFED building to assist in the implementation of the reform programme. The assistance will work wholly within government systems to assist the BOFED in developing and adjusting policy over the years of assistance from Ireland Aid.

**Fiscal flow**

Budget support funds from Ireland Aid to Tigray are not earmarked and will be used to support Tigray’s overall spending. However, these funds will not appear as an addition to Tigray’s budget, as the federal government will accordingly adjust downward their transfers from the centre to Tigray. This represents a serious disincentive for Tigray to accept direct donor resources, as Tigray will receive no additional resources, and they have the additional burden of extra reporting requirements for their donor (Ireland Aid). Moreover, donor resources in general are often less predictable than GoE resources - the conditional nature of aid means that funds may be subject to delays or non-delivery.

Notwithstanding the risk of a full off-set of the funds, as noted above, BOFED will go ahead with the support for three reasons: it genuinely values the relationship with Ireland Aid and the associated capacity building support; the predictability of Ireland Aid’s funds reduces the potential cost of full off-set; and finally, because the federal government has expressed a desire to promote aid resources to the country, there is a feeling in Tigray that all regions have a duty to assist in attracting aid funds into Ethiopia.

It is important to note, that this off-setting feature is not a characteristic of the Pakistan NFC system and the same disincentive effect with regard to direct sub-federal support, therefore, would not exist in Pakistan. Whilst the GoE has tried to address this disincentive aspect of the system, substantial concerns remain.

Discussions are currently underway to establish a multi-donor DBS arrangement at the federal level. The approach that Ireland Aid is taking is based heavily upon the arrangements that are being established for the federal level DBS. This involves: GoE taking the lead in developing a policy matrix based on the SDPRP; mechanisms being established for ex ante discussion of the budget with DBS donors in relation to this policy matrix; systematic reporting of federal and regional expenditures; establishment of programmes for strengthening public expenditure management; etc.
Budget Support to Education in Pakistan

**Donor Harmonisation**

Donor harmonisation is not an issue for this regional level assistance, since Ireland Aid is the only donor offering DBS for this region. It will become so if other donors partner Ireland Aid in Tigray.

**Monitoring**

Monitoring will be carried out at least partly through regular reporting by BOFED of expenditures and performance indicators against the regional policy matrix.

**Fiduciary Risk**

Fiduciary issues at the Tigray region level will be at least partly addressed through capacity building support to the Regional Auditor General.

**Outstanding Issues**

The example of the Ireland Aid DBS to the Tigray region raises a number of interesting issues which are relevant to the design of a sub-federal level DBS in Pakistan. They include the following:

- An understanding of how the regional policy matrix for Tigray relates to national level plans (including the SDPRP) would be particularly relevant, as would the process for determining the content and detail of the policy matrix.
- It would be useful to have an understanding of the links between central government monitoring processes and those employed at the (Tigray) regional level.
- It would be interesting and relevant to know whether the regions have independent fiduciary risk analyses (FRAs) (similar to some of the provincial FRA work in Pakistan).

**Bangladesh – World Bank Sector Adjustment Education Sector Credit**

The World Bank recently proposed the establishment of an education sector adjustment credit for the Government of Bangladesh (GoB). The credit has been designed to operate according to DBS characteristics – i.e. the financial resources are to be transferred direct to the GoB to be expended through GoB financial management systems and be subject to GoB accountability mechanisms. This has been established in the context of an emerging SWAp which has been in place for sometime, and which is being managed by a large ADB.

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funded cell. The credit provides a good example of a DBS instrument set up to support development of the education sector.

**Policy Dialogue and Conditionality**

The credit is intended to assist the Bangladesh Ministry of Education (MoE) in undertaking the first phase of a medium-term reform agenda aimed at addressing systemic governance issues in order to raise the quality and cost-effectiveness of service delivery, and improve equity of access in secondary education.

This is a Government-led reform agenda as laid out in the MOE's medium-term framework which focuses on:

- Increasing accountability of secondary schools both to the government and to the community.
- Enhancing equity in access through targeting of stipends and providing incentives to the private sector to set up institutions in underserved areas.
- Monitoring, Evaluation and Dissemination.
- Improving teachers’ quality through emphasis on teacher recruitment and training.
- Enhancing transparency in textbook production and making curriculum more relevant and demand-driven.

These policy areas have been agreed with the GoB as the intended areas for reform. However, the World Bank credit recognises that years of donor imposed conditions have tended not to yield policy change in Bangladesh. The programme document notes that reforms in the education sector in Bangladesh are complex, politically sensitive and difficult to carry out. As a result, they require ‘a long-term engagement that follows rather than pushes the Government's reform programme’. As a consequence, this credit is based on a set of prior actions, rather than a timetabled policy matrix. When GoB achieves these prior actions, World Bank support is released. This approach allows GoB to pursue its policy objectives through its political process, and thereby ensures that GoB fully owns the policies associated with the World Bank credit.

**Fiscal flow and triggers**

The credit will be disbursed in a single tranche, upon completion of the ‘prior actions’ (see Attachment A). A follow up credit is planned for Financial Year 2005-06 (FY05/06). A further series of prior actions associated with this credit is being agreed. The ‘indicative triggers’ are summarised in Attachment B. Whilst the proposed (first) credit has no further conditionality beyond the prior actions noted in Attachment A, when the two credits are considered together, the proposed prior actions for the second credit may be regarded as additional conditionalities associated with the (combined) credit.
Donor Harmonisation

In early 2003 GoB established a series of joint Government-donor working groups to: address issues of aid governance; identify modifications of government and donor policies, procedures and practices; and improve the efficiency, accountability and transparency of development assistance. The Steering Committee, to which the groups were to report, included membership from the Ministry of Finance, the World Bank and the UN. Three aid governance working groups were set up and have led to the adoption of new policies and procedures. A working group specifically focussed on harmonisation and simplification of project documents is currently underway.

Notwithstanding this progress, survey work by the OECD suggests that only limited harmonisation in the education sector has been achieved to date. One shortcoming is that the Government has not yet established a plan for harmonisation of donor assistance. Most harmonisation efforts are currently donor driven, with government not participating in some local consultative sub-groups.

A new Country Strategy Paper from the ADB, to be completed in early 2005, will build on and synchronise with the PRS. This provides an example of how donors are attempting to pursue greater harmonisation of policies and procedures through improved government systems and procedures, greater use of those systems and procedures and associated capacity building initiatives.

Monitoring

The Ministry of Education (MoE) will place significant emphasis on programme evaluation and monitoring to guide policy. In this regard, the capacity of the Bangladesh Bureau of Education Statistics (BANBEIS) will be enhanced to conduct public expenditure tracking surveys and to undertake an impact evaluation of programmes and policies being undertaken.

The I-PRSP acknowledges that the success of the poverty reduction strategy will require a systematic approach to monitoring and evaluation, and outlines a comprehensive set of input, intermediate, and outcome indicators that will be used to track progress in implementing the poverty reduction strategy. A Poverty Focal Point is envisaged in the Planning Commission for effective poverty and MDG monitoring and tracking progress in implementing anti-poverty policies and programmes, including those to be supported under this credit.

Fiduciary Risk

The findings of the Country Financial Accountability Assessment (CFAA), which apply to all sectors including education, show that fiduciary risk in public spending is high and that significant improvements in public financial management are required. Fiduciary risk is being managed by the GoB mainly through the adoption of a five-year Financial Management Reform Programme (FMRP) supported by DFID and the Netherlands Government.

In addition, as part of the reform agenda, the MoE has agreed with the World Bank on a Financial Management Improvement Plan. The approach by the World Bank is to go ahead
International Experience in Direct Budget Support

with this credit, in spite of the high degree of fiduciary risk, since a credible commitment to improve the administrative, technical and financial systems<sup>20</sup> can be demonstrated.

It is important to note, as with many other examples of DBS around the world, that it is the commitment to improve financial management and accountability systems that is most critical to the decision for proceeding with DBS rather than the current status of those systems.

**Outstanding Issues**

The example of the Bangladesh education sector credit raises a number of interesting issues which are relevant to the design of an education sector DBS in Pakistan. They include the following:

- It would be interesting and relevant for Pakistan to understand how the funds from the credit will be directed through the system.
- It would also be interesting to know more about how the Bangladesh education system is organised and particularly where investment decisions are made (e.g. in Dhaka or at regional levels).
- More information is needed on the extent to which any formal additionality (if any) to the education budget is required under this credit and, if so, how this is designed?

**India – DFID Direct Budget Support in a Low Aid Dependency Environment (Andhra Pradesh)**

India is a low-aid-dependency country with a continuing preference for project assistance rather than DBS. Notwithstanding this, the Government of Andhra Pradesh responded positively to DFID's approach for the provision of DBS. This provides a good example of the rationale for providing DBS in a low aid-dependency environment and the benefits that can accrue.

**Policy Dialogue and Conditionality**

DFID DBS provides the Government of Andhra Pradesh with an opportunity to: protect priority development expenditures during a period of reform; facilitate power sector reform; and help fund other elements of the State’s reform programme that are generating transaction costs. The combined World Bank and DFID GBS assistance represents less than 5% of the Government Budget.

The rationale for the DBS support is to allow the pace of implementation of the government’s reform programme to be increased while protecting priority development expenditures. The main objectives of the reform programme are expected to be achieved by

<sup>20</sup> In addition to the existence of an appropriate sector policy framework.
end 2005/06 – when the DBS is scheduled to cease and to be replaced by domestic fiscal resources that are expected to be released as a result of the reforms.

The flexibility of the GBS allows the Government of Andhra Pradesh to allocate resources between the three main areas of reform which are generating transition costs (power sector restructuring, allocations to priority social sectors and public enterprise restructuring). GBS therefore mitigates the need to resort to unplanned borrowing and/or the build up of arrears during implementation of the reform programme, thereby allowing the Government of Andhra Pradesh to continue to respect its MTBF.

Rigidities in the budget of the Government of Andhra Pradesh (as is the case with Federal and sub-Federal budgets in Pakistan) mean that the Government of Andhra Pradesh Finance Department only has discretion over something like 10% of its annual budget, of which around half goes to power sector subsidies. The GBS therefore effectively doubles the Government of Andhra Pradesh’s scope for discretionary expenditure under its budget. The potential importance of GBS in facilitating the reform programme can therefore be quickly appreciated.

The GBS also provides an opportunity for DFID (and other donors) to provide advice and capacity building support to improve economic management and governance, with potentially wider benefits beyond the immediate scope of the reform programme. This opportunity is likely to be difficult to find otherwise in such a low-aid-dependent environment.

In summary, DFID is providing budget support to the government of Andhra Pradesh to support a set of reforms which will lead to greater macro-economic stability and ultimately greater fiscal space for the GoAP. Owing to rigidities in the budget, GoAP only has discretion over something like 10% of its annual budget around half of which goes to power sector subsidies. DFID Bank GBS will provide GoAP with enough fiscal space to finance the transaction costs of power sector reform, thereby allowing GoAP to maintain its priority development expenditures (as mapped out in the MTBF). GBS will cease in 2006 when the reforms are due to be completed, and when domestic resources will be sufficient to fund priority development plans.

**Vietnam - Poverty Reduction Support Credit for the implementation of the Comprehensive Poverty Reduction and Growth Strategy (CPRGS)**

The World Bank has established a poverty reduction support credit (PRSC) for the Government of Vietnam (GoV). It has been designed to operate according to DBS characteristics. Whilst the Bangladesh credit is in the nature of a Sector Budget Support (SBS) instrument, this credit focuses on wider public expenditure reform objectives as articulated in the Comprehensive Poverty Reduction and Growth Strategy (CPRGS) and is therefore in the nature of a General Budget Support (GBS) instrument. The PRSC provides a good example of the use of judgement in determining progress in policy reforms in relation to triggers established for the release of funds.

**Policy Dialogue and Conditionality**

Rather than focussing on a small number of policy actions, the proposed credit intends to provide across the board support to the CPRGS. One implication of this is a wide
policy dialogue between the GoV and the World Bank with leadership in policy development provided by the GoV through its CPRGS. In turn, the outcome of this dialogue is reflected in the relatively large number of milestones to be reported in each of the three pillars of the reform programme under the CPRGS.

The first PRSC credit (PRSC 1), for US$250 million was approved in June 2001 and was delivered through two tranches to support the objectives of the Interim Poverty Reduction Strategy Paper (I-PRSP). Its focus was mainly on structural reforms, with policies articulated in five main areas (liberalizing trade, reforming SOEs, strengthening the banking sector, improving the environment for the private sector, and improving management and transparency in public finances). PRSC 1 was co-financed by four donors with the equivalent of US$43 million in grants (Denmark, the Netherlands, Sweden and the UK).

The second PRSC credit (PRSC 2), for US$ 100 million was approved in June 2003 and delivered in one tranche and its policy reform focus was considerably broadened to incorporate the creation of modern governance systems and measures related to education and health sectors, environmental sustainability, land management, legal development and public financial management. PRSC 2 was co-financed by three donors with the equivalent of US$31 million in grants (the Netherlands, Denmark and the UK).

The decision to proceed with PRSC 3 was predicated on:

- macroeconomic management remaining prudent;
- satisfactory progress in CPRGS implementation (as determined by the Government's own assessment); and
- the reform triggers outlined during PRSC 2 being accomplished (except for unforeseen circumstances).

The programme document for PRSC 3 notes that trigger assessment points showed satisfactory progress in the second and third pillars of the reform agenda, but uneven progress on the first pillar. The document also notes, however, that these ‘triggers’ are not intended to be strict conditions per se. Rather, evaluation of progress with regard to the triggers is meant to inform the timing and size of PRSC operations. Evaluation therefore involves judgment. The report notes that attainment of all triggers would be considered a strong indication that Vietnam is ready to move to ‘high-case lending’, whilst progress on most triggers (and no backtracking on any of them) would lead in principle to the preparation of the next PRSC operation – but most probably remaining in ‘base-case lending’. Any backtracking could lead to delays in the next operation.

**Donor Harmonisation**

The identification of the policy actions to be supported through the PRSC process has involved consultations with NGOs and the participation of other donors. The four co-financers of PRSC 1 and 2 (Denmark, the Netherlands, Sweden and the UK) have been associated with the preparation of the proposed reform programme from its initial stages. Other donors (the Asian Development Bank, Canada, the European Commission and Japan) are considering supporting PRSC 3 and subsequent operations. These donors have focused on specific area of interest in the policy dialogue with Government.
In preparation for PRSC3, significant resources were devoted to coordination and consultation with co-financiers at an early stage. These proved useful for information sharing and insight and resulted in a common set of sector priorities and timetables.

The co-financiers divided the task of engagement in tripartite meetings with the World Bank and the Government amongst themselves according to their interests and comparative strengths. This has been important in taking the discussions on Government's plans for reforms to a wide group of stakeholders, providing donors with an opportunity to engage in discussions on reform with Government counterparts on an ongoing basis and helping to ensure coherence across donors' programmes.

This credit operates in a relatively sound donor harmonisation environment, largely as a result of the government being proactive in donor harmonisation. There has been a concerted effort for a number of years to develop donor harmonisation strategies, particularly through the Like Minded Donor Group of bilateral donors which, among other things, has established a co-financed harmonisation project to promote new aid instruments and build capacity of key government systems. This has been complemented by efforts, at the request of the Government, by the Japan Bank for International Cooperation, the World Bank and the ADB to develop products for harmonising financial management reporting and common procurement thresholds for national competitive bidding as well as developing a joint portfolio review with the government to reduce transaction costs.

Notwithstanding the leading role of Government in relations with donors, the Government recently decided that a more harmonised approach from the donor community itself was required in terms of interfacing with its own systems and procedures. The Government designated a senior official to lead the dialogue – which both provided authority for the process on the side of the Government and which also provided a strong indication to the donor community of the Government’s intentions in this regard.

A framework for harmonisation has been established by a law governing official development assistance and the Comprehensive Poverty Reduction and Growth Strategy (CPRGS). Benchmarks for progress in harmonisation efforts are provided, in part, through the use of Consultative Group meetings.

**Monitoring**

As with PRSC 3, the decision to prepare PRSC 4 will rest on an assessment of whether the reform agenda remains on track. This will be determined by: the CPRGS Progress Report to be produced by the Government by late 2004; the Joint Staff Assessment by the World Bank and the IMF of this Report; and the evaluation of a set of indicative triggers to be agreed upon with the GoV.

Making such an assessment just one year in advance seems to suggest a lack of predictability for aid resources. Whilst this may be strictly the case to some extent, it is the CPRGS Progress Report which will largely determine the decision to prepare PRSC 4. Since this is Government owned and monitored, the Government should be aware well in advance if reforms are moving off-track, the steps that are required to address this and the likely fiscal impact.
Fiduciary Risk

Vietnam’s fiduciary risk for the PRSC was evaluated through a country financial accountability assessment (CFAA) in 2002. It concluded that the public financial management system compares well to other countries, but still requires improvement. These improvements are set out in the CFAA action plan, which is being implemented as part of the PRSC.

Outstanding Issues

The example of the Vietnam PRSC raises a number of interesting issues which are relevant to DBS design in Pakistan. They include the following:

• How policy “milestones” have been selected and established by the Bank and the GoV and how these differ (if at all) from regular conditions or undertakings.
• As noted above, evaluation of progress with regard to triggers is based on judgement. It would be interesting and relevant to understand better how this is managed and the role the GoV plays.

12. International Experience of DBS\(^{21}\)

The following presents a discussion of international experience of DBS in a range of other countries, focussing in particular on: donor harmonisation; alignment of DBS with the PRS process; the effect of DBS on transaction costs of aid delivery; and the use of policy dialogue and conditionalities in association with DBS.

Donor Harmonisation

There are several examples of improved donor harmonisation associated with DBS. In Burkina Faso the budget support donors are reported as having monthly meetings, although they do not necessarily include the government. The aim for all participants is to have the same disbursement and reporting mechanisms, but by 2003 conditionalities and procedures had not been completely harmonised.

In Ghana, donors appear to be close to sharing the same disbursement mechanisms. Work by the German cooperation agency BMZ noted the establishment of a common donor group and that a policy matrix had been established as the basis for donor disbursements, plus a common accounting system for monitoring disbursements.

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Over the last few years, Malawi has developed a strong budget support donor group which was holding bi-annual reviews and had drafted a Partnership Framework by 2003.

Likewise, a forum for harmonisation around DBS has been established in Mozambique. This has resulted in streamlined conditionality using a common framework and indicators drawn directly from the PRSP and the annual Economic and Social Plan, resulting in: harmonised reporting requirements; measures to increase predictability; joint review missions; and mechanisms for stronger mutual accountability.

**Alignment with the PRS Process**

An important part of the policy dialogue around DBS is the alignment of DBS support with the PRS process.

Vietnam, Burkina Faso, Mozambican and Uganda provide examples of efforts to align donor disbursements with regard to PRSP indicators.

In Rwanda, whilst the rhetoric appears to be one of alignment with the PRSP, there appears to be ‘inconsistency between donors’ programmes, the PRS and budget processes with respect to timing of review and disbursements’

Problems in linking DBS support to the development priorities in Malawi, including:

- no comprehensive data base of financing agreements;
- negotiations outside the budget process;
- signing of agreements without informing the core ministries;
- no information on project execution; and,
- no information sharing between management and budgeting departments.

**Transaction Costs**

Evidence on transaction costs seems to suggest that these can often increase over the short run at least, with the expected lowering of transaction costs through the DBS modality following over the medium term as harmonisation and alignment arrangements become properly embedded. It seems to be the case, therefore, that donors and governments need to be realistic about the process of lowering transaction costs, with the expectation that they may increase over the short run.

Concerns have been raised over the time inputs required for establishing harmonisation and alignment arrangements in Ethiopia and Mozambique.

Evidence in some countries (e.g. Uganda) seems to suggest that part of the increase in transaction costs may result from failure among some of the relevant donor partners to participate appropriately in the cooperation.

Notwithstanding this, donor alignment behind the Poverty Action Fund in Uganda (a government-led initiative) appears to have resulted in a lowering of transaction costs. Whilst Vietnam provides another example of reduced transaction costs from donor harmonisation, it is interesting to note, like Uganda, that the initiative was largely country-driven and was also initially unrelated to budget support.
**Policy Dialogue and Conditionalities**

DBS intends to move away from traditional conditionalities and towards a more productive policy dialogue, with agreed policy actions that are government-owned resulting from this. In practice, these agreed policy actions seem to operate much like traditional conditionalities in some cases, although in other cases progress against agreed policy actions does seem to be addressed more in the form of a policy dialogue.

An example of a traditional conditionality approach is provided by **Mozambique**. The IMF and the World Bank postponed the HIPC decision point until the government put up a credible strategy for addressing a banking crisis, and ten of the budget support donors tied disbursements for 2001 to this.

A further example is provided by **Malawi**, where in 2001 bilateral donors suspended budget support because the country was off track with the IMF programme.

An example of what a movement towards a policy dialogue approach might mean in practice is provided by **Uganda** where the April 2001 Education Review identified a number of serious fiduciary problems. In particular, the education spending of local governments could not be verified since only one out of 106 local governments had submitted accounts. Although one of the key conditions for the support had not been met, the donors realised that the institutional capacity could not have been in place to achieve this, and the review therefore deemed performance under the circumstances as satisfactory.

Notwithstanding this, particular circumstances may still result in a more traditional approach to conditionality. In 2002, donors to Uganda cut-back around $US 30 million of support in response to a surge in military expenditure.

Evidence from **Rwanda** seems to suggest that the traditional use of conditionalities remains embedded in some countries, despite the strong movement towards DBS. The 2002 SPA mission (as quoted in Nilson (2004)) noted that the PRGF specified ‘13 structural conditionalities, with 6 sub-conditionalities and 49 core actions’.

Evidence from **Vietnam** provides an example of how a dialogue approach may be undermined by something as simple as a failure to translate donor documents into the national language, where access to the information may otherwise be difficult.

Whilst enhanced policy dialogue is a key objective of DBS, therefore, the traditional approach to conditionality has far from been relinquished. In many cases, conditionality appears to result from the policy dialogue. In some of these cases, appropriate judgement is applied with regard to performance (as in the Uganda education example) rather than strict adherence to conditions.

It is important to note in addition, however, that whilst conditionality continues to be a feature associated with DBS, the nature of the specific conditionalities employed has been changing. In particular, the literature suggests the focus in many cases to be more on output and outcome indicators rather than input indicators. To the extent that this is the case, it would indeed be consistent with a growing policy dialogue approach (e.g. around the implementation requirements of the PRS process).
Chapter 2: Pakistan Experience in Direct Budget Support

13. Pakistan Experience of Direct Budget Support

Table 1 provides a simple schematic description of the main modalities for delivering donor financial assistance, ranging from the provision of General (Direct) Budget Support (GBS) to the use of project support under systems parallel to those of the government.

<table>
<thead>
<tr>
<th>Aid Form</th>
<th>Conditionality</th>
<th>Earmarking</th>
<th>Accountability</th>
<th>Recent Pakistan Examples</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Budget Support</td>
<td>Macro &amp; Budget</td>
<td>None or nominal</td>
<td>Government systems</td>
<td>World Bank Structural Adjustment Credits (NWFP, Sindh)</td>
</tr>
<tr>
<td>Sector Budget Support</td>
<td>Sectoral</td>
<td>To sector</td>
<td>Government systems</td>
<td>World Bank Education Sector Adjustment Credit (Punjab)</td>
</tr>
<tr>
<td>Sector Earmarked Support</td>
<td>Sectoral</td>
<td>Within sector</td>
<td>Government systems</td>
<td>DFID National Health Facility (Federal Government)</td>
</tr>
<tr>
<td>Projects Using Government Systems</td>
<td>(Sectoral and) Project</td>
<td>Project</td>
<td>Government systems</td>
<td>Various World Bank funded projects</td>
</tr>
<tr>
<td>Projects Using parallel Systems</td>
<td>Limited</td>
<td>Total</td>
<td>Donor</td>
<td></td>
</tr>
</tbody>
</table>

Note: The table presented in Foster and Leavy (2001) includes ‘balance of payments support’ and ‘aid-financed debt relief’ as separate modalities. ‘Balance of payments support’ and ‘general budget support’ are very similar instruments, in that both ultimately provide local currency to the budget. The focus of the former, however, would be on the foreign exchange itself whilst the focus of the later would be on the local currency counterpart to the foreign exchange. ‘Aid financed debt relief’ reduces the future debt service obligations of the government, thereby creating future fiscal space in the same way that general budget support equivalent to the annual reduction of future debt service requirements would.

Adapted from Foster and Leavy (2001).

A further difference is that in the initial use of balance of payments support as an instrument of adjustment lending, specific imports were to be associated with the balance of payments support provided. Over time, particularly with the liberalisation of foreign exchange markets, balance of payments support became associated with general rather than specific imports, and the main focus shifted to policy agreements with governments. In its purest form, balance of payments support places no restrictions on the use of the foreign exchange received other than that counterpart funds flow to the government budget (or that the foreign exchange is used directly to repay foreign debt on behalf of the government). In this case there is little difference in effect between balance of payments support and general budget support.
Pakistan Experience of General Budget Support

Recent examples of GBS in Pakistan include a World Bank Poverty Reduction Support Credit (PRSC) to the Federal Government and World Bank Structural Adjustment Credits (SACs) to the Federal Government and to the provincial governments of NWFP and Sindh.

Fiscal Flows

General Budget Support (GBS) is provided in foreign currency, which is deposited in the Central Bank. The local currency counterpart is credited to the government’s account and is made available to the budget. In principle, the funds can be used to increase spending, reduce borrowing or cut taxes. In practice, GBS is usually associated with an agreed policy framework which includes objectives for spending, borrowing and or revenues.

Under the World Bank SAC to the Federal Government in 2002, $US 500 million was paid by the World Bank into a deposit account which was opened specially for this purpose at the State Bank of Pakistan. The funds were subsequently transferred into the GoP consolidated fund.

Under the World Bank SACs to NWFP (in 2004) and Sindh (in 2002), $US 90 million and $US 100 million were paid respectively into deposit accounts opened specially for this purpose at the SBP. The funds were then paid automatically to the respective Accounts No 1 (Non-Food) for the provinces in the SBP (i.e. to their respective Consolidated fund). It should be noted that the sovereign debt associated with these credits is undertaken by the Federal Government and the funds were therefore on-lent (on IDA terms) by the Federal Government.

Policy Dialogue and Conditionalities

Typically, GBS donors would enter into a policy dialogue with the government and policy conditionalities emerging from the government’s policy framework would be agreed, as discussed in Chapter 1. With GBS, the agreement between the government and the donor would tend to focus on general policy issues, with little or no earmarking of funds to specific expenditures.

The World Bank SAC to the Federal government in 2002, for example, focuses on general policy areas highlighted in the GoP’s Interim Poverty Reduction Strategy (I-PRSP) document (growth; governance; human development; income generation and social protection for the poor). There has been little or no earmarking of funds associated with this credit.

An example of GBS conditionalities at the provincial government level is provided by the prior actions for the NWFP SAC, which include:

- Improving fiscal sustainability and restoring financial accountability.
- Strengthening the accountability and professionalism of state institutions (e.g. revision of District Rules of Business).
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- Accelerating human development (e.g. through education and health).
- Promoting growth and private sector development.

These policy agreements are largely of a general nature, with little or no earmarking of resources, and are typical of those associated with GBS.

**Donor Harmonisation**

As noted in Chapter 1, donor harmonisation in many countries around the world is increasingly taking place around the local PRS process, with leadership and direction for the process being undertaken more and more by the governments concerned. This is increasingly the case also in Pakistan. The focus for donor coordination in relation to both the Federal and provisional Government SACs has been the I-PRSP, although much work remains for donor harmonisation to be fully effective in this regard.

**Monitoring**

As noted in Chapter 1, monitoring and reporting associated with DBS instruments around the world are coming to rely increasingly on government systems. In some cases, additional TA support is provided to improve local monitoring systems to facilitate this process. In many cases, where financial reporting is required, the fiduciary risk assessment of local systems requires reform strategies aimed specifically at improving financial management and reporting systems, and TA support is often provided to assist in this process. This is becoming the case in Pakistan also.

In one sense, monitoring against agreed policy conditionalities for the Federal SAC is not strictly required in that disbursement is made in a single tranche against a series of prior actions. In practice, however, the credit supports Pakistan’s PRS process, for which a preliminary set of monitoring indicators (and intermediate indicators) were defined in the I-PRSP document (and which have been subsequently modified for the full PRSP document). Moreover, monitoring indicators are required for subsequent SAC (or PRSC) credits.

With regard to the provincial SACs, the same comments apply. Monitoring and evaluation arrangements in Sindh, for example, include the tracking of expenditures (e.g. on education), outputs (e.g. trained teachers) and outcomes (e.g. students reported as graduating). A more detailed policy matrix was also established for the Sindh Government to monitor more specific process and intermediate targets reflecting the objectives of the Sindh reform programme.

**Fiduciary Risk**

Fiduciary risk broadly incorporates the risk that funds provided are not used for the purpose intended (whether as a result of fraud or of weakness in policy, planning and
budgeting systems) and the risk that the funds cannot be properly accounted for (as a result of weaknesses in the accounting systems and or auditing process).

In many cases donors will continue to provide DBS when fiduciary risk is estimated to be high, so long as the recipient government demonstrates a credible commitment to improve the associated financial, planning and budgetary systems and has a clear strategy for doing this. Pakistan, where recent estimates of fiduciary risk have been high, has received DBS support over the last several years largely as a result of a clear commitment to improve its financial, planning and budgetary systems.

At the time of credit approval for the World Bank SAC to the Federal Government, for example, the Government was able to demonstrate a clear commitment and strategy (with donor assistance) for an ambitious agenda of public finance management reforms. This was judged to be sufficient to proceed with the credit in spite of the relatively high degree of fiduciary risk.

Similarly the Sindh Government was able to demonstrate a commitment and strategy for financial management reforms consistent with that of the Federal Government at the time of the credit approval for the Sindh SAC.

**Pakistan Experience of Sector Budget Support**

A good recent example of SBS in Pakistan is the Punjab Education Development Policy Credit (PEDPC).

**Fiscal Flows**

Sector Budget Support (SBS) operates in much the same way as GBS in that SBS is provided in foreign currency which is deposited in the Central Bank and the local currency counterpart is credited to the government’s account and made available to the budget. The fiscal flow for the PEDPC is therefore the same as that for the Sindh and NWFP SACs, as noted above.

**Policy Dialogue and Conditionalities**

Although SBS is intended to support a specific sector, the resources are subject to the contestability of the budget process in the same way that funds raised through taxes and borrowing are. The main difference between GBS and SBS lies in the respective conditionalities and their implications for budget allocations. Typically, this would include a commitment to ensure additionality of funds for the sector. In the case of the PEDPC, the government of Punjab has made a medium term commitment to increased education spending. The PEDPC provides additional resources which allow the Government of Punjab to keep to that commitment.

‘Additionality’ may be defined in a variety of ways. Taking the education sector as an example, this might include, for example:

- A simple (nominal or real) increase in resources to the education sector. Or,
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- An allocation of budget resources to the education sector to be a minimum of: (i) the previous years nominal allocation; (ii) an adjustment factor to account for price changes (e.g. GDP deflator, CPI index, etc.); and (iii) the local currency equivalent value of the DBS. Or,

- An allocation of budget resources to the education sector to be a minimum of: (i) the current year’s nominal equivalent of the previous year’s share of non-interest expenditure accounted for by education; and (ii) the local currency equivalent value of the DBS.

It is expenditure that counts. Donors in advanced sector development programmes, for example, would expect a) increased allocation, and b) increased expenditures against those allocated budgets.

The PEDPC aims to support the provincial government’s efforts to enhance service delivery in education through improvements to fiscal management and devolution, as well as the implementation of education sector policies. The prior actions agreed for this credit give an example of SBS conditionalities. These include:

- Medium term budget framework (MTBF) allocations which plan for a minimum 35% increase in real education expenditure.
- A 20% real increase in per student elementary education expenditure in the 2003-04 approved budget.
- The establishment of “terms of partnership” agreements between provincial and district governments to tackle missing facilities identified jointly by provincial and local government.
- Announced free schooling up to matriculation level (10th grade).
- A policy of free textbooks for primary school students, stipends for female middle school students, the implementation of a programme of teacher training.

Subsequent actions required prior to release of the second and third credits include:

- An updated MTBF and approved education budget for 2004-05 showing at least a 15% increase.
- An updated MTBF and approved education budget for 2005-06 showing at least a 12% increase.
- Real provincial non-salary education expenditures increasing by at least 15%.
- Provision of PESRP conditional grants to districts on the basis of both need and performance.
- Free textbooks to reach at least 75% to 80% of students.
- School Councils function in at least 50% of schools.

24 The examples quoted have been selected from 26 separate prior actions which have been completed by the Provincial Government.

25 The examples quoted have been selected from 45 separate actions to be completed by the Provincial Government.
Thus the conditionalities for this credit include specific commitments to increase resources to the education sector, as well as particular policy actions. This does not require an automatic one-for-one additionality of the credit to the sector. Rather, the additionality is to be achieved through the government’s specification of education resource requirements as expressed in its MTBF allocations, subject to the ‘floor’ level of expenditures for the sector specified in the conditionalities for the credit. This has the advantage of utilising and strengthening government financial management and planning systems whilst requiring an ‘appropriate degree of additionality’ for the reform objectives and a means of verifying this through the MTBF.

Notwithstanding the relatively large number of prior actions associated with this credit, a key prior action is the requirement for 35% real increase in resources to the general education sector. This is entirely consistent with the above description of SBS which is based around an agreed policy framework and expenditure plan.

One weakness of provincial level budget support is that it can only influence provincial level financial allocations. Punjab’s overall fiscal space is largely determined by the level of transfer from the federal government to the provinces (determined through the NFC award process). Provincial budget support must accept that it works within the fiscal space offered by the federal government, and hence it does not provide a lever to pressure the Government of Pakistan to provide additional resources for social sector spending at local government levels.

A number of the prior actions are prescriptive and include a degree of earmarking (e.g. the requirement for a 38% real increase in per student elementary education expenditures in 2003-04). The inputs to be delivered as part of the PESRC have been designed to test and use the governance reforms in the other pillars of the PESRC. The political need to see that these inputs are delivered efficiently means the Government has pressed forward on initiatives to improve the governance environment.

**Donor Harmonisation**

The PEDPC is achieving donor harmonisation by drawing together streams from different programmes. The Government of Punjab is pursuing a programme of general governance reforms through the Public Resource Management Programme. The objectives of this programme underpin the governance, devolution and financial management changes of the PEDPC. Donors which are coming into Punjab to support the education sector are increasingly doing so within the Punjab Education Sector Reform programme.

**Monitoring**

As with the SACs discussed in Section on lessons from Pakistan experience, monitoring against agreed policy conditionalities for PEDPC is not strictly required in that disbursement is made in a single tranche against a series of prior actions. Having noted that, the same comments in Section on Fiscal Flows regarding the monitoring of the PRS process apply to the monitoring of the PEDPC. There are differences in the monitoring of the PEDPC, however, because of the use of conditional grants. In particular, the performance
element of this grant requires that the provincial government monitors district performance in delivering against the terms of partnership agreements.

A Programme Monitoring and Implementation Unit (PMIU) was established to provide overall coordination and facilitation of the ESR programme in Punjab, with responsibility for monitoring information on expenditures outputs and outcomes. The idea was for the PMIU to produce an annual monitoring report and benchmarks for a set of key indicators and benchmarks, including for use as triggers for future financing. It should be noted that indicators have been established with participation by district governments.

Given the importance of the Education Management Information System (EMIS) in preparing information for monitoring indicators, the PMIU has assisted in strengthening the EMIS in collaboration with the district governments. Monitoring of education indicators, for the second tranche of PEDPC will also draw on information from the CWIQ survey being carried out under the PRSP.

Independent third party surveys would also be commissioned by the Government for specific monitoring issues (e.g. teacher absenteeism; timely availability of teaching materials; etc.). The commitment of both the Punjab Government as well as the World Bank to assess and understand the strengths and weakness of this development programme has led to significant improvements in sector monitoring and reporting in a wide range of fields.

It should also be noted that while the monitoring indicators for the PRSP and the PEDPC are similar, there does not yet appear to be a formal or explicit link between the two set of indicators.

**Fiduciary Risk**

Notwithstanding the relatively high estimates of fiduciary risk (now reduced in the second credit), the credit has proceeded partly as a result of the credible commitment to financial management reforms demonstrated by the GoP in general and partly as a result of the specific actions that have been undertaken by the provincial and district governments in Punjab.

**Pakistan Experience of Sector Earmarked Budget Support**

Sector Earmarked Budget Support (SEBS) is similar to SBS, with a greater degree of earmarking for agreed policy objectives. As with GBS and SBS, the local currency equivalent of the foreign currency is credited to the consolidated fund and becomes subject to the contestability of the budget process. Government systems are utilised fully to ensure that resources are used according to an agreed policy framework and expenditure plan.

DBS provided under the National Health Facility (NHF) by DFID is the most relevant example of SEBS in Pakistan. The aim of the NHF is to improve access to good quality public health services, especially by the poor, by providing DFID (and additional GoP)
resources to seven vertical health and population programmes which are planned for and funded from the Federal Government.\(^{26}\)

**Fiscal Flows**

The NHF is designed to operate over a four year period and to provide £60m in financial aid (through eight six-monthly tranches of £7.5m). Consistent with the mechanisms described in the lessons Section, DBS funds under the NHF are provided in sterling and the local currency counterpart is transferred to the Consolidated Fund. The State Bank of Pakistan (SBP) and GoP are required to provide evidence of this process which is subject to external audit in line with UK National Audit Office guidelines. Once in the Consolidated Fund, monitoring relies on the regular GoP reporting and audit systems. GoP funds (including NHF funds) are allocated to the seven programmes of the NHF through the regular budget process.

**Policy Dialogue and Conditionality**

The NHF responds specifically to the GoP’s objectives as set out in the PRSP which focuses on: (i) raising public sector health expenditures; (ii) a move from curative to preventive healthcare; (iii) prioritising communicable disease control, reproductive health, child health and nutritional deficiencies; and (iv) effective public private networks of care.

The NHF aims to generate both additional government spending and higher quality outcomes. It recognises that a major impediment to achieving these is the underlying weaknesses in existing systems and procedures for policy formulation, planning and budget management. A key aim therefore, aside from the provision of additional funds, is to strengthen and improve systems and procedures such that they are able to generate improved policy objectives, programme designs and associated budget management. This is to be achieved partly by routing NHF funds through these systems and partly through a complementary TA support programme.

A further objective is for increased levels of expenditure to be sustained after the NHF facility has come to a close. By placing the DBS resources in the consolidated fund and making them subject to the contestability of the budget process, the Government itself is required to develop a policy framework for pro-poor service delivery. Once the DBS period draws to a close, a key objective is for the Government to own the policy framework that has been associated with the DBS such that GoP resources continue to flow to the same priority areas after the DBS has ended.

The TA programme associated with the NHF is managed by a Technical Assistance Management Agency (TAMA) which has been contracted to a consortium of international and local companies with expertise in health and population welfare issues. The role of the TAMA is not to provide consulting inputs directly, but to assist the GoP in identifying and defining: issues to be addressed; the best technical solutions; and TA inputs. The TAMA also assists the GoP with sourcing, managing and monitoring consultants.

\(^{26}\) Population Welfare Programme, the Lady Health Worker Programme, National Tuberculosis Programme, Expanded Programme of Immunisation, National AIDS Control Programme, National Malaria Programme and the Nutrition Programme.
The NHF effectively requires full additionality of the DBS funds. The prior agreement for release of the first tranche was for the total FY 2003-04 federal government budget allocation to the seven programmes to be at least equivalent to the corresponding FY 2002-03 allocation plus nominal GDP growth plus the rupee equivalent of the first tranche. The prior agreement not only involved full additionality to the federally-funded component of the health sector, but for this to be earmarked to the seven primary health and population welfare programmes.

**Donor Harmonisation**

The design of the NHF was discussed with other donors during the appraisal stage. During implementation, donor coordination occurs through wide donor (and GoP) participation in a six-monthly review process.

In addition, USAID is developing a complementary package of technical assistance to support provincial and district authorities involved with implementation of the seven federal programmes.

**Monitoring**

The NHF monitoring process relies largely on information generated from GoP financial and management systems. Disbursements are subject to six-monthly joint reviews of policy, process and planning commitments which monitor progress against a project logframe and which agree new commitments for subsequent tranches. The reviews also monitor fiduciary risk issues as well as the progress of the complementary TA support.

**Fiduciary Risk**

Given that a substantial component of the monitoring framework for DBS comprises GoP reporting and audit systems, particular attention is paid to fiduciary risk issues. Fiduciary risk for the NHF, of course, involves systems and procedures beyond those of the health sector per se and includes accounting, audit, planning, procurement and financial management systems at the central level as well as at the health sector level.

Although the level of fiduciary risk was estimated to be high at the start of the NHF, DFID was prepared to go ahead with DBS in conjunction with: a thorough evaluation of public financial management and accountability systems, and associated risks; and a credible GoP programme to improve standards of these systems.

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27 The Joint Review process includes direct participation from the Government, DFID and other donor partners with interest in and or connection to the activities of the NHF programmes. Assessment of performance against agreed commitments in particular is a joint activity, with a major role played in this by the GoP participants.

28 In addition, DFID requires that: the potential development benefits justify the risk, taking account of any safeguards that can be put in place to buttress and develop these systems; and these assessments are explicitly recorded as part of the decision making process to provide assistance.
Pakistan Experience of Projects Using Government Systems

Providing aid through the delivery of projects represents a particular kind of earmarking where the use of resources associated with specific outputs is clearly defined. Government systems are often used to disburse and account for project resources. In practice, however, projects usually require statements of expenditure and project accounts in addition to those provided by Government systems. This is often required to satisfy the donor’s own procedures and to provide additional safeguards in environments where fiduciary risk may be unacceptably high. It does little or nothing, however, to support, develop or improve government systems. Moreover, the attraction of qualified and experienced staff away from Government employment to project implementation units may substantially undermine the capacity of Government systems.

Pakistan has a great deal of experience of projects using government systems (e.g. the ADB’s Decentralised Elementary Education Programme (Sindh)). Given the DBS focus of this document, however, it is not proposed to go further into such project experience.

Pakistan Experience of Projects Using Parallel Systems

Projects using parallel systems occur where the donor takes the lead in project design and appraisal and employs disbursement and accountability procedures that by-pass those of the government.

Pakistan has experience of projects using parallel systems (e.g. USAID’s Education Sector Reform Assistance Programme). Given the DBS focus of this document, however, it is not proposed to go further into such project experience.

14. Lessons from Pakistan Experience of DBS

As described in the lessons from Pakistan, Pakistan has recent experience of DBS, with DBS instruments operating at both the Federal and the Provincial Government levels. This includes DBS delivered through loan instruments from multilateral partners (World Bank and Asian Development Bank) and through grant instruments from bilateral partners (DFID). In conjunction with the lessons to be learned from international experience of DBS, as presented in Chapter 1, provides a good source of information to assist in the design of a potential DBS instrument for the education sector.

Fiscal Flows

All of the DBS instruments reviewed have very similar mechanisms for moving donor funds to the point of service delivery. In each case, the donor foreign currency is paid into a special account created for the purpose in the SBP. The foreign currency is then converted into Rupees and transferred to the relevant consolidated fund.
Using Government Systems

In the case of DBS to the Federal Government (Federal SAC; NHF), the Rupees were transferred to the Federal Government consolidated fund. From this point onwards, DBS resources effectively become indistinguishable from other consolidated fund resources (e.g. those raised through taxation). DBS resources therefore flowed from the consolidated fund to the point of service delivery (e.g. at the district level) through regular government channels.

In the case of DBS to the provincial governments (Sindh and NWFP SACs; Punjab PEDPC), the Rupees were transferred from the SBP to Account 1 of the respective provincial government (i.e. to the provincial governments’ respective consolidated funds). In each of these cases, the DBS resulted from a loan agreement and the sovereign debt was undertaken by the Federal Government. The DBS funds were therefore on-lent to the provincial governments (on IDA terms). Once in the respective Account 1, the DBS funds are effectively indistinguishable from other provincial consolidated fund resources (e.g. those received through the NFC award). DBS resources therefore flowed from the provincial consolidated fund to the point of service delivery (at both the district and provincial levels) through regular government channels.

As noted in both Chapter 1 and the Lessons from Pakistan Section above, a key characteristic of DBS is the use of government systems to budget, transfer and disburse DBS resources, to account for DBS and to carry out audit activities with regard its use. The examples reviewed show that this has been a central characteristic of DBS in Pakistan.

This characteristic of DBS is important, as it provides both the donor and the GoP with a strong incentive to improve existing GoP systems and procedures. An underlying reason for this is to minimise fiduciary risk, in particular to ensure that the resources provided are (effectively) used to deliver the policies intended. The GoP and the donor have a shared objective in this regard. Donors will usually require some assurance that fiduciary risk is being addressed to enable the delivery of DBS in the first place. The GoP wishes to reduce fiduciary risk to increase the productivity of GoP expenditures – and thereby to achieve relatively more with the scarce resources available.

As government systems and procedures improve, not only do DBS resources become more productive but the much greater volume of funds from other sources (taxation etc.) become more productive also – an important underlying objective of delivering donor funds through DBS.

Further opportunities that have yet to be taken full advantage of with regard to DBS include regularising the fiscal flow process (providing lower tiers of government with greater fiscal predictability) with regard to non-PFC resource flows, simplifying the budget process and ensuring fungibility in resources, (thereby encouraging more sector wide planning at local government level).

Choosing an Appropriate ‘Entry Point’

The Pakistan experience shows that, while the flow of funds for provincial governments must include the Federal level (undertaking the sovereign debt; on-lending to provincial governments; the involvement of the SBP; etc.), the ‘entry point’ (i.e. the consolidated fund to which the DBS funds will flow) can be either at the Federal level or the provincial level. The choice of ‘entry’ in this regard depends, more than anything else, on the
nature of the policies which the DBS intends to support and the functional responsibility for addressing those policies.

Where the policies are national in nature (e.g. government-wide reform), using the Federal Government as the entry level seems to make sense, as with the Federal Government SAC. Where service delivery takes place at sub-federal levels but where the responsibility for planning and allocating funds resides with the Federal Government it also seems to make sense to use the Federal Government as the entry point, as in the case of the NHF.

Where the policies and the associated functional responsibilities are sub-federal in nature, however, using the provincial governments as the entry point seems to make sense. This would include, for example, province-specific (general) reform programmes, such as those supported through the NWFP and Sindh SACs.

It would also make sense to use the provincial government as the entry point where the DBS intends to support key components of a national reform programme for which the principal functional responsibility lies at the sub-federal level. This would include, for example, pursuing the achievement of PRSP and ESR policy objectives in the Punjab through the PEDPC.

Sub-Federal ‘Entry Points’ – Provincial or District

In a fiscal-federal system such as that operating in Pakistan, it is especially important within any given sector to establish a good understanding of the policies, budget planning and expenditure activities at each level of government to ensure that these can be appropriately complemented by policy and planning at other levels. If there are significant weaknesses in the information base for this, there is a risk of duplication and misalignment of policies and expenditures.

In Pakistan a uniform accounting system operates which includes both the federal and sub-federal levels. Moreover, the government introduced measures in December 2002 to ensure donor assistance is recorded through this system. Despite these arrangements, some projects/NGOs, particularly in the education sector, continue to receive resources directly from donor agencies and the corresponding expenditure largely by-passes the GoP financial management systems. Some donor agencies apparently continue delivering funds through Personal Ledger Accounts (PLAs), which are particularly difficult to incorporate properly in budget planning and reporting.

Under devolution some donor agencies also prefer to deal directly with the districts. Whilst such direct district mechanisms may deliver funds quickly to the point of expenditure, they often do not conform to the existing regulations, as all external assistance is primarily the responsibility of the federal government. One reason for this is that capacity has still to be developed under the devolved systems for incorporating such funds properly into budget planning, accounting and reporting systems. Whilst direct disbursement to the district level may be tracked by donor systems, budgeting and accounting capacities at the district level need significant enhancements to enable the proper capture of such funds in GoP planning and reporting systems.\textsuperscript{29}

\textsuperscript{29} It should be noted, however, that a range of funding lines from the provincial and federal governments (e.g. the president’s fund, the federal ESR project, MPA and MNA funds, as well as a
Whilst direct disbursement of DBS to the district level would work in principle (e.g. flow of funds direct from the SBP to Account 4 for the respective districts) and would respond well (in theory) to the principles of devolution, current experience seems to show that capacities (institutional and human resource) would need to be significantly enhanced first. Once this has been achieved, direct disbursement to the district level may be a viable option. (It should be noted, however, that province and the federation capacities for planning and management of resources to facilities may not be substantially greater than that of districts. The fundamental problem with DBS to districts is that districts are not necessarily in full control of planning the development of services and policy based conditions could not, therefore, be used as triggers for districts.)

Even once this has been achieved, however, strong arguments for disbursement via the provincial level would remain. Foremost among these would be the argument that the Provincial Finance Commission (PFC) mechanism is perhaps the most appropriate vehicle for disbursing DBS to districts. This argument would be entirely consistent with the view that the PFC mechanism (and the NFC mechanism also) is nothing more and nothing less than a means of providing DBS from higher levels of government to the district level. The example of Ireland Aid’s DBS support to the Tigray region of Ethiopia is particularly pertinent in this regard. In the case of Ethiopia, whilst DBS is effectively supplied direct from the donor to the region, the federal grant to the region (i.e. the Ethiopian equivalent of the NFC award) is reduced by an equivalent amount. Thus, the federal grant is effectively regarded as Federal Government of Ethiopia DBS to the regional level.

Disbursing DBS to districts through the PFC would constitute an appropriate vehicle for ensuring that equity considerations are taken properly into account (between districts). It would also be an appropriate vehicle through which incentives may be created for developing a province-wide sector reform programme (e.g. in education), whereby districts would retain the freedom to deploy resources as they see fit but where, for example, particular reform efforts in accordance with province (or national) objectives and standards are ‘rewarded’. This takes the discussion, of course, into the much broader realm of the design of devolved government funding mechanisms. Whilst this is beyond the scope of the current exercise, it is important to acknowledge that the design of a DBS mechanism for the education sector cannot be entirely divorced from these issues.

A further consideration to take into account in determining an appropriate entry level for DBS to the education sector is the fact that both provincial and district governments have function responsibility for key aspects of the education system. This would imply that a province-wide reform programme for education would need to take into account both the provincial and the district funding requirements. Under these circumstances, disbursing DBS through the provincial level (for expenditure, along with GoP resources, at both the provincial and district levels) would be appropriate for the education sector.

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number of provincial level funds which are earmarked for particular expenditures) already operate in this way and are therefore subject to the problems and constraints associated with donor disbursement to the district level.

30 The ‘off-set’ reduction is actually slightly less than the amount of donor DBS received in that the donor funds increase the aggregate grant payable to all regions – i.e. the donor funds are effectively shared between all regions and the Tigray region therefore receives a net increase in resources equivalent to its share of the increase in the aggregate grant.
Policy Dialogue and Conditionality

Over the last several years, the GoP has been in the process of developing policies for the achievement of growth and the eradication of poverty. These have been encapsulated at the national level in the PRSP document and in documentation for a number of related policy tools, such as the Education Sector Reform programme.

As noted in Chapter 1, there has been a growing realisation among donors that the traditional approach to policy conditionalities (i.e. ‘buying reforms’ through donor support and a donor-driven conditionality process) has been ineffective. Experience has shown that where the traditional approach has been effective, in the sense that sustainable reforms have followed, this has usually been in situations where a political commitment has already existed to move forward with the kind of reforms that have come to be associated with conditionalities.

This emphasises the importance of supporting home-grown policy reforms that have been specifically designed by the GoP for the Pakistan environment. There is a growing realisation in the Pakistan donor community that sustainable achievements in poverty reduction, education, health, and so on will only really be achieved through policies that are developed through the GoP in response to priorities that are perceived by the GoP.

The DBS examples above underline this. Whether the DBS has been provided at the Federal level or the provincial level, whether it has been provided by a multilateral donor or a bilateral donor, each of the examples presented have been designed to support policies which have been developed by the GoP and which have been presented in GoP policy documents (e.g. the PRSP; ESR; etc.).

Likewise, by virtue of the fact that each of the DBS instruments seeks to support GoP policies, the Government, by definition, takes the lead in the policy dialogue process. This does not mean to say that the donors themselves have nothing to say about the nature of the policies which are to be supported through the GoP reform programmes. Support for the preparation of the PRSP, for example has been provided by many of the members of the donor community.

It also does not mean to say that the donors have nothing to offer in the dialogue process with regard to further refining GoP policy objectives or with regard to transforming GoP policy objectives into appropriate and realistic budget allocations and expenditure activities. The ongoing policy dialogue for the NHF, for example, requires the main donor (DFID) and other key donor partners working in the health sector to engage in a regular review process with the GoP, during which the policies, budget requirements, institutional capacities, expenditure performance, etc. of the seven vertical programmes are reviewed and targets modified accordingly.

All DBS instruments reviewed, however, have in common a clear aim to support key GoP policies and to build this support around existing policy documents. All enter into a policy dialogue process which is focused around these key policies. Conditionalities have been developed in all cases which are drawn from these policies. In some cases the conditionalities have been detailed and prescriptive. Although much of this detail may not have been drawn directly from the GoP policy documents, to a large extent, it represents one component of an implementation framework for the key GoP policies.
Budget Support to Education in Pakistan

DBS for the education sector would therefore be expected to support key GoP policies for education and would be expected to focus on meeting key targets as expressed in the PRSP, ESR, EFA etc. The dialogue process would therefore need to focus largely on the requirements for transforming the policy vision (from the PRSP, ESR, etc.) into realisable education service delivery objectives (improved quality and enhanced access in particular). This would involve the establishment of national policy goals (which can be set and monitored at the federal level), and sector development strategies (which include explicit policy instruments for funding, capacity building, restructuring (especially civil service cadres etc.) and establishing new legal mandates. The donors’ main interest in this regard would be to work with governments which have responsibility for the formulation and delivery of strategy.

**Donor harmonisation processes**

DBS experience in Pakistan shows that donor harmonisation is increasingly taking place around reform processes which have been developed by the GoP and by provincial governments. At the federal level the PRSP is the foremost among these. At the provincial level, Punjab is showing signs of an emerging focus for education sector development around the PESRP. In Sindh, something similar is happening around the ADB’s Devolved Social Services Programme. In NWFP, the government has used its Provincial Reform Programme, which while developed under the previous government is now owned by the current government. Nowhere has the government settled into what could be called a well established donor process, but progress is being made to establish policy instruments (sometimes with assistance from development partners) which allow the government to take the leadership for both sector and cross sector reform processes.

The experience of both the Punjab PEDPC and the Federal NHF are pertinent in this regard. With regard to the former, the number of donors considering working in Punjab means that donor harmonisation is particularly important. As noted earlier, information on planned support initiatives is shared among donor partners and is facilitated through donor dialogue with the Government of the Punjab. This has resulted in key donor assistance becoming complementary in a number of areas including the Punjab PEDPC (World Bank) and PRMP (ADB) credits.

With regard to the NHF, donor harmonisation activities included discussions with key donors working in the health sector over the potential design of the NHF and how this might influence future needs and future inputs from donor partners. Many of the benefits of this approach of involving donor partners at the design stage will, by definition, not be visible (e.g. where the potential for duplication or misalignment of other donor support has been avoided).

The NHF design stage perceived the need for TA to improve systems and procedures to make DBS (and other GoP resources to the NHF programmes) effective. Involving other donors in these discussions resulted in USAID committing to provide $8 million of TA assistance to the Technical Assistance Management Agency (TAMA) to provide capacity building support for the NHF programmes at the district level.

The example of the NHF also illustrates the importance of continued donor harmonisation during the implementation stage of DBS. In the case of the NHF, this involves regular joint reviews of the NHF which are jointly led by the GoP and DFID and which other
donor partners with interest in the health sector participate in. This has been important in informing the on-going policy dialogue between DFID and the GoP (and other donor partners) and in improving the design of the implementation framework for the seven NHF programmes.

**Monitoring**

Pakistan’s recent experience of monitoring associated with DBS is largely focussed on GoP’s existing monitoring systems. Where these monitoring systems are understood to be weak (whether for financial or non-financial indicators), the approach has largely been to support improvements to the existing systems rather than to create entirely new systems which by-pass them – although complementary assessment mechanisms have sometimes been used whilst measures to improve existing systems have been in process.

**Monitoring Under Recent DBS Instruments**

For most of the recent DBS experience in Pakistan, the monitoring systems have been based on indicators from key policy tools such as the PRSP and the ESR. Institutional arrangements for monitoring have largely been based on those already established in the GoP or which have been specially established for this purpose within the GoP. This constitutes an important departure from the Multi-Donor Support Unit (MSU) arrangement under the Social Action Programme.

Arrangements for monitoring the Sindh SAC provide a good example of this, whereby a detailed policy matrix was established (by the Sindh Government) and responsibility for monitoring specific components of this matrix was allocated to a range of Sindh Government institutions and where an inter-ministerial committee was established to provide overall monitoring guidance and ensure implementation.

Having noted this, a Programme Monitoring and Implementation Unit (PMIU) has been established to provide overall coordination and facilitation of the ESR programme in Punjab. This approach would appear to be partly in response to the weaknesses identified in the education monitoring system. It should be noted that an important objective of the PMIU is to improve existing Punjab Government reporting systems, including the Punjab EMIS, and it is expected that most of the monitoring functions established as part of this programme will be transferred to the DoE during the life of the programme.

The NHF provides an example from recent Pakistan DBS experience whereby regular joint donor and GoP reviews monitor progress against a project logframe and which agree new commitments for subsequent DBS disbursement based partly on this monitoring process.

An important lesson from the Pakistan experience of the NHF is that the review process can be resource-intensive – a finding which confirms the conclusion in Chapter 1 that the transaction costs of DBS may actually increase over the short term whilst the DBS process becomes bedded down, even though transaction costs can be expected to fall over the medium to long term.

Monitoring for an education sector DBS could also expect to be based at least partly on existing GoP systems, although it is likely also to be the case that the DBS design would
need to incorporate TA support aimed specifically at improving those systems where they are shown to be weak (see below). Complementary (and temporary) independent monitoring arrangements (e.g. through the use of survey instruments) may be required whilst capacity is improved in some parts of the existing monitoring systems.

An important issue with regard to the education system is that, whilst broad policy targets (e.g. in the PRSP and ESR) are reasonably clear, the implementation framework to achieve those targets requires much more work. As with the NHF, this will undoubtedly require the on-going diagnosis and development of implementation arrangements and the modification of those arrangements on receipt of new information relating to them. This suggests that an on-going joint review process may be useful whereby monitoring feeds into the information base for the design of implementation arrangements for specific policies.

**GoP Education Monitoring Systems**

A range of monitoring indicators has been developed over recent years for the education sector. Common indicators for monitoring the PRSP/ESR include: number of functional schools (primary and middle and secondary schools); percentage of schools with buildings, sanitary facilities, water supply, electricity and boundary walls (primary and middle schools); percentage of sanctioned staff strength filled (primary and middle schools); percentage of trained teachers (primary and middle schools separately); percentage of teachers present (primary and middle schools). The literacy rate is to be used to measure the final impact of the PRSP/ESR.

The PRSP targets have still to be properly translated into province-specific targets. The ESR, however, is target oriented with measurable outcomes identified for each province. However the extent to which provincial governments have bought into this is not clear and the emphasis on outcome targets may not be helpful at this stage.

The main source for measuring the education indicators of the PRSP/ESR are the data generated by the National Education Management Information System (NEMIS), and the Pakistan Integrated Household Survey (PIHS) of the Federal Bureau of Statistics.

The NEMIS consolidates annual school census data provided by provincial EMIS units. The data collection process is fairly standardised but there is considerable variation in the quality of the completed questionnaires and the manner in which data is reported. The PIHS collects information on enrolment and outcomes for all types of schools, both public and private.

Whilst the NEMIS contains important information on a range of intermediate and output indicators, there are some important weaknesses in the system. There is no information about the private sector in the NEMIS, for example, including NGO-run non-formal schools. With regard to the dropout rate, NEMIS data does take into account the children who leave but register at other schools. Moreover, there is a significant difference between the data generated through the NEMIS and the PIHS respectively on gross enrolment and student dropout rates.

Part of the reason for the weaknesses in the NEMIS is that EMIS and ESR units which have been established in the education offices of some districts lack sufficiently trained and experienced staff. Since the devolution process began, their duties and responsibilities have increased considerably putting further pressure on an already weak system.
Pakistan Experience in Direct Budget Support

Whilst the EMIS has been established to provide information in support of the Education Departments at different levels of government (including management, planning and decision-making), its use has been minimal for monitoring purposes at the lower levels of government. Also, whilst the Provincial Bureaux of Statistics use EMIS data in their annual publication on the development statistics of each province, little meaningful analysis has been carried out for the purposes of policy or planning.

It should be noted that current monitoring indicators do not measure the results of the quality focus of the ESR (e.g. in-service teacher training and teacher assessment). This, to a certain extent, can be explained by the complexity of using quality indicators that require substantive and costly efforts to design appropriate monitoring systems. A DBS to the education sector therefore needs to incorporate some notion of performance monitoring to complement quantitative and financial indicators. It should be noted that a National Education Assessment System has been established to measure quality (through evaluating and assessing students’ learning achievements).

Design of a DBS for the education sector would therefore need to take each of the above weaknesses carefully into account. Clearly, an important part of the long-term solution is to improve the capacities for data collection from the lowest level for the NEMIS and for the consolidation and use of NEMIS data. TA support which complements an education DBS will probably be required for this. In the meantime, some use of complementary monitoring tools may be required and the design of a DBS for the education sector would need to take into account what tools may be used in this regard and how they should be applied to complement NEMIS data.

Having noted the above, it is important to recognise that there are fundamental incentive problems with regard to the current monitoring system that constrain the production of good quality data. In particular, the main custodian of the data (the federal government) is not the main user of the data for policy and planning purposes. Provinces and districts have the main stake in this regard.

**Fiduciary risk**

Recent analyses of fiduciary risk associated with the design of DBS instruments in Pakistan have tended to estimate the level of risk to be high. It should be noted, however, that the GoP’s strong commitment to a broad based reform programme (including financial management reforms) has begun to pay dividends. DFID’s recent revision of its estimate of fiduciary risk in Pakistan from ‘high’ to ‘medium’ is a good example of this.

Donors will often provide DBS when fiduciary risk is estimated to be high, so long as the risks are well understood and the recipient government demonstrates a credible commitment to improve the associated financial, planning and budgetary systems and has a clear strategy for doing so. Perhaps the most important lesson from the Pakistan experience of DBS, therefore, is the central importance of the GoP’s commitment to its reform programme in determining the donors’ response to estimates of fiduciary risk.

This has clearly been the case in Pakistan. It is interesting to note that donors would probably be less inclined to provide DBS in a circumstance where the initial level of risk was relatively lower but where deterioration was evident.

As with the Pakistan experience of DBS to the health sector (i.e. the NHF), fiduciary risk for an education sector DBS, would involve systems and procedures beyond those of the
education sector and would include accounting, audit, planning, procurement and financial management systems as well as at the education-specific management issues.

The GoP has already demonstrated commitment to improve general policy, planning, budgeting and financial management systems and it is unlikely that this would be an impediment to an education sector DBS. Notwithstanding this, the design of a DBS for the education sector would undoubtedly require a brief fiduciary risk analysis to confirm that this commitment remains on course (which would draw on some of the recent and very relevant work carried out by the World Bank, IMF and DFID).

In addition, the design of a DBS for the education sector would also undoubtedly need to examine some education-specific fiduciary issues (e.g. whether the costing framework for major policy initiatives in the PRSP and ESR is realistic and what would be required to improve this; which particular capacity building initiatives would need to be addressed as a matter of urgency to ensure that devolution initiatives are an opportunity rather than a risk to achieving education sector objectives; etc.).

If the entry point for DBS turns out to be one or more provincial governments, then one or more province-specific fiduciary risk assessments would probably be required. The main reason for this is that much of the existing fiduciary risk assessment work to date has been carried out at the national level, incorporating federal systems and those systems that run through all tiers of government. It remains the case that particular provinces will have outstanding reform requirements and capacity building needs in addition to those identified through national fiduciary risk assessments. This would be important in ensuring, where required, that provincial governments can demonstrate a commitment and an agenda for managing province-specific fiduciary risk and in ensuring that any TA complementary to the DBS appropriately addresses the key fiduciary risk requirements. The very recent fiduciary risk assessment carried out by DFID for Punjab would serve as a good model for similar assessments in other provinces.
Chapter 3: Major Issues for Education Budget Support in Pakistan

15. Education Sector Policy Issues

The Government of Pakistan (GoP) recognises education as a fundamental right and is committed to providing access to every citizen. However, education institutions are currently under resourced and GoP expenditures have been insufficient to address critical quality and access issues. GoP and the donor community are beginning to recognise the extent of this under-funding and ways are currently being explored for increasing funding to the sector.

Table 2: National education expenditure as percentage of GDP

<table>
<thead>
<tr>
<th>Year</th>
<th>% of GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>1997-98</td>
<td>1.8</td>
</tr>
<tr>
<td>1998-99</td>
<td>1.7</td>
</tr>
<tr>
<td>1999-00</td>
<td>1.7</td>
</tr>
<tr>
<td>2000-01</td>
<td>1.7</td>
</tr>
<tr>
<td>2001-02</td>
<td>1.8</td>
</tr>
<tr>
<td>2002-03</td>
<td>1.9</td>
</tr>
</tbody>
</table>

Source: Economic Survey 2003-04, Finance Department, Ministry of Finance, GOP.

At present, the elementary education sub-sector faces a series of problems culminating in low access (particularly for girls) and poor quality. Low access occurs through both supply and demand problems. On the supply side, there are insufficient school buildings and materials (blackboards, chalk, etc.) and a shortage of teachers, (especially local female teachers in rural areas). On the demand side some parents do not value education sufficiently highly to send their children (particularly girls) to school, whilst other parents make an economic choice not to send children to school because of the direct cost (fees, uniforms, etc.) and/or the opportunity cost (e.g. loss of children’s working time). Low access also occurs more where the quality of education services offered is low.

Quality of service directly influences education outputs (e.g. completion rates) and outcomes (e.g. numeracy and literacy). Associated quality problems result from a range of factors including: the absence of important teaching aids and instructional materials; insufficient teachers; and poor teacher training and professional development.

Poor access and quality indicators result from inter alia:

- inadequate budgets for instruction materials, appropriate maintenance of facilities, etc.;
- low teacher salaries, low status and weak supervision resulting in absenteeism, particularly in rural areas;
- inadequate pre-service and in-service training;
- poor motivation (e.g. as a result of low status and ‘political appointments’); and
- outdated and irrelevant curriculum.
Gender disparities in primary and secondary education are a particular concern and a number of incentives for families to enrol and retain girls in school have been provided, although much work remains in this regard.

**Enrolment**

Low primary education enrolment rates for both boys and girls have been a common concern under all major education policies. Table 3 describes the Net Primary Enrolment Ratio (NPER)\(^3\) in Pakistan from 1991 to 2002. After rising from 43 to 44 percent between 1991 and 1995, the NPER declined to 42 percent in 1997 and remained stagnant until 2002. The overall decline during this period is more than accounted for by enrolment in Punjab which fell from 52 to 45 percent between 1991 and 2002. Enrolment in Sindh, Balochistan and NWFP rose slightly over the same period (although in each case enrolment rose still further in the intervening period before falling back).

<table>
<thead>
<tr>
<th>Table 3: Trends in net primary enrolment rates (%)</th>
<th>1991</th>
<th>1995</th>
<th>1997</th>
<th>1999</th>
<th>2002</th>
</tr>
</thead>
<tbody>
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<td>43</td>
<td>44</td>
<td>42</td>
<td>42</td>
<td>42</td>
</tr>
<tr>
<td>Punjab</td>
<td>52</td>
<td>44</td>
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<td>44</td>
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</tr>
<tr>
<td>Sindh</td>
<td>38</td>
<td>45</td>
<td>45</td>
<td>41</td>
<td>40</td>
</tr>
<tr>
<td>NWFP</td>
<td>36</td>
<td>35</td>
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<tr>
<td>Balochistan</td>
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<tr>
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<td>47</td>
</tr>
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<td>51</td>
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<tr>
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<td>43</td>
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<td>39</td>
</tr>
<tr>
<td><strong>Female</strong></td>
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<td>37</td>
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<td>Punjab</td>
<td>48</td>
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<tr>
<td>Sindh</td>
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<td>NWFP</td>
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<td>Balochistan</td>
<td>20</td>
<td>39</td>
<td>27</td>
<td>28</td>
<td>24</td>
</tr>
</tbody>
</table>

*Sources: PIHS (various issues)*

These trends were similar for both male and female students (although male enrolment in Balochistan finished the period at the same level as the start of the period, after a substantial rise between 1991 and 1995).

\(^3\) Net primary enrolment rate is the percentage of appropriately aged children in school of the total school aged population. Primary NPER for example is the percentage of primary age children enrolled in primary school compared to the primary age population; thus late enrolment and/or late completion of primary school may lower NPER as well as non enrolment.
Perhaps the most important thing to note, in addition to the generally low enrolment rates, however, is the substantial difference in the rates for males and females. In every province, male enrolments were substantially higher than female enrolments throughout the period under review.

Secondary enrolment rates for 2002 are presented in Table 4. The disparity between male and female rates is greater at this level in every province, with male Net Enrolment Rates (NERs) almost double those for females for the country as a whole (although the absolute values of the NERs are very low for both males and females). These gender differences are less marked in Punjab and Sindh when gross enrolment is measured, suggesting that progression rates or late enrolment for girls may account for some of the NER differences in these provinces.

<table>
<thead>
<tr>
<th></th>
<th>Male</th>
<th>Female</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Net Secondary Enrolment Rate</strong></td>
<td></td>
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<td></td>
</tr>
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<td>Pakistan</td>
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<td>7</td>
<td>10</td>
</tr>
<tr>
<td>Punjab</td>
<td>12</td>
<td>8</td>
<td>10</td>
</tr>
<tr>
<td>Sindh</td>
<td>12</td>
<td>7</td>
<td>10</td>
</tr>
<tr>
<td>NWFP</td>
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<td>11</td>
</tr>
<tr>
<td>Balochistan</td>
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<td>5</td>
<td>12</td>
</tr>
<tr>
<td><strong>Gross Secondary Enrolment Rate</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pakistan</td>
<td>48</td>
<td>33</td>
<td>41</td>
</tr>
<tr>
<td>Punjab</td>
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<td>39</td>
<td>44</td>
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<td>Sindh</td>
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<tr>
<td>NWFP</td>
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</tr>
<tr>
<td>Balochistan</td>
<td>44</td>
<td>16</td>
<td>32</td>
</tr>
</tbody>
</table>

Sources: PIHS (various issues).

National Education Management Information System (NEMIS) data indicates that the availability of public schools has worsened during this period of stagnation and decline in enrolment. In 1992-93 one public school was available for 248 children in the 5-14 age-group. The numbers fell to one for every 264 children in 1999-2000 indicating that school construction has not kept pace with population growth for this age-group.

Another serious problem in Pakistan’s education sector is the very high percentage of students who drop out of school before completing either the full primary or secondary cycle. Dropout rates are not only high but are increasing over time. At the national level the drop out rate increased from 40 percent in 1997 to 54 percent in 1999-2000. This trend of rising dropout rates is observed for all the provinces. Dropout rates are generally higher among girls and are increasing at a higher pace than for boys.
Table 5: Trends in dropout rates within public primary schools

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<thead>
<tr>
<th></th>
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<th></th>
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</thead>
<tbody>
<tr>
<td>Total</td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pakistan</td>
<td>40</td>
<td>44</td>
<td>48</td>
<td>54</td>
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<tr>
<td>Punjab</td>
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<tr>
<td>Male</td>
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<td>Pakistan</td>
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<td>NWFP</td>
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<td>Balochistan</td>
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<td>Female</td>
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<td></td>
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<td></td>
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<td>64</td>
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<td>Sindh</td>
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<tr>
<td>NWFP</td>
<td>29</td>
<td>35</td>
<td>37</td>
<td>49</td>
</tr>
<tr>
<td>Balochistan</td>
<td>30</td>
<td>34</td>
<td>27</td>
<td>41</td>
</tr>
</tbody>
</table>

Sources: Provincial EMIS, NEMIS, Development Statistics and Education Statistics (various issues)
SPDC Estimates

Availability of Facilities

The poor physical condition of public schools reduces the effective supply of school places and negatively affects the demand for schooling. Table 6 shows that 16 per cent of schools are without a building, 55 percent without a boundary wall, as many as 79 percent without electricity, 44 percent without water and 60 percent without a toilet.

There is, however, considerable variation in these figures: between the provinces; between urban and rural areas; and between boys’ and girls’ schools. 30 percent of public schools in rural Sindh are without a building compared with 8 percent in urban Balochistan, for example. 77 percent of schools in rural Balochistan are without a boundary wall compared with 23 percent in urban Sindh. 94 percent of rural schools in Balochistan are without electricity compared with 39 percent in urban Sindh. 87 percent of rural schools in Balochistan are without water compared with 19 percent in urban Punjab. 84 percent of rural schools in Balochistan are without a toilet compared with 23 percent in urban Sindh.

Whilst access and quality issues affect every province, therefore, the focus of the underlying problems differs between and within provinces. This emphasises the importance of developing province-specific reforms which respond to province-specific requirements and which respond also to the differing district priorities within each province.
Gender-wise the physical condition of girls’ schools appears to be significantly better in general than that of boys’ schools. A disturbing situation is that between one-fifth and one quarter of girls’ schools in urban areas are without water or a toilet. The situation is worse in rural areas where about 40 percent of girls’ schools lack these two basic facilities. There is a great deal of evidence from around the world showing that a lack of adequate toilet facilities contributes to lower attendance and increased dropout rates for girls.

16. Education Expenditures

Budget Allocations

Data on national and provincial budgets show that about eight per cent of the national budget is spent on education (see Table 7). Education is a provincial function, however, and provincial allocations as a proportion of total provincial allocations are much higher, ranging from and average of 19 percent in Sindh to 26 percent in Punjab.\(^{32}\)

A high proportion of the education budget is allocated to recurrent activities and evidence from all provinces shows that recurrent funds are spent predominantly on salaries. Table 7 shows that recurrent allocations have ranged from 75 to 96 per cent of total allocations over recent years in the four provinces. An expenditure structure of this nature can often result in chronic under-investment in infrastructure as well as under-expenditure on textbooks and other instructional materials. The discussion in Section 1 on quality and access problems in education certainly seems to confirm the long-term impact of such an expenditure structure in Pakistan.

\(^{32}\) Allocations averaged over the period 1998/99 – 2003/04.
An interesting point of note in Table 7 is the apparent large fall in education budget allocations in all provinces except for NWFP in 2004-5 (after a large rise in some provinces in the preceding year. The reason for this is that, whilst provincial budget allocations (for all sectors) in 2004/05 include transfers to newly-devolved district government budgets, the final proportion of those transfers to be devoted to education is to be determined by the district government themselves. As a result, it is not possible to present comprehensive data on education allocations (for both provincial and district expenditures) for 2004/05 from provincial budget information alone.

As explained below, capacities and systems at the district government do not currently permit education budget allocations to be clearly identified from district budget information either. As a result, whilst national education allocations and aggregate provincial education allocations appear to have increased substantially in 2003/04, it is unclear whether education allocations have increased or decreased in 2004/05. It is not yet clear, therefore, whether devolving budgets to the district level has resulted in an expansion of resource allocations for education.

This also raises a fundamental systems issue. There appears to be a degree of confusion in the provincial and district budget and accounts information as to where provincial and district education expenditure information should be delineated. In Balochistan, for example, education development expenditures are ‘retained’ by the provincial government and are expended through Account I (although it is not clear whether the corresponding allocation appears in the Balochistan provincial government education allocation in Table 7). In NWFP, education salaries continue to be paid from Account I (rather than Account IV as is the case in other provinces) and therefore are included in the provincial government allocation in Table 7. As a result, whilst the provincial government budget allocations for education in 2004/05 appear to fall dramatically in all other provinces (since district education salaries are no longer included in the data for those provinces in Table 7), the provincial government allocation for NWFP actually appears to rise in 2004/05.

### Table 7: Budget allocations in Pakistan by provinces

<table>
<thead>
<tr>
<th>Province</th>
<th>Education Budget</th>
<th>Provincial Budget</th>
<th>% of Provincial Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total [Rs Mills]</td>
<td>Dev as Pct of Total</td>
<td>Recurring as Pct of Total</td>
</tr>
<tr>
<td>PUNJAB</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1998-99</td>
<td>32,541</td>
<td>8</td>
<td>92</td>
</tr>
<tr>
<td>1999-00</td>
<td>31,527</td>
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<td>2000-01</td>
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<tr>
<td>2001-02</td>
<td>31,682</td>
<td>4</td>
<td>96</td>
</tr>
<tr>
<td>2002-03</td>
<td>32,520</td>
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<td>2003-04</td>
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<td>2004-05</td>
<td>12,561</td>
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</tr>
<tr>
<td>Average</td>
<td></td>
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<td>93</td>
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<tr>
<td>SINDH</td>
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<tr>
<td>1998-99</td>
<td>16,287</td>
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<tr>
<td>2001-02</td>
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</table>
The important conclusion to draw from this is that provincial and district education managers do not appear to have full information relating to their budget allocations – and it has certainly not been possible to make a clear presentation of district education allocations in this paper following fiscal devolution. A further problem is the lack of predictability of development funds which substantially undermines any prospective or long term planning.

Establishing district level systems and procedures and supporting district capacity development for budgeting and financial management is essential, therefore, to enable decision makers at both the provincial and district level to understand the structure, content and volume of resources of their education budgets.

Note: Budgeted figures for 2004-05 do not include the most district budget allocations and are therefore low. Averages exclude the 2004-05 budgeted figures.

Source: Federal and Provincial Budget Documents
Table 8: Allocations to education by sub-sector (FY2002-03) [Percentages]

<table>
<thead>
<tr>
<th></th>
<th>Total Prim</th>
<th>Total Second</th>
<th>Total Others</th>
<th>Development Prim</th>
<th>Development Second</th>
<th>Development Others</th>
<th>Recurrent Prim</th>
<th>Recurrent Second</th>
<th>Recurrent Others</th>
</tr>
</thead>
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<tr>
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<td>51</td>
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<td>BALOCHISTAN</td>
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<td>19</td>
<td>34</td>
<td>55</td>
<td>24</td>
<td>21</td>
</tr>
</tbody>
</table>

Source: Federal and Provincial Budget Documents.

On average, slightly more than half of the education budget, at the national level, goes to primary education (see Table 8), whilst the remaining half is distributed evenly between secondary and other levels. Punjab allocates the highest funds (over 65 per cent) to primary education followed by NWFP (over 60 per cent). Balochistan allocates less than half of its education budget to primary education. Given the student numbers at each level as well as the proportion of children out of school, some provinces may be under-providing for primary education with serious implications for access and quality\textsuperscript{33}. The low level of primary spending suggests per pupil expenditure is very low implying a very low quality primary education. Development spending could be higher in the middle and secondary levels where there is an acute need to increase access.

The above tables re-emphasise the challenge facing the education sector under devolution. Whilst the standard of teacher inputs must improve, a restructuring of education budgets to provide for more and better facilities and teaching aids is also required. This will require additional financial resources for education. From the information available, however, it is not possible to judge whether devolution is beginning to result in greater allocations for education at the district level. This will require improvements in district level systems and procedures as well as improvements in the capacity of district level staff to manage them.

Expenditure as a Proportion of Budget

Table 9 shows, over the period 1998/99 to 2001/02 (the last year for which expenditure data is currently available), that expenditure as a proportion of budget has been 71, 89, 82 and 92 percent on average for Punjab, Sindh, NWFP and Balochistan respectively. Within these figures, utilisation rates for recurrent allocations have been relatively high and the utilisation rates for the salary component higher still. Low utilisation rates, therefore, impact mainly on the non-salary component of recurrent expenditure and on development expenditure.

In addition to the relatively low allocations for non-salary recurrent expenditure and for development expenditure (as presented above in Table 7), low utilisation rates for these allocations impact particularly hard on a range of input activities that are linked to quality in education, including the provision of instructional materials, education planning, supervision and monitoring.

The data in Table 9 shows expenditure data up to and including 2001/02, being the first year of the ESR. Expenditure data is not yet available for later years of the ESR and is

\textsuperscript{33} Although it should be noted that project assistance to education is not included in these figures.
also not yet available for the PRSP period. Whilst Table 9 does show an increase in education utilisation rates for all provinces (except for Balochistan) in 2001/02, this was during a period when the corresponding budget allocations fell in each of these provinces.

<table>
<thead>
<tr>
<th>Table 9: Allocated and Actual Expenditure on Education (1998-99 to 2004-05)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Allocated Budget</strong></td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
</tr>
<tr>
<td><strong>PUNJAB</strong></td>
</tr>
<tr>
<td>1998-99</td>
</tr>
<tr>
<td>1999-00</td>
</tr>
<tr>
<td>2000-01</td>
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<td>2001-02</td>
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<td>2002-03</td>
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<tr>
<td>2003-04</td>
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<tr>
<td>2004-05</td>
</tr>
<tr>
<td><strong>AVG</strong></td>
</tr>
<tr>
<td><strong>SINDH</strong></td>
</tr>
<tr>
<td>1998-99</td>
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<tr>
<td>1999-00</td>
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<tr>
<td>2000-01</td>
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<td>2003-04</td>
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<tr>
<td>2004-05</td>
</tr>
<tr>
<td><strong>AVG</strong></td>
</tr>
<tr>
<td><strong>NWFP</strong></td>
</tr>
<tr>
<td>1998-99</td>
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<tr>
<td>1999-00</td>
</tr>
<tr>
<td>2000-01</td>
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<td>2001-02</td>
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<td>2002-03</td>
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<tr>
<td>2003-04</td>
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<tr>
<td>2004-05</td>
</tr>
<tr>
<td><strong>AVG</strong></td>
</tr>
<tr>
<td><strong>BALOCHISTAN</strong></td>
</tr>
<tr>
<td>1998-99</td>
</tr>
<tr>
<td>1999-00</td>
</tr>
<tr>
<td>2000-01</td>
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<tr>
<td>2001-02</td>
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<tr>
<td>2002-03</td>
</tr>
<tr>
<td>2003-04</td>
</tr>
<tr>
<td>2004-05</td>
</tr>
<tr>
<td><strong>AVG</strong></td>
</tr>
<tr>
<td><strong>PAKISTAN</strong></td>
</tr>
<tr>
<td>1998-99</td>
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<tr>
<td>1999-00</td>
</tr>
<tr>
<td>2000-01</td>
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<tr>
<td>2001-02</td>
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<tr>
<td>2002-03</td>
</tr>
<tr>
<td>2003-04</td>
</tr>
<tr>
<td>2004-05</td>
</tr>
<tr>
<td><strong>AVG</strong></td>
</tr>
</tbody>
</table>

Source: Federal and Provincial Budget Documents and Finance of Accounts
*Estimates for Pakistan include estimates for FATA and ICT
Information currently available, therefore, is unable to demonstrate yet whether major education policy reform targets (i.e. those referred to in the ESR and PRSP) and reforms impacting upon education service delivery (devolution) have resulted in additional expenditures for education and for elementary education in particular.

On average, slightly less than half of the education expenditure, at the national level, goes to primary education (see Table 10), whilst the remainder is distributed fairly evenly between secondary and other levels. Based on the data in Table 2.4, Sindh spends (relatively) most on primary education (52 per cent) followed by Punjab (50 per cent). NWFP and Balochistan allocate less than half of their education budgets to primary education.

From the information available, however, it is not possible to judge whether devolution is beginning to result in greater expenditure on education at the district level.

### Table 10: Percentage actual expenditure on education in Pakistan by sectors (FY2002-03)

<table>
<thead>
<tr>
<th>Total Expenditure</th>
<th>Development</th>
<th>Recurrent</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Prim</td>
<td>Second</td>
</tr>
<tr>
<td>PUNJAB</td>
<td>50</td>
<td>30</td>
</tr>
<tr>
<td>SINDH</td>
<td>52</td>
<td>28</td>
</tr>
<tr>
<td>NWFP</td>
<td>47</td>
<td>38</td>
</tr>
<tr>
<td>BALOCHISTAN</td>
<td>41</td>
<td>36</td>
</tr>
<tr>
<td>PAKISTAN</td>
<td>45</td>
<td>29</td>
</tr>
</tbody>
</table>

*Source: Federal and Provincial Finance of Accounts.*

#### 17. Education Management

Although education is a provincial function and activities at the primary and secondary levels in particular are carried out at the district level, the full management structure is complex and involves inputs at federal, provincial and district levels.

**Federal**

The Federal Ministry of Education sets national policy and gives broad guidance to provincial education departments and textbook boards. A Cabinet Minister, assisted by a Secretary from the federal civil service, heads the Ministry which has six wings and numerous attached departments and autonomous bodies. In addition to the Secretary, there are over 100 other professional staff (at salary grades from 17 to 22).

**Provincial**

The Provincial Department of Education is headed by a provincial Minister, assisted by a Secretary from the provincial civil service, who presides over a staff of over 50 officers. There are around ten Additional Secretaries and Provincial Coordinators (in salary grades 19
to 20), around 20 Deputy Secretaries, Deputy Provincial Coordinators and Deputy Directors (in salary grades 18 or 19), and over 20 Section Officers (in salary grade 17).

**District**

The District Education Department is headed by the Executive District Officer (Education) (EDO(E)), who is a grade 19 officer of the provincial civil service. The EDO(E) has over 40 staff including District Officers, Deputy District Officers, Assistant District Officers, and Learning Coordinators, (with salary grades from 11 to 20).

At the foot of this hierarchy is the primary school teacher (in salary grade 7, with initial basic pay at Rs.2,220 per month). Head teachers are appointed from among the relatively more senior teachers (generally in grades 9 or 10). Teaching is low paid and provides little social standing. As a result, it is difficult to attract competent teaching staff.

The EDO(E) is effectively the chief executive of the District Education Department with statutory responsibilities which include, among other things:

- full management responsibility for lower level staff (including recruitment and posting);
- policy implementation;
- establishment of primary and middle schools;
- annual budget preparation;
- proposals for development budget schemes; and
- maintenance and reconciliation of accounts

As discussed below, field observations suggest that some of these activities are only partially carried out or are not carried out at all, particularly with regard to budget preparation, implementation and accounting.

**18. Review of Major Education Policy Statements**

The very brief overview of the education sector highlights:

- the need to increase development funding throughout the system to address the chronic under-funding of previous years (international experience suggests that the whole education sector needs to be addressed); and
- the need to address the structure of recurrent spending in the education sector.

An important conclusion from this review is that whilst issues are similar between provinces, specific needs do differ, implying that provinces need to have control over policies and resources. Districts, however, have ultimate responsibility for identifying local needs and
allocating resources. Problems in the way funds are transferred and with regard to district government autonomy make the use of those funds ineffective and inefficient\textsuperscript{34}.

The GoP has recognised the importance of these issues and has responded with a number of key policy statements. The National Education Policy 1998-2010 (of 1998) stressed free compulsory education, the need to develop uniform curricula for public and private schools, and a revision of the examination and assessment system to support the improvement of the quality of education. The Education Sector Reforms (ESR) 2001-2004 were launched in October 2000 and linked to the long-term EFA framework. In parallel with these developments, in 2001 the “Devolution Plan” was launched, following which district and lower administrative levels received increased powers to plan and manage the education budget and to monitor and evaluate their own plans. The Poverty Reduction Strategy Paper (PRSP) was finalised in 2003. This document refers to poverty reduction related interventions such as compulsory education, education entitlements for poverty alleviation and public-private partnerships. The PRSP provides the policy target framework for the ESR whilst the Devolution Plan provides the implementation framework.

The key policy statements are discussed briefly below.

### Education Sector Reform Programme

The GoP Education Sector Reform (ESR) programme was established within the long term perspective of the National Education Policy (1998-2010) and the Ten Year Perspective Development Plan (2001-2011). The ESR is a sector-wide national policy statement with an associated federal funding line which intends to increase access, enhance equity and improve quality at all levels of education. The quality aspects of education are addressed through targets for the modernisation of curricula, upgrading of teacher training and reform of examinations. The seven thrust areas of the ESR are:

- Universal Primary Education (UPE);
- Adult Literacy;
- Technical Stream in Secondary Education;
- Establishment of Polytechnics;
- Public Private Partnership;
- Quality Assurance; and
- Mainstreaming Madrassas.

A comprehensive set of target indicators for the medium term (2001-05) has been established and is presented in Table 11.

\textsuperscript{34} As noted in the analysis on devolution and the field trip reports for each of the provinces, below, and as noted in more detail in [paper on the education sector prepared for DFID by ODI].
Table 11: Education Sector Reform Targets (2001-2005)

<table>
<thead>
<tr>
<th>Sub-Sector</th>
<th>2001</th>
<th>Targets 2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Literacy</td>
<td>49%</td>
<td>60%</td>
</tr>
<tr>
<td>Gross Primary Enrolment</td>
<td>83%</td>
<td>100%</td>
</tr>
<tr>
<td>Net Primary Enrolment</td>
<td>66%</td>
<td>76%</td>
</tr>
<tr>
<td>Gross Middle School Enrolment</td>
<td>48%</td>
<td>55%</td>
</tr>
<tr>
<td>Secondary School Enrolment</td>
<td>30%</td>
<td>40%</td>
</tr>
<tr>
<td>Higher Education Enrolment</td>
<td>3%</td>
<td>5%</td>
</tr>
<tr>
<td>Technical Steam Schools (Nos)</td>
<td>100</td>
<td>1100</td>
</tr>
<tr>
<td>Polytechnics/Monotechnics (Nos)</td>
<td>77</td>
<td>160</td>
</tr>
<tr>
<td>Madaris Mainstreaming (Nos)</td>
<td>148</td>
<td>8000</td>
</tr>
<tr>
<td>Public private Partnerships (Nos)</td>
<td>200</td>
<td>26000</td>
</tr>
</tbody>
</table>

Source: Ministry of Education

The (nominal) estimated cost of the ESR package over a five year period to 2004-05 is estimated to be 100 billion, of which Rs. 34 and 10 billion respectively have been earmarked for elementary and secondary education.

It should be noted, however, that the costing work underlying the ESR has not addressed all funding issues related to ESR targets including, for example, potential efficiency gains, alternative policy scenarios for teacher salaries and student/teacher ratios, etc. The estimated cost of the ESR may not, therefore, link well with the corresponding policy targets. The problems with the PRSP education costing exercise (which was carried out after that for the ESR and which, therefore, had the ESR exercise to draw on)\(^{35}\) emphasise the importance of this.

It is also important to distinguish between the ESR as a set of policy targets and the *ESR programme* which is a vertical funding pipeline for districts to make expenditures on federal priority areas.

Table 12: Financial Requirements for Education Sector Reform Action Plan 2001-05\(^*\) (Rs in billion)

<table>
<thead>
<tr>
<th>Programmes</th>
<th>2001-02</th>
<th>2002-03</th>
<th>2003-04</th>
<th>2004-05</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Literacy Campaign</td>
<td>0.8</td>
<td>2.0</td>
<td>2.5</td>
<td>3.0</td>
<td>8.3</td>
</tr>
<tr>
<td>Elementary Education</td>
<td>4.0</td>
<td>9.0</td>
<td>10.0</td>
<td>11.0</td>
<td>34.0</td>
</tr>
<tr>
<td>Secondary Education</td>
<td>1.0</td>
<td>3.0</td>
<td>3.0</td>
<td>3.0</td>
<td>10.0</td>
</tr>
<tr>
<td>Technical Education</td>
<td>0.0</td>
<td>3.0</td>
<td>5.0</td>
<td>7.0</td>
<td>15.0</td>
</tr>
<tr>
<td>College/ Higher Education</td>
<td>1.0</td>
<td>3.0</td>
<td>3.0</td>
<td>3.0</td>
<td>10.0</td>
</tr>
<tr>
<td>Mainstreaming Madaris</td>
<td>0.0</td>
<td>5.0</td>
<td>5.0</td>
<td>4.0</td>
<td>14.0</td>
</tr>
<tr>
<td>Public-Private partnership</td>
<td>0.1</td>
<td>0.2</td>
<td>0.2</td>
<td>0.2</td>
<td>0.7</td>
</tr>
<tr>
<td>Quality Assurance</td>
<td>1.0</td>
<td>2.0</td>
<td>2.0</td>
<td>3.0</td>
<td>8.0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>7.9</strong></td>
<td><strong>27.2</strong></td>
<td><strong>30.7</strong></td>
<td><strong>34.2</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

Source: Ministry of Education

\(^*\) Education Sector Reforms, Action Plan 2001-05.

35 See Table 11
The Poverty Reduction Strategy

Education sector reforms are an important component of the Poverty Reduction Strategy (PRS). Given the population growth rate in Pakistan and the current low levels of enrolment, considerable resource generation and commitment will be required to meet ESR targets. Allocations currently proposed under the PRS to meet ESR targets would mean an increase in education expenditures of 45 percent in real terms by 2007-8 compared to 2001-02. This comprises one third of the fiscal space which the PRS Paper (PRSP) estimates will be generated through growth and public finance reforms over this period. A substantial component of this increase would be spent on primary and secondary education. In addition to extra resources, the PRSP envisages improved education outcomes resulting from institutional reforms including improved policy formulation, budget preparation and accountability.

It is envisaged that domestic allocations in the PRSP are unlikely to be adequate for ESR targets and EFA goals to be achieved. Additional resources are therefore likely to be required, including substantial donor assistance. Projected Expenditure on education under the PRSP is presented in Table 13 below.

An important weakness of the PRSP, however, is that has nothing to say about how these funding requirements will be reflected in fiscal flows. That is to say, it says nothing about which levels of government must see an increase in their resources in order to reach these targets.

<table>
<thead>
<tr>
<th>Year</th>
<th>Expenditure (Rs. Million)</th>
<th>% of GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002-03 (actual)</td>
<td>78,613</td>
<td>1.96</td>
</tr>
<tr>
<td>2003-04 (Budgeted)</td>
<td>88,842</td>
<td>2.01</td>
</tr>
<tr>
<td>2004-05 (projected)</td>
<td>102,375</td>
<td>2.01</td>
</tr>
<tr>
<td>2005-06 (Projected)</td>
<td>116,036</td>
<td>2.15</td>
</tr>
<tr>
<td>2006-07 (Projected)</td>
<td>135,049</td>
<td>2.25</td>
</tr>
<tr>
<td>2007-08 (Projected)</td>
<td>156,698</td>
<td>2.35</td>
</tr>
</tbody>
</table>

Source: Poverty Reduction Strategy Paper December 2003

Provincial Education Sector Reforms

The differing emphasis of underlying education sector problems in each of the provinces calls for province-specific reform solutions. As a result, each of the provinces has developed its own reform agenda within the broad framework provided by each of the national plans. Provincial governments have made differing progress in converting stated aims into realisable, monitorable strategies. Sindh is in the process of making good progress towards a sector plan with the support and encouragement of an active donor group. Punjab, however, is perhaps the furthest advanced in this regard. Aspects of these reform agendas are briefly presented below.
Major Issues For Budget Support in Pakistan

NWFP

The NWFP Government regards education reforms as the basis for long-term economic development and poverty alleviation. Medium term objectives include:

- improvements in primary education (access and quality);
- reduced gender and rural-urban disparities;
- expansion in secondary school capacities;
- strengthened primary and secondary parent-teacher associations (PTAs);
- greater public private sector partnership;
- establishment of an endowment fund for primary education; and
- restructuring of the Frontier Education Foundation.

Sindh

The Government of Sindh’s education sector strategy focuses on

- teacher redeployment;
- expanded enrolment;
- improved teacher training;
- improving school facilities;
- strengthening monitoring and evaluation;
- expansion of compulsory education programs to sub-district level;
- improving the secondary education system;
- training of school management committees (SMCs);
- gradually extending SMCs powers to hire and fire teachers;
- district capacity building;
- a scholarship programme for girls; and
- distribution of free textbooks

Balochistan

The Government of Balochistan intends to focus on:

- improving quality and access, partly by expanding budgetary allocations and partly by rationalising non-salary expenditures;
- reducing rural-urban and gender disparities;
- strengthening teacher training; and
- greater public-private partnerships and community involvement.
Budget Support to Education in Pakistan

Punjab

Education reforms in the Punjab have been designed and are to be implemented through the Punjab Education Sector Reform Programme (PESRP) which is being supported through a World Bank Sector Development Policy Credit (PEDPC). The PESRP is discussed in Chapter 2 which notes that the PESRP intends to enhance service delivery in education through improvements to fiscal management and devolution with the objective of assisting the Punjab Government in achieving the education MDGs. Real education allocations are planned to increase by 35 percent under the credit, with substantial real (per student) expenditure increases for elementary education. The PESRP is to include a policy of free schooling up to grade 10 and the provision of free textbooks at the primary level. Expenditure requirements at the district level and corresponding allocations to districts are to be based on education profiles which are to be developed by the district governments.

An interesting component of education sector reforms in Punjab is the establishment of contractual relations (Terms of Partnership funding arrangements) with districts which will link resource allocations under the Punjab Education Sector Reform Programme (PESRP) to the achievement of PESRP objectives in each of the districts. Conditional grants will be developed under this arrangement through the PESRP, the objective of which will be to achieve:

- improvements in access and equity;
- improvements in quality;
- use of public and private partnerships; and
- removing regional and gender disparities.

Improvements are structured around concrete actions: stipends, free books, replacing missing facilities, involvement of community groups, capacity building for local governments, teacher training, teacher recruitment and restructuring the Punjab education foundation. As noted, this programme is underpinned by the use of a Terms of Partnership funding arrangement as well as a monitoring system providing the data to support it.

Costing PRSP and ESR Targets

A recent analysis carried out for the Federal Ministry of Education estimates the costs of achieving education targets for the ESR, EFA and PRSP. A simplified Education Simulation Model, developed from the Fast Track Initiative (FTI) model\(^{36}\), has been developed that estimates changes in the public cost of education resulting from policies to expand enrolment, enhance quality and improve the efficiency of resource use with regard to primary and secondary education. Projections for a ‘high cost’ scenario (Scenario A) and a ‘low cost’ scenario (Scenario B) were prepared\(^{37}\).

Additional recurrent spending under Scenario A is estimated at Rs 18.5 billion (almost 3 times that of Scenario B), whilst additional investment spending is estimated at Rs 12.3 billion (almost 50 percent more than Scenario B). Total spending for the entire public education system in 2000/01 was just Rs 50.2 billion, underlining the extent to which

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\(^{36}\) The FTI model was originally established to estimate the costs of the EFA targets.

\(^{37}\) Each scenario incorporates different expenditure assumptions for increasing enrolment to meet UPE targets.
Major Issues For Budget Support in Pakistan

expenditures may have to rise to meet policy targets. Teachers’ remuneration and classroom construction costs, together with costs of schemes for encouraging enrolment such as school feeding and girls stipend programmes, are the largest areas of incremental costs.

Scenario A implies a real expenditure increase of 53 percent in NWFP, 58 percent in Balochistan, 60 percent in Punjab, and 65 percent in Sindh by 2007-08 over 2001/02 figures. The assumptions under Scenario A imply that the public education system will require resources equivalent to 2.3 percent of GDP by 2007/08 (assuming real GDP growth rate stays at 5 percent per annum) against the present share of 1.8 percent of GDP.

Whilst this analysis represents a very important starting point in properly costing education requirements, much work remains to be carried out. A key point arising from the analysis is that there is a potentially large gap between projected education resources and expenditure requirements to meet key policy targets even if public spending on education does meet the targets set in the PRSP. This is because the analysis covers only the incremental cost requirements for elementary education in the four provinces. The cost of any expansion, for example, in secondary and technical education, teacher training, mainstreaming madrassahs, adult literacy and non-formal education (i.e. key ESR targets) would be over and above that estimated to meet the elementary targets in the PRSP. Moreover, the analysis does not cover the costs of improving elementary education in the Federally Administered Tribal Areas, Frontier Regions and Northern Areas and the Islamabad Capital Territory.

There are also a number of technical issues that need to be addressed to make the analysis more accurate and more representative of the true projected costs of meeting PRSP, ESR and EFA targets. These include a need to improve the database of information upon which the analysis has been based. A much closer account of province-specific reform programmes will also be required so that the total cost of the policy targets can be estimated in a bottom-up manner by aggregating estimates for province-specific reforms.

19. Monitoring and Information

The previous section describes the key policy statements which have been developed over recent years for the education sector. Notwithstanding the effort and commitment that has gone into these, the design of an appropriate monitoring system has been piecemeal. A comprehensive and coordinated monitoring program has yet to be developed. This issue is discussed briefly below.

Major Information Needs

There is a need for consistent and reliable statistical and financial indicators in education to measure outcomes and relate these to financial resources. At present, as the fieldwork has clearly shown, there is no consistent reporting of financial information for education across districts and provinces. This is true both for government and external funds. The lack of consistent and reliable indicators, both statistical and financial, makes it difficult to plan for and evaluate policy outcomes.
The ESR is target-oriented and output-based, with measurable outcomes defined by each province according to its own baseline. The government and donors agreed on the following indicators for monitoring the progress of the PRSP/ESR:

- number of functional schools (primary and middle and secondary schools);
- percentage of schools with buildings, with sanitary facilities, water supply, electricity, and boundary wall (primary and middle schools);
- percentage of sanctioned staff strength filled (primary and middle schools);
- percentage of trained teachers (primary and middle schools separately);
- percentage of teachers present (primary and middle schools)

Literacy rates are used to measure the final impact of the PRSP/ESR.

Current Sources of Information

The main sources of information for measuring PRSP/ESR education indicators are the data generated by the National Education Management Information System (NEMIS) and the Pakistan Integrated Household Survey (PIHS) of the Federal Bureau of Statistics. To measure quality a National Education Assessment System has been established to evaluate and assess student learning achievements. The NEMIS is responsible for the annual consolidation of data based on an annual school census, with information provided by provincial EMIS units. The data collection is fairly standardised but there is considerable variation in the quality of the completed questionnaires and the manner in which data is reported. There is no information about the private sector, including NGO run non-formal schools.

The PIHS collects information on enrolment that covers all types of schools, both public and private and is focused on outcomes. There are significant differences between data generated under the NEMIS and the PIHS on gross enrolment and student dropout rates.

The duties and the responsibilities of the districts have increased considerably since the launching of the Devolution Plan. This underlines the importance of having a good district management (information) system. Although EMIS and ESR units have been established in some districts, the district offices still lack sufficiently trained and experienced staff to make them effective.

The EMIS has been established to provide information in support of the activities of the Education Departments at different levels of government, particularly with regard to management, planning and decision-making. Their use for monitoring purposes at the lower levels of government, however, is minimal. The Provincial Bureaux of Statistics use them to develop their annual publication on development statistics for each province. Little meaningful analysis has been provided by the NEMIS, however, for the purposes of policy or planning. Confidence over the quality of data from the NEMIS is low and many of the donors working with the GoP in education, for example, have often preferred to use information on education indicators from alternative sources.

Key Weaknesses

As noted, there is no consistent reporting of financial information across districts and provinces. Different sources of financial information result in different figures for expenditure
Major Issues For Budget Support in Pakistan

in education. Fieldwork has shown, for instance, that provincial education department figures on flow of funds do not match with finance department figures. Similarly, NEMIS and PIHS often provide different sets of figures for enrolment and dropout rates\(^\text{38}\).

Aggregation of indicators at the federal and provincial level and non availability of indicators at the local level add to the monitoring difficulties. National indicators are too general to be of use at the district level and often do not capture the differences at lower levels of government nor the realities of the gender situation and non-formal and private education. The ESR remains a national action plan with linkages to the district level that still need to be properly defined. The monitoring indicators need to be refined and reporting requirements need to be extended to include districts.

The weak functioning of the monitoring mechanisms at lower levels is mainly due to a dearth of qualified personnel. Likewise, the capacity at district level to make use of monitoring indicators is limited due to staff shortages and human resource constraints. In light of the limited capacity at district level, the added value of the established EFA units in addition to the already established ESR units at district level is questionable.

Whilst donors have attempted to address weaknesses in monitoring and reporting systems at the district level through specific survey work to assess the outcomes of investments in the social sectors, the scope of this work has often been limited to a specific donor project or programme. Institutional capacities at the district level need to be developed for sustainable monitoring and reporting of good quality education indicator information.

Current monitoring indicators do not measure the results of the quality focus of the ESR such as in-service teacher training and teacher assessment. This, to a certain extent, can be explained by the complexity of using quality indicators that require substantive and costly efforts to design appropriate monitoring systems.

Appropriate and generally accepted definitions have still to be developed for some indicators. The definition of what constitutes a functional school, for example, has yet to be determined. Whilst an emerging consensus is that a “school is functional if, at a minimum, it has a teacher and students and learning is taking place”, other elements that affect how well a school functions (e.g. the availability of consumables and facilities, such as water supply, sanitation, etc.) still need to be properly addressed.

It is important that the government and the donors agree on a set of indicators for monitoring progress and the sources of data used for obtaining them.

**Need for Harmonisation of Approaches**

So far, little has been done to co-ordinate and harmonise approaches between donors, even though many operate within the framework of the PRSP/ESR where a common set of indicators for monitoring performance in the education sector has been agreed upon. Donors still need to harmonise their support and to agree a common set of monitoring and reporting indicators associated with this support with the Government. The present organisation of the monitoring, management and planning functions in institutions that are separate from the

\(^{38}\) This is relatively common across countries given that NEMIS estimates of rates depend on projections of population from past census figures which may vary considerably if rates of migration and/or fertility change markedly between censuses. PIHS figures on the other hand compare enrolment in the sample with the population in the sample and are often more reliable provided that sampling is sound.
Planning & Development Department hampers the process. There needs to be well defined responsibilities for monitoring planning and evaluation, integrated at the various management levels within the province and districts. This requires that the necessary infrastructure and human resources are available at all levels; currently they are insufficient in the districts and below. Other key areas of attention for monitoring include:

- Adequate role and linkage of NEMIS with the Ministry of Education P&D wing, to ensure that the data generated will be in support of planning and management;
- Allocating resources for the provincial education departments for administering the EMIS and other related surveys in a more professional manner.
- Developing consistency in information and baselines between the ESR and the PRSP needs to be developed;
- Facilitating PRSP planning, management and monitoring through strengthening of Provincial and district EMIS by upgrading of their equipment and proper staff selection and (in-service) training
- Inclusion of data on both public and private sector schools for outcome indicators, such as on enrolment and drop-out rates.

**Choice of indicators from experience in other Countries**

**Input indicators**

“Input” measures the financial, administrative and regulatory resources provided by government and donors to the education sector. Regarding financial resources, the specific choice of indicators differs from one country to another, but there is a general agreement on the importance of measuring financial resources allocated as a sign of commitment to the education sector. Input indicators often used include:

- Government spending on education as a percentage of GDP.
- Government spending on education as a percentage of total public expenditure.
- Government spending on education in the districts as a percentage of total district expenditure.
- Public expenditure on primary education as a percentage of total public expenditure on education.
- Public expenditure on education in districts as a percentage of total provincial expenditure on education.
- Other indicators used include relative allocations to investments, salaries and other operating costs (partly measured by non-salary recurrent spending (such as operations and maintenance (O & M))).
Output indicators

Output indicators are an essential part of both the quantitative capacity of the education system and the quality of the education provided. Typical examples of output indicators focusing on an increased system capacity for education include:

- Number of teachers trained.
- Number of schools constructed.
- More directly quality-related indicators are curriculum development or teacher salary as a percentage of GDP per capita. This latter indicator measures budgetary sustainability of the education system as well as motivation and social sustainability of teaching staff.
- Another quality-related indicator is the level of recruitment of primary education teachers (e.g. the proportion of teachers having completed a secondary school education).
- Standardised tests of knowledge and level of teachers’ qualifications are being developed at country or regional level, which open new perspectives in improving measurement of quality.
- Many output indicators focus on infrastructure, such as construction or rehabilitation of schools, construction of teaching centres, etc. The main indicator chosen to measure progress is in this case pupil-classroom ratio.

- Other frequently chosen output indicators in the indicative frameworks focus on human resources, including:
  - pupil-teacher ratio;
  - retention and distribution of skilled teachers;
  - number of teachers having a formal training in initial education or homologation of teacher diplomas for a specific region (i.e. Latin America);
  - textbook ratio or book/pupil ratios;
  - learning material developed;
  - available ICT equipment, libraries, laboratories, etc.;
  - curriculum development in primary schools or in teacher training establishments;
  - number of schools inspected.

Outcome Indicators

Outcome indicators include access and efficiency indicators. Access indicators include:

- Net enrolment rate (NER).
- gross enrolment rate (GER)
These two indicators are often used in parallel to complement each other. However, some education experts and donors criticise the use of NER to measure access as it does not take into account children who enter late. They instead stress the use of GER, possibly combined with the first grade net intake rate. A preferred approach would be to combine two indicators, either NER and GER or GER and net intake. The use of NER alone should be avoided.

Efficiency indicators include:

- The prime indicator for system efficiency is primary completion rate.
- Other relevant indicators for measuring system efficiency include the drop out rate, the survival rate and the transition rate (from primary to secondary education).

**Impact Indicators**

The most commonly used impact indicator is the literacy rate. Very few impact indicators have been developed or used to monitor the education sector in developing countries.

**20. Devolution**

The management structure for education is multi-layered and complex. In an ideal situation there would be:

- consistency in the responsibilities of sector managers and the resources and sanction powers they have;
- consistency between political accountability and the responsibilities of different tiers of government;
- a stable, unitary (i.e. not much off-budget or informal sector interference) and predictable governance and financing environment for effective sector planning and management; and
- general and widespread capacity commensurate with planning, managing and executing a sound education strategy.

The Local Government Plan developed in 2000 devolved powers and responsibilities from the federal and provincial levels to elected district authorities and local councils. In

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39 The information in Section 6 derives mainly from field visits to each of the four provinces carried out by two of the team members. Further information from these field visits is presented as Attachment A.
education the objective of devolution has been to improve management and supervision through greater decentralisation and accountability. Selected management functions and responsibility for elementary education have been devolved to the district, the school and community. Under the devolved system the main responsibilities of Federal Government include setting teacher pay levels, defining required teacher credentials, and establishing the national core curriculum. The provincial governments are mainly responsible for teacher training, ensuring equity and access to schooling, influencing curriculum and ensuring quality. The province also has scope to determine qualification criteria for teachers. There is also overlap between federal and provincial functions.

Under the Provincial Local Government Act an Executive District Officer Education (EDO(E)) has been created with responsibility for district education issues, including responsibility for allocation of resources across branches and levels of education. A new district government account (Account No. IV) has also been created into which all finances generated at the district level or allocated to districts from higher tiers of Government under special programmes/grants are placed, including the ESR/EFA funds, President’s Programme grant and the Khushal Pakistan programme funds.

The intention under devolution has been for the district (rather than province) to become the operational tier, with responsibility for determining the level of district resources for education. District responsibilities were also intended to include:

- management of district teaching and non teaching staff;
- financing and location of new schools location;
- school inspection;
- teacher evaluation;
- planning, monitoring and evaluation of the district education system

In reality, however, whilst devolution has been fully adopted, the LGO requires a degree of interpretation for its implementation and the devolution process will require further implementation measures before provinces effectively devolve all of these responsibilities. Moreover, districts currently lack much of the capacity required to fully undertake all of the above tasks. As a result, there remain a number of functions which require both provincial and district action.

**Influencing Policy Outcomes at the District Level**

Improving access to education at the district level will rely to a large extent upon districts being able to appropriately allocate, manage and expend construction budgets. Among other things, this will require education officers to have a greater role in the allocation of capital funds and works and staff to have a greater understanding of education priorities. Incentives would also need to be created to ensure that political involvement in the resource planning and allocation process supports priority requirements in education.

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40 The process for planning the use of Public Sector Development Programme funds for education projects is presented as Attachment B. A table presenting the major responsibilities of key officers in the education sector under devolved government is also presented in Attachment C.
One of the most important means by which quality and access in elementary education can be improved, therefore, is by strengthening key aspects of the devolution process with regard to the planning and management of education budget resources. Instituting systems and procedures to strengthen the coordination role of senior district education staff and the provision of training to make these systems and procedures effective, for example, would go some way to address this.

Quality in education is the result of a more complex interplay of teacher abilities, operating equipment and instructional materials, within a context where learning is possible and encouraged. The current system provides insufficient resources for quality inputs, especially in competition with salaries, and to complement them. There are two key issues in this regard. First, initial costing estimates of ESR, EFA and PRSP reforms suggest that extra resources will be required for both teaching and non-teaching inputs for the reforms to be effective. Unless pupil-teacher ratios are to change significantly (with a potential impact on quality, depending upon how the changes in these ratios are distributed and managed), additional teaching resources will be required to expand access, whilst extra non-teaching resources will be required to improve quality.

Second, evidence in Pakistan and experience elsewhere suggest that as education budgets become constrained, salaries tend to be funded at the expense of non-salary inputs. A key objective of the education reform process under devolution, therefore, should be to create incentives for sufficient resources to be allocated to education (particularly elementary education) to enable non-salary expenditures to expand proportionately faster than salary expenditures.

Under current arrangements, where the education budget is not fully devolved (e.g. with salary budgets in some provinces managed at the provincial level while the district budgets cater for non-salary recurrent expenditures and are subject to local political decisions) this will be far from easy.

Evidence from the field visits has shown that it is difficult for anyone involved in the education sector currently to have a comprehensive view of the education budget and or of education expenditures. This is true for district EDO(E)’s, who apparently do not have access to full information on education for their respective districts (part of which is effectively retained at the provincial level and part of which is held elsewhere in the district, particularly with the EDO (Works)). Field visits have shown that this is true also for Provincial Government Education Secretaries who do not have sufficient information to know whether funds are being expended against provincial education priorities, or even how they are being expended at all\footnote{During the fieldwork all the district senior education officers in Punjab were replaced and the Secretary of NWFP instituted monthly reporting meeting of the EDO (E) staff. These actions reflect in part the frustration of Education Secretaries in obtaining clear information on implementation of budgets.}

Managing District Education Allocations

As already noted, there is a general under-funding of the education sector, the cumulative impact of which has resulted in poor access and quality indicators. The funding constraint for education became particularly severe following the 1996/97 National Finance
Major Issues For Budget Support in Pakistan

Commission (NFC) award when a change in tax policy caused a fall in NFC revenues that had not been taken into account in setting the level of awards for provinces. Notwithstanding the efforts of the Social Action Programme to protect and expand allocations to elementary education, the sector has operated with substantial funding constraints since this period.

In addition to straightforward funding constraints affecting resource transfers from the provincial level, district governments have had to deal with a number of additional difficulties following devolution. Most of these difficulties appear to result from problems in district level operating systems and procedures and from human capacity resource constraints. Some of these difficulties are described briefly below based on qualitative evidence collected during field visits to a sample of districts in each of the provinces.

Flow of Funds from the Provincial Government

Following devolution, some districts appear to have suffered problems in receiving sufficient funds from the provincial level to operate devolved functions, including education. This has included delays in and transfer of sufficient funds for salaries. Whilst the delay may be partly due to provincial cash flow difficulties, it also partly due to constraints in the financial management systems for devolution as well as ‘teething problems’ in the devolution process. The provincial Government of Balochistan, for example, did not budget and release funds for education salaries at the district level, resulting in the district governments switching funds from development and non-salary recurrent allocations to meet salary obligations. Moreover, the cost of the 2004 salary increase was not passed to districts with the effect that districts had to redirect development expenditure to pay for salaries.

Budget Systems, Procedures and Training

Responsibilities of district officers have increased substantially under devolution. At the same time, there is a general lack of understanding of the procedures and reporting requirements under the new devolved system. As a result, even when funds are available for expenditure, they are often not spent properly or on time. Considerable and appropriately designed training will be required to address this.

Despite being responsible for planning and managing resources for the education sector, EDO(E)s are often excluded from significant components of this process. This occurs for a variety of reasons, including: district education resources being allocated at the provincial level, with little or no prior communication with district government staff; and development projects being planned and undertaken by other EDOs within their districts. Budget preparation and implementation procedures are therefore required that clearly identify the respective roles and responsibilities of all parties in the budget process which impacts on district governments. This will be a substantial exercise and will need to involve participation from and agreement with the provincial government. Substantial training associated with this will be required.
Interaction between Political and Technical Levels

In some districts the various political actors appear to exert much energy in diverting education resources on a constituency basis rather than according to technical need. This was more pronounced in districts where the officials had differing political allegiance and made it difficult for the EDO(E)s to understand the correct procedure to follow.

Intermingling of Accounts

Multiplicity of account keeping procedures exists, not only for the district education budget but also with regard to reporting requirements for schemes financed by donors. This effectively increases the workload of district officials and often results in incorrect transfers between heads of accounts.

Provincial Interference

Provincial governments continue to assume responsibility for appointment and posting of senior officials. In some cases, provincial governments also retain control over considerable components of non-salary district education allocations and expenditures. The former reduces the allegiance of those officials to the district management and administration, thereby negating many of the intended benefits of devolution. The latter results in substantial constraints in the budget process for education at the district level.

Ensuring Additional Resources for Education

The foregoing sections illustrate some of the difficulties in establishing the “real” level of education budgets and expenditure in Pakistan. Under these circumstances, ensuring additionality of funds to education through resources from higher levels of government and or from donor resource flows (e.g. direct budget support) will be especially difficult.

A priority, therefore, will be to ensure the elements of the financial flow and accounting/reporting systems are in place and appropriate district staff are capable of managing them either through the existing manual system and accounts classification or the new system of classifying accounts and computerised recording. Even in policy discussions on the education sector the focus must include not only education staff, but also finance and works staff at district level and as well as staff at provincial level.

Whilst measures are being taken for allocations to be properly identified, allocated according to need and recorded, it will be important to translate provincial level reforms into specific district activity requirements according to the specific needs of individual districts. This will be important in defining policy requirements and associated financing needs at the district level for achievement of PRSP, EFA and ESR targets.

Under current arrangements for devolved systems, additionality of funds associated with the particular reform targets at the district level will be difficult to achieve. Under these
arrangements, block grants are transferred to district governments which allocate resources between sectors according to district budgets. Additionality would, therefore, need to rely on characteristics of conditional grants being built into resource flows to the districts, a feature which, to a large extent, does not exist under current devolution arrangements.

A conditional grant approach is already being developed under the devolution arrangements for Punjab. Incentives to improve service delivery have been incorporated in Terms of Partnership (TOP) agreements between the district and provincial governments. The main thrust of the TOP is performance in the districts. Those districts performing well would be provided with increased funding to further improve education reforms. Districts not meeting the terms of the TOP would have a reduction in provincial financing for education. It will be important to monitor the implementation of these arrangements with a view to assessing the extent to which similar incentives may be established in other provinces for the achievement of education policy reforms.
Chapter 4: Options and Modalities for Education Sector
Budget Support in Pakistan

21. Key lessons for budget support in Pakistan

Chapters I, 2 and 3 provide a range of information which can be drawn on for the design of a DBS for the Education sector in Pakistan.

International Experience of DBS

Chapter I presents five examples of international Direct Budget Support (DBS), each of which has design aspects of direct relevance to Pakistan. These include two examples from Ethiopia (DBS in a federal environment; and DBS highlighting issues of donor harmonisation) plus examples from Bangladesh (education sector DBS), India (DBS in a low aid dependency environment) and Vietnam (using judgement in the application of DBS conditionalities). In addition, Chapter I provides a number of general lessons from a range of other countries.

International experience of DBS includes:

- the direct transfer of financial resources to governments and the planning, budgeting and accounting of those resources through government systems and procedures;
- an emphasis on government taking the lead in the design and development of policies associated with and supported by DBS; and
- the development of policy conditionalities associated with DBS through a process of dialogue between government and donors, focussing on national policies, particularly those emerging from the PRS process or other national (or regional) policy frameworks.

International experience of DBS has often been associated with attempts at improved donor coordination. This has occurred in some cases through the establishment of specific donor and government forums, often with DBS as the focus, and by synchronising missions. These forums have been important in attempting to ensure that donor resources respond to specific government policies and priorities. Donor coordination has also involved the establishment of monitoring mechanisms associated with DBS. In many countries, the PRSP reporting framework has been utilised as the monitoring mechanism for the DBS.

Although DBS designs often involve the use of transparent release and transfer mechanisms to improve predictability and minimise transaction costs, the ease with which DBS may be switched off has sometimes meant in practice that donors and governments need to make specific efforts for these benefits to be effective. Likewise, although DBS seeks to lower transaction costs associated with the design and delivery of donor assistance, experience to date suggests a risk that transaction costs may increase over the short term before this benefit is fully realised. DBS design needs to take these factors into account.
The strong message with regard to fiduciary risk from international experience is that it is the government’s strategy and actions for the management and reduction of risk that matters most, rather than the specific level of risk at the time of the design of a DBS instrument. In many cases where fiduciary risk has been estimated to be ‘high’, donors have proceeded with DBS when the recipient governments have had credible strategies in place to manage and reduce risk.

The lessons from international experience of DBS will inform the design of options for a DBS instrument for the education sector in Pakistan.

**Pakistan Experience of DBS**

Pakistan also has its own substantial experience of DBS type instruments which can be drawn upon in the design of a DBS instrument for the Education sector. This experience includes General Budget Support (GBS), Sector Budget Support (SBS) and Sector Earmarked Budget Support (SEBS).

**Fiscal Flow**

Fiscal flows for DBS in Pakistan have all operated in more or less the same way, irrespective of the specific design of the DBS type instrument. The donor currency has been paid into an account opened specially for that purpose in the State Bank of Pakistan (SBP). The currency has then been converted into Rupees and has been transferred to the relevant consolidated fund (i.e. to the consolidated fund for the Federal Government or to the consolidated fund of one of the four provincial governments). The recipient level of government has been required to plan, budget and account for the funds in the same way as for funds raised by the Government of Pakistan (e.g. in the same way as for taxes raised and distributed through the NFC award mechanism).

A DBS mechanism for the education sector would need to respect these arrangements. Whether the funds are to flow ‘direct’ to the Federal Government or to one of the provincial governments, a further point is that the “Rules of Business” require the Economic Affairs Division (EAD) of the Federal Ministry of Finance to take responsibility for engaging with international donors. This effectively means that the design of the mechanism for the DBS fiscal flow (and the broad framework for the associated policies and conditionalities) and the final details of the grant or loan would need to be agreed with the EAD as well as with the level of government concerned.

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42 The relevant sub clauses of rule 7 state that the EAD has responsibility for: assessment of requirements, programming and negotiations for external economic assistance from foreign governments and organisations; matters relating to IBRD, IDA, IFC, ADB, and IFAD; economic matters pertaining to UN etc.; negotiations and coordination activities, etc. pertaining to economic cooperation with other countries; and assessment of requirements, programming and negotiation for securing technical assistance to Pakistan from foreign government organisations including nominations for EDI courses.

43 For DBS loans, the Federal Government would need to assume the sovereign debt and, if required, on-lend the funds to the relevant provincial government.
Budget Support to Education in Pakistan

‘Entry Point’

In designing any DBS instrument for Pakistan, an appropriate ‘entry point’ needs to be identified. In this case, ‘entry point’ refers to the level of government that will receive the DBS into its consolidated fund. A number of points can be drawn from the Pakistan experience of DBS in this regard.

The first is that the Federal Government must be involved in the process, wherever the ‘entry point’ is. As noted in the section on fiscal flow, not only does the EAD have to be involved in the process, the SBP must play a role also.

Once this has been addressed, the ‘entry point’ in principle can be either the Federal Government, one or more of the provincial governments or one or more of the district governments. In practice, ‘entry points’ for DBS to date have either been the Federal Government (where the policy framework being supported by the DBS is national in nature) or one of the provincial governments (where the policy framework is provincial in nature). There are good theoretical and practical reasons for district governments not having been used to date as an 'entry point' for DBS, including:

- the policy frameworks that DBS have supported have tended to be national and/or provincial in nature, even though much of the implementation in some cases has involved activities at the district level;
- as illustrated in Chapter 3, there are a range of fiduciary risk issues associated with planning and managing the use of resources at the district level that will need to be addressed before the district is likely to be a strong 'entry point' for DBS; and
- in many cases, the Provincial Finance Commission (PFC) mechanism will be the appropriate means for distributing resources to district governments, particularly where the functional responsibility for the corresponding policy framework is shared between the two levels of government and also where ‘equality’ requirements (in a fiscal federal sense) are important.

Linking DBS to Government of Pakistan Reforms

Each of the DBS instruments used to date in Pakistan have had clear links to Government of Pakistan (GoP) policy frameworks and have been designed to support those frameworks. Often, this has involved supporting the delivery of policies, not only through the provision of additional funds, but also through the further development of policy ideas and the design of strategies and methodologies to facilitate the achievement of policy aims through technical assistance associated with the DBS.

This aspect of Pakistan’s experience is particularly relevant in view of the fact that the education sector has reasonably well-defined policy statements (e.g. through the PRSP, ESR, etc.), which are still to be fully costed, appropriately linked to resource availability through a medium term budget framework and for which the full implementation strategy details have yet to be worked out. This will be one of the key challenges for the development of a DBS instrument for the education sector.
Donor Harmonisation

Chapter 2 describes arrangements for donor harmonisation for previous and existing DBS instruments. In practice, donor harmonisation in Pakistan has generally been weak and fragmented. This has particularly been the case with regard to donor harmonisation in the education sector. This is something which will need to be carefully addressed in the design of a DBS instrument to ensure that full advantage of the potential benefits of DBS accrue to the education sector.

Monitoring

Likewise, Chapter 2 describes monitoring arrangements for previous and existing DBS instruments. Chapter 3, however, shows that existing monitoring arrangements for the education sector, including government systems and procedures, are weak. The design of a DBS instrument for the education sector would therefore need to include arrangements that adequately report on both financial and output (and perhaps outcome) measures. In the spirit of DBS, this would need to focus on use of, and improvements in, government systems and procedures and, where alternative mechanisms are used, arrangements would be required for the gradual phasing out of such mechanisms and/or their incorporation into government systems and procedures.

Fiduciary Risk

Pakistan experience of DBS is consistent with an important aspect of international experience in that donors have been prepared to go ahead with arrangements for DBS instruments notwithstanding assessments for fiduciary risk that have been ‘high’. This is because the Government of Pakistan has established a credible programme for managing and reducing fiduciary risk, including measures for implementation of CFAA 44 recommendations. This has led to tangible benefits with regard to improvements in systems and procedures and has resulted in assessments of the level of fiduciary risk moving from ‘high’ to ‘medium’.

Much of the fiduciary risk work associated with the design of previous DBS instruments in Pakistan is directly relevant to the design of a DBS for the education sector, and some of this work would not need to be repeated. The specific focus and detail of the fiduciary risk for an education sector DBS, however, will differ slightly. In this regard, Chapter 3 describes a range of ongoing constraints and problems at the provincial and district levels with regard to the planning, budgeting, management and accounting of education resources.

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44 CFAA is the Country Financial Accountability Assessment produced by the International Monetary Fund.

45 E.g. DFID recently changed its own estimate of the fiduciary risk associated with DBS in Pakistan from ‘high’ to ‘medium’.
These constraints and problems represent a substantial area of fiduciary risk for an education sector DBS instrument and is the area where donors are likely to focus most attention. Notwithstanding the existing level of risk, Pakistan experience has shown that donors have been prepared to accept such risks so long as the GoP is seriously committed to measures that are designed to manage and reduce the risk. This will need to be a key feature of the design of a DBS instrument for the education sector.

The home-grown experience of DBS is drawn upon in the following sections to determine an approach for the design of an Education sector DBS for Pakistan.

22. Design Issues for Direct Budget Support in Pakistan

Policy Issues

Chapter 3 describes the key national policy statements and national policy initiatives associated with the education sector. These include:

- National Education Policy 1998-2010;
- Education Sector Reforms (ESR) 2001-2005;
- “Devolution Plan”; and
- Poverty Reduction Strategy Paper (PRSP).

The National Education Policy and the ESR essentially comprise policy targets rather than fully costed strategies for the achievement of specific reforms. Likewise, the education components of the PRSP also comprise a series of education sector targets with an associated (and essentially arbitrary) ‘allocation’ of future resources. In all cases, in addition to the need for detailed implementation strategies, much more work is required to estimate the full costs of reaching the policy targets in each of the three key policy statements and to ensure consistency between each. In fact, the absence of more detailed implementation information constrains the work required to cost the policy statements more clearly, whilst further information on costs constrains would aid the practical design of implementation strategies.

A further characteristic of the national education sector policy statements, that has a particularly bearing on the design of a DBS for the education sector, is that most education sector reforms are province-specific and respond to needs and priorities as perceived at the provincial level whereas national policy statements have been developed at the federal level. As a result, provincial reforms currently link poorly to the major national policy statements for the education sector.

Whilst national targets and standards are important in ensuring equality and in achieving sustainable inroads for poverty reduction, the design of a DBS for the education sector in Pakistan must be rooted in the development of province-specific strategies. This will require political commitment at the provincial level for the establishment of clear province-specific education policy targets.

Hand-in-hand with this will be a requirement to develop province-specific strategies for the achievement of the agreed policy targets. This will involve a range of measures including specific spending commitments (and an associated commitment of future resources) which will need to be associated with clearly costed policies as well as a range of initiatives
for the improvement of planning, budgeting and accounting of education resources at the provincial and district levels.

In this regard, the (national) PRSP in particular should be regarded as a ‘living document’ which evolves as information on policies, priorities, systems, procedures and resources improves. The design of an education sector DBS should be regarded as an important component of the evolution of the (national) PRSP. What is required through the design of the education sector DBS, in essence, is the development of province specific components of the (national) PRSP which are designed and owned by the provincial governments themselves.

Whilst the National Education Policy, ESR and existing PRSP documents may be used as a reference point for the establishment of short, medium and long term education policy targets for the provincial governments, province-specific policy targets should be developed by the provincial governments themselves. At the same time, detailed work on costing these targets would need to be carried out along with work on establishing province-specific implementation and monitoring frameworks. This information would then need to form the basis of the future evolution of the education component of the PRSP. In the absence of this kind of approach, the PRSP is likely to remain a relatively remote concept to the provincial governments with little incentive for them to meet the policy targets contained within it.

**Process issues**

The field visits carried out by the consulting team for this report have noted a wide range of process problems at both the provincial and, particularly, the district levels with regard to the planning, budgeting, management and accounting of education resources. These difficulties and constraints have been a feature of provincial and district systems in Pakistan (not only for education but for most, if not all, sectors) for many years.

One important objective of the devolution process (not by any means the only objective) has been to address these difficulties and constraints. In practice, however, whilst the provincial governments have fully adopted devolution, the LGO requires a degree of interpretation for its implementation and the devolution process will require further implementation measures before provinces effectively devolve all of the relevant responsibilities to districts. Moreover, districts currently lack much of the capacity required to operate effectively under devolution. As a result, there remain a number of issues which require both provincial and district action to address including:

- a ‘partial’ implementation of some aspects of devolution (as noted above);
- some aspects of devolved budgets currently retained at the provincial government level;
- a degree of confusion over provincial and district resource flows and reporting;
- some confusion over institutional responsibilities within districts and between provincial and district governments;
- education planners not having complete sector or budget information; and
- low human resource capacities.
As noted in the Key Lessons section, these issues constitute a substantial area of fiduciary risk for an education sector DBS and they will inevitably be subject to much attention by donors during any design phase and beyond. As also noted in Section 1, potential DBS donors would expect, in particular, a strong and demonstrable commitment from the respective governments (federal, provincial and district) for these issues to be effectively addressed. Given the link between these issues and the overall level of fiduciary risk, this is likely to form the main area of policy conditionality for any DBS for the education sector.

The ‘prize’ for effectively dealing with these aspects of fiduciary risk, however, is much more than simply the achievement of additional resources for the education sector. Rather, it is the more productive use and application of a much greater volume of GoP resources for service delivery in education (and other sectors) at the provincial and district levels.

**Fiscal flows**

One aspect of fiscal flow with regard to the design of a DBS for the education sector is clear from the discussion of lessons from international and Pakistan DBS experience. After consulting and agreeing as appropriate with the respective ‘entry point’ government and with the EAD, DBS funds will need to flow to an account specially opened for that purpose in the SBP, be converted into Rupees and then be transferred to the respective ‘entry point’ consolidated fund.

The design of the DBS, however, would need to take a wider perspective on fiscal flow issues. In this regard, well designed and well costed province-specific policy targets associated with well designed and well costed province-specific implementation strategies will have little effective impact if they are linked to funding mechanisms that remain largely unpredictable. A DBS design for the education sector, therefore, would need to link DBS fiscal flows with corresponding fiscal flows from the NFC and PFC awards and fiscal flows associated with vertical funding lines, such as the ESR programme, within an increasingly transparent and predictable framework.

In this regard, although the NFC formula is clear and transparent, the mechanisms of forecasting NFC revenues at the federal level are weak. The mechanisms for either transferring this information to provincial governments on a timely basis or for directly forecasting in relation to this information at the provincial government level are also weak. Likewise, timely information at the district level in relation to PFC fiscal flows does not occur. Moreover, vertical funding lines are often an unpredictable source of financing for both provincial and district governments. Unless these issues are addressed in the DBS design and unless the respective governments are seriously committed to improving this situation, the effectiveness of the DBS resources and the associated policy targets and strategy frameworks will be seriously limited.

**Monitoring and evaluation**

As noted in Chapter 3, the development of monitoring systems for the education sector has been piecemeal and a comprehensive and coordinated monitoring programme has yet to be developed. Currently, there is no consistent reporting of financial information across districts and provinces. Different sources of financial information result in different figures
for expenditure. The lack of consistent and reliable indicators, both statistical and financial, makes it difficult to plan for and evaluate policy.

Consistent and reliable statistical indicators need to be defined and generally agreed to measure outputs (and outcomes) and to relate these to the use of financial resources.

National indicators currently in use (e.g. for the ESR) are too general to be of use at the district level and often do not capture the differences at lower levels of government nor the realities of the gender situation and non-formal and private education.

The weak functioning of monitoring mechanisms at lower levels of government is due to a dearth of qualified personnel, in addition to the deficiencies in system design as noted above. Institutional capacities at the district level need to be developed for sustainable monitoring and reporting of good quality education information.

Weaknesses in donor coordination have been noted in the section on Donor Harmonisation. This is particularly the case with regard to education sector monitoring. Little has been done to co-ordinate and harmonise approaches between donors and to agree amongst themselves and with the Government a common set of monitoring and reporting indicators associated with donor support.

Approaches for addressing education sector monitoring would therefore need to be taken into account in the design of an education sector DBS. This would need to incorporate strong links with arrangements for donor coordination and donor harmonisation.

23. The appropriate level of government interaction

Federal level

Perhaps the most important factors in choosing an appropriate 'entry point' are ‘functional responsibility’ and the nature of the education strategy the DBS seeks to support. In Pakistan, service delivery in education is focussed mainly at the district level. Notwithstanding this, the provincial government also has functional responsibility for education service delivery whilst the federal government undertakes some activities in the delivery of tertiary education.

Early discussions between donors and government therefore would need to focus on the likely emphasis of the overall education strategy that the DBS would seek to support. In this regard, even if the focus of the strategy were to be substantial improvements in the quality and coverage of elementary education, it is highly unlikely that this could be achieved without a corresponding focus on other components of the system. Expanding the supply of teachers cannot be achieved without ensuring a sustainable flow of sufficient student numbers through higher levels of the education system and without paying attention to teacher training. Likewise, improvements in the quality of education service delivery will be limited without, for example, making appropriate arrangements for in-service teacher training.

This reasoning would suggest that the main 'entry points' for an education sector DBS would be the provincial and district governments (although there may be an argument for an, albeit much smaller, flow of resources to the Federal Government consolidated fund also).
Budget Support to Education in Pakistan

One obvious solution would be to establish an appropriate country-wide DBS education strategy, incorporating all levels of government according to their respective functional responsibility and to make the 'entry point' the Federal Government consolidated fund. The Federal Government would then be responsible for transferring DBS resources to lower levels of government (in a clear and transparent manner according to the agreed requirements of the strategy to be supported) in a manner analogous to the NFC and PFC transfer mechanisms. This would be similar to the application of DBS at the Federal level in Ethiopia where DBS resources are treated in exactly the same way as other resources in the 'divisible pool'.

For this approach to be attractive to both the GoP (particularly governments at sub-federal levels) and the (potential) DBS donors, a clear rationale for the approach would need to be specified. For such an approach to work, the main rationale would be to improve the transparency and predictability of flows of education resources from the Federal Government to sub-federal levels. This could be achieved, for example, by pooling all sources of education vertical funds with DBS funds at the federal level and distributing this ‘education divisible pool’ to provincial (and district) governments according to an agreed and transparent formula linked to the DBS education strategy.

A variation on this solution would be to include all levels of government as the 'entry points' according to their respective requirements as identified and defined in the education DBS strategy. This would involve the majority of resources moving directly to provincial and district government consolidated funds. Under such an approach, however, it would be important to reach agreement on arrangements with the Federal Government for improving the predictability of education vertical funding lines as noted above.

A further important factor in determining appropriate 'entry point(s)' is recognition of the fact noted above that education sector reforms are province-specific. Different provinces are at different stages in designing and implementing reforms that are suitable for their own context and situations. The reform process in each of the provinces is evolving and developing and is likely to continue so through the (potential) design of an education DBS and beyond. It may be less easy, therefore, to develop a clear cut national education DBS strategy to be associated with an ‘education divisible pool’ at the federal level. This also suggests that donors may wish to negotiate with different provinces separately and at different times, albeit with the support and assistance of the Federal Ministry of Education.

This would tend to suggest that the 'entry point' should be provincial governments and, possibly, district governments, with the involvement of the Federal Ministry of Education in a supporting and facilitative role. This approach would be consistent with the concept of assisting provincial governments in developing the education component of an evolving (national) PRSP from the bottom-up.

**Provincial/District ‘Entry Points’**

If the main 'entry point' for an education DBS were not to incorporate the Federal Government, the key question would then become whether the 'entry point' should be restricted to provincial governments or whether it should incorporate district governments also. Whilst the provision of DBS direct to district governments would certainly work in principle, the immediate solution to this question is likely to be found in the nature of provincial government education strategies to be supported through DBS and the treatment of fiduciary risk.
In practice, provincial strategies will incorporate a range of expenditure activities at both the provincial and district government levels. Both levels of government have substantial functional responsibilities for different (but related) aspects of education service delivery. Whilst planning and preparation for provincial strategies should be carried out in conjunction with and incorporate information supplied by district government planners, provincial strategies will inevitably be prepared mainly through the provincial Departments of Education. These strategies will then be funded mainly through provincial budget allocations to:

- provincial Departments of Education;
- other provincial departments with expenditure responsibilities for some aspects of the education sector (such as the Department of Public Works with regard to school construction); and
- district government through the PFC award.

Some funding would also be provided through vertical sources such as the ESR programme.

Clearly, therefore, provincial education strategies (whether relatively advanced or not) are already funded through a province-wide DBS system, namely the PFC award. Whilst it would certainly be possible to augment this system with a parallel (donor-funded) DBS system delivering resources direct to districts, this would run counter to the design principles of DBS in principle and in (international and Pakistan) practice. As noted in Chapter 1, a key underlying principle of DBS is to operate through, support and improve upon, existing systems. This would therefore constitute a strong reason for using provincial governments as the 'entry point' and for the subsequent allocation of DBS to education through the PFC award.

Moreover, the PFC award mechanism is likely to be the most appropriate with regard to establishing equality of funding between districts for education.

As noted in the Key Lessons and Process Issues sections, specific aspects of fiduciary risk associated with the planning and use of education funds at provincial and, in particular, district levels are likely to be the focus of much donor attention in relation to an education DBS instrument. Chapter 3 provides a description of some of the detail underlying these aspects of fiduciary risk. This describes a situation of substantial weakness in the planning, management and accounting of education sector resources. This weakness exists at both the provincial and district levels, but particularly so at the district level. A key objective of any DBS instrument would be to improve provincial and district planning, management and accounting systems and a credible plan for this is likely to be a prerequisite to any DBS.

Notwithstanding the development of such a plan to manage and reduce this area of fiduciary risk, donors are likely to require that the current level of exposure to these aspects of fiduciary risk be minimised. Given the relative levels of weakness in this regard between provincial and district governments, this is likely to result in a DBS design with provincial governments as the main 'entry point'.

46 The DBS design would probably need to incorporate some means of determining and measuring 'additionality' of resources to education to ensure that fungibility through budget planning and/or implementation did not result in undue leakages to other sectors.
24. Establishing a Policy Dialogue

The key to the development of an appropriate design for an education sector DBS instrument will be in the establishment of a policy dialogue between the key stakeholders, led by the GoP. As noted in Chapter 1 and Chapter 2, this is a key characteristic of all DBS and is central to the extent to which DBS is successful in facilitating and supporting reform by establishing “ownership”.

The policy dialogue between the GoP and those donors interested in supporting the education sector, however, should be much more than a simple discussion of education reforms. Rather, it should be a discussion of how Pakistan can best achieve the ambitious quality and access improvements articulated in the ESR and the PRSP, how strategies can be developed and supported from the province level upwards to achieve this and what the design of a DBS should be to facilitate these objectives. The policy targets, strategy development and DBS design should not be seen in isolation from one another. Rather, the policy dialogue should bring all three together through sector wide discussions on supporting education delivery through a DBS instrument.

Establishing a Stakeholder Forum

An initial step, both important and practical, will be to bring the key stakeholders together to begin the policy dialogue process. This is likely to include (at least):

- the Federal Ministry of Education;
- the Federal Ministry of Finance;
- provincial Departments of Education;
- provincial Departments of Finance;
- representation from district Departments of Education and Finance; and
- key donors and NGOs with strong interest and / or participation in the education sector.

An initial task for this group would be to discuss the content and detail of this report and to come up with a series of recommendations for moving the policy dialogue forward. This is likely to include recommendations in relation to:

- Membership and constitution of the stakeholder forum, including terms of reference and broad goals and objectives in relation to the development of education sector policies and strategies and the corresponding funding mechanisms.
- An identification of potential interest among donors in supporting the education sector through DBS, including any strong preferences in relation to modalities or any constraints (e.g. domestic procedures or regulations) that may have a bearing on DBS design.
• An identification of potential interest among GoP institutions for receiving support for education through DBS, including any a priori preferences for modalities.
• The development of an initial programme of analysis for the subsequent detailed design of a DBS instrument for the education sector, including the (potential) use of provincial education sector policy and expenditure reviews (EPERs).
• The identification of a broad ‘road map’ and schedule of tasks leading to the detailed development of a DBS for the education sector.
• Determining whether a single stakeholder forum would be sufficient for the circumstances and context of Pakistan or whether separate (but related) forums would be required, for example, for each of the provincial governments.

**Provincial Education Reviews**

It is clear from the discussion in Chapters 1 to 4 that the development (and/or confirmation) of clear province-specific policy targets and clear province-specific strategies for the achievement of those targets will be central to the design of any DBS instrument for the education sector. The development of policy targets and associated strategies will need to incorporate measures for:

- identifying and agreeing key policy targets;
- projecting short, medium and long term cost requirements to achieve key policy targets, including both capital and development components of those costs;
- developing an understanding of how the implementation of policy targets would need to be scheduled and the implications of this for the evolution of costs over time;
- developing an understanding of the likely resource envelope for education service deliver over time, incorporating funds from all sources (e.g. GoP, donor DBS funds, donor projects, NGO activities, private sector expenditures);
- identifying the key requirements for a province and district focussed education sector monitoring system, the extent to which current systems can be augmented to achieve this and what the key steps would be in this regard;
- identifying what the key source of weakness is in donor coordination and donor harmonisation for specific provinces and the actions that would be required to address this;
- methodologically identifying the source of all major fiduciary risk related to systems and procedures for planning, budgeting, managing and accounting for education sector resources; and
- developing a credible and GoP-owned action plan for the management and reduction of the key fiduciary risks associated with an education sector DBS.

In essence, this would require a separate and distinct education sector policy and expenditure review (EPER) for each province with an interest in participating in an education
DBS. Whilst the design of each EPER would be similar, the terms of reference for each would need to be province-specific to ensure that any policy targets and implementation strategies flowing from the EPERs are also province-specific.

The output from the EPERs would effectively determine much of the approach for the design of specific components of an education DBS for each of the provincial governments. It would be essential, therefore, for the stakeholder forum to convene at an early date to agree upon Terms of Reference for this work and for the work to commence without delay.

Whilst the above description of EPERs may appear to suggest that a substantial programme of work would be required, it is important to note that much of the work would draw upon existing documentation developed through a range of other studies for the sector and for issues related to the sector (e.g. with regard to finance, accounting and fiduciary risk). Some original research and field work would inevitably be required, however, and it would be important to incorporate sufficient time for this in the terms of reference for the work.

**Conditionalities**

Management of the EPERs would need to be GoP-led, presumably by the Education Department of the province in which any particular study is taking place. The management team should also include other key stakeholders, particularly those donors with a potential interest in providing funds for the education sector through DBS and other donors with a strong interest in the education sector who are unable to support the sector through DBS.

Key outputs from the EPERs would include a clear specification of education sector policy targets for each participating province and a clear programme of work (strategy) for achieving those targets. These outputs would need to be approved by the provincial government Education Departments (who would have led the management team). These would then form the basis of a conditionality framework for the DBS instrument that would, in turn, need to be agreed as appropriate through the stakeholder forum. This approach would ensure that conditionalities are developed in partnership between the GoP and the donors according to the requirements of GoP-owned policies. As international experience tells us, this is vitally important in ensuring that reforms are successful and sustainable.

An important output from the EPERs would need to be a description of the current monitoring system and a prognosis for the development of an updated system, incorporating financial and non-financial indicators, that fits the requirements of the education reform process in each province. In turn, this should then become the basis for the development of a monitoring system for the provision of DBS.

**Fiduciary Risk**

A fiduciary risk assessment (FRA) will be required for any DBS instrument. FRAs have recently been conducted at the federal level and also at the provincial level\(^{47}\). As noted above, much of the work underlying these FRAs would be directly applicable to a FRA for an education sector DBS\(^{48}\) and could be drawn upon for this purpose. As noted above also, a

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\(^{47}\) DFID recently conducted a FRA with regard to the Government of Punjab.

\(^{48}\) It is likely separate FRAs would be required for each of the participating provincial governments.
specific focus of FRA with regard to an education sector DBS will be the systems and procedures for planning, budgeting, managing and accounting for resources within provincial and, especially, district governments. Much of the underlying work for this should drop out of the EPERs as suggested above.

As previously noted, this will inevitably be an area of focus and concern for potential DBS donors and a credible programme of work to address these issues is likely to be required for any DBS to proceed. Whilst the level of risk in this regard is likely to be high in all provinces (judging by the analysis in Chapter 3), so long as the participating provincial governments are both committed and credible in addressing these issues, previous Pakistan experience and a range of international experience suggest that DBS could proceed even if this risk is assessed to be ‘high’.
Attachment A: Bangladesh Education Sector Development Support Credit: Summary of Prior Actions

Policy Framework


System Management

- Enforce salary-subvention system (MPO), with poorly performing institutions given notice that their subventions will not be renewed until they meet performance criteria.
- Institute standardised examinations at grade 6 and at grade 8.
- Publish standardised examination results (grades 8, 10, 12).
- Contract out the evaluation of schools and colleges for awarding recognition status and becoming eligible to receive MPO subventions.
- Identify ‘over-served’ upazilas and agree not to finance subventions to new schools being established in these upazilas.
- Amend the 1977 Regulations on Managing Committees of the Registered non-government Schools and Colleges (SMCs) which reflect proposed changes to their composition.
- Establish district and upazila oversight committees.
- Develop time-bound action plan to address financial management deficiencies.

Teacher Effectiveness

- Cabinet approval of draft legislation for Non-government Teachers' Registration and Certification Agency (NTRCA) to certify a pool of qualified teachers on the basis of academic qualifications and examinations.
- Approve legislation for granting pensions to teachers.

Curriculum and Textbooks

- Develop restructuring action plan for NCTB clearly separating functions between the Curriculum Development Wing and the Textbook Wing.
- Develop revised textbook manuscript approval criteria.
- Develop plan acceptable to IDA to competitively print and publish grades 6-10 textbooks in a phased manner.
Attachment B: Bangladesh Summary of Indicative Triggers for Follow-Up Adjustment Operation (FY05/06)

Policy Framework

- Satisfactory macroeconomic framework

System Management

- Independent evaluation of performance of service providers completed and recommendations implemented by MOE.
- Revise salary subvention system better to link subventions for teacher’s salaries to outcomes on standardised examinations.
- Poorly performing schools will be given a two-year period in which to improve their performance and well performing schools will have their subventions increased for the next two years.
- Outcomes of expenditure tracking survey disclosed and MOE implements recommendations in a manner satisfactory to IDA.
- MOE financial management plan implemented and financial unit fully functional.

Teacher Effectiveness

- NTRCA approved by Parliament and fully staffed.
- Approve incentive system for attracting qualified teachers.
- Finalise a core framework of standards specifying the minimum level competencies for all teachers.
- Teachers not meeting competence standards set by NAEM, to have skills upgraded over a period of five years beginning 2005.

Curriculum and Textbooks

- NCTB restructuring under implementation.
- Independent evaluation of 1st phase of competition for textbook printing and publishing completed and implementation of action plan continuing.
Attachment C: Vietnam Summary of Triggers for PRSC 3

Private sector development

- More than 1200 new private enterprises registered on average every month.

SOE reform

- Timely implementation of ownership transformations under the new SOE reform plans.
- Actual rating of SOEs according to the criteria set out in the Decision on SOE Performance Evaluation and Monitoring.

Financial sector reform

- Four largest SOCBs to meet the loan-loss provisioning and NPL resolution targets set in their restructuring plans, and phase-in conditional recapitalisation.
- Adopt a plan with a clear timetable to enable one SOCB to seek equity participation by a reputable international partner.
- Draft a new legal document to replace or supplement Decree 43 providing a sound regulatory framework for policy lending.

Education

- Draft the regulation of Fundamental School Quality Levels.

Land

- Submission of a bill for the revision of the Land Law supporting land-tenure security, community land-use practices and access to land for all sectors.

Environmental

- Conduct a broad consultation to support the drafting of sustainability regulations to implement the environmental impact assessment (EIA).

Planning processes

- Progress in the implementation of CPRGS planning processes in one sector.
- Progress in the implementation of CPRGS planning processes at the provincial level.

Public financial management

- Progress in the set up of an integrated Treasury and Budget Management Information System (TABMIS).
Legal development
- Publication of legal documents in the Official Gazette as required by the amended "Law on Laws".
Attachment D: Ethiopia PRSC 1: Summary of Prior Actions

Public Sector Management

- MoFED issuance of directive on financial calendar.
- Cabinet approval of the Macro-Economic and Fiscal Framework for 2004/05-2006/07.
- MOFED issuance of indicative planning figures for Federal regional subsidy and Federal specific purpose grants.
- Adoption of new chart of accounts by Regional Cabinets of four regions.
- Issuance of circular on devolution of procurement responsibilities from MoFED to federal budgetary institutions.
- Enabling legislation to assign expenditure and revenue responsibilities to municipalities enacted in 4 regions and Addis Ababa.
- Restructuring and performance improvement initiated for Addis Ababa and 16 towns.
- PSIP pilots initiated in 11 Ministries, Authorities, and Bureaus.
- Issuance by CSA of guidelines and service standards to ensure timely release of and access to raw statistical data.

Rural Development and Vulnerability

- Issue Rural Land Proclamations to enhance land tenure security and a directive to establish appropriate land administration institutions in four major regions.
- Increase percentage of extension staff with no responsibility for delivery of inputs and credit administration to 75% as well as reduce share of annual fertilizer sales with regional government guarantees to 200,000 metric tonnes.
- MoFED issuance of circular notifying regions that access to federal specific purpose grant for food security will require compliance with guidelines for mitigating social and environmental risk under the Access to New Land Programme, once such guidelines are finalised.
- Parliamentary approval of proclamations for environmental protection organs, environmental impact assessment, and environmental pollution control

Private Sector Development / Financial Sector Development

- Submission of application for accession to WTO.
- Approval by MoFED and commencement of implementation of the restructuring plan for the
- Commercial Bank of Ethiopia.
- Reduction in cost of new business registration from $425 to $65 and the time of registration from 44 days to 8 days.

Human Development

Adoption of guidelines defining the minimum package of services at woreda level including the health extension program and related roles for health posts and health centres
Attachment E - Summary of Field Visit Findings

In the course of the fieldwork for this study, extensive discussions and interviews were held at all levels of the system including Federal, Provincial and District and across sectors. This included discussions and observations for all four Provinces and several visits to most of them. In the course of these visits discussions were held with relevant senior provincial officials in education, finance and accountant-general offices. At the district level, discussions were held with all relevant officers in at least two districts in each province. In many districts discussions were conducted in groups so that statements could be immediately cross referenced. Participants included senior district staff from education, finance, planning, works as well as central district administration. A summary of some of the key findings, with implications for institutional strengthening and human capacity development required for achieving key policy targets, is presented below.

Sindh

As in other provinces, the EDO(E) is charged with managing education at the district level. In contrast to other provinces, there is also an EDO(Edu.works). In practice, whilst the EDO(E) should be the focal point of all educational activities, much of this work is carried out by the EDO(Edu,works) and the EDO(Works). Rather than preparing PC-1 information according to education requirements as perceived by the EDO(E), therefore, much of the planning work is effectively carried out elsewhere and is implemented and executed by others. Moreover, fieldwork evidence suggests that recommendations provided by the EDO(E) for infrastructure development are often turned down on political grounds.

In addition, non-salary releases by the provincial government have not corresponded with budgetary requirements. Their further redistribution is controlled by the DCO. Furthermore, the development budget continues to be controlled by the provincial government, further weakening the management of the education sector at the district level.

The field visits suggest that the EDO(E) does not have access to consolidated information on the education sector for the district. The budgets and expenditure data are held in a variety of places, including the offices of the DCO, EDOs (Works and Edu, works) and the DAO. Full and consolidated information does not appear to be available with the EDO(Finance) either, as information on PLAs operated by the DCO is not available.

Intermingling of accounts, resulting from the incomplete nature of fiscal devolution, is also problematic in understanding the structure of budgets and expenditures for education at the district level. Disbursement of salaries, for example, is made by the provincial government through its A/C – I, with a corresponding (notional) adjustment in the accounting information recorded in district A/C – IV. This results in accounts information for salaries, at least, being recorded incorrectly. The AG has not been able to prepare the accounts due to this intermingling of A/C - I and A/C – IV.

NWFP

As with other districts, salaries continue to be paid through provincial Account I and senior district postings continue to be the responsibility of the provincial government. This
removes much of the financial and managerial autonomy of education managers in districts under devolution. In contrast with Sindh, however, non-salary and some development funds (up to a certain limit) are disbursed through district Account IV.

As with other provinces, the EDO(E)s in the districts visited were unable to produce consolidated information on the education sector. It was also not possible for the consultant to obtain this data from information from officers directly concerned with financial management (e.g. the EDO (fin.& planning), the accountant of the DCO or the DAO). The figures collated by the AG are also not complete as PLAs and direct donor support are not fully reflected. In addition, information relating to dedicated development funds operated by the DCOs, such as Khushhal Pakistan Programme (KPP), Tameer Sarhad, Member Provincial Assembly (MPA) programmes etc. could not be produced for the consultant.

As with other provinces, there is a high turnover of district staff posted by the provincial government, which undermines sustainability in developing and implementing education reforms.

As with other provinces, there is an inter-mingling of information and funds flow with respect to Accounts I and IV, undermining the correct availability of financial management information for the education sector. Moreover, with devolution, the responsibilities of accounting staff have increased without a corresponding expansion of capacity, either in terms of numbers or in terms of training.

**Balochistan**

There appears to have been little scope to date for efficient planning and management of education at the district level. In contrast to other provinces, the consultant found the role of the provincial finance department to be all-pervading. Whilst salaries in Balochistan have actually been transferred to districts (distributed through Account IV rather than through Account I), the provincial finance department retains control over amounts to be released, which have proved to be insufficient to meet payroll obligations at the district level. The provincial government retains full control over development funds, which are released through Account I.

As in other districts, the role of the EDO(E) does not correspond with the notional responsibilities of the post for planning and management of the education sector. Many of the decisions on budget allocations and expenditures for education are taken elsewhere. The consultant found that the EDO(E)’s responsibilities were largely confined to ‘checking teacher's attendance and supervising exams in schools’.

As in other provinces, neither the EDO(E) nor any of the other key district officials was able to provide consolidated financial information for the education sector. One of the key reasons in the case of Balochistan was that information on allocations and expenditures from provincial Account I was not communicated to the relevant district officials.

The consultant found that district officials were not consulted by the provincial government over district requirements corresponding to those components of district expenditures retained in the provincial budget or planned by the provincial government (e.g. education wage bill and development resources). Among other things, this has resulted in wage bill allocations being based on incorrect information, which helps to explain why allocations to districts for salaries have been insufficient to meet payroll requirements. This has resulted in other district sources of funds being utilised to meet salary requirements, with
school welfare funds being relied upon to pay non-wage recurrent costs such as electricity bills.

As in other districts, capacity constraints exist with regard to financial management. This is a particularly acute problem in Balochistan, where there is a shortage of sufficiently skilled and experienced staff at both the provincial and district levels.

**Punjab**

Information from the field visit to Punjab provides a good example of the budget process at the district level under devolution. The districts prepare their own budgets based on the expected transfers from the Provincial Finance Commission and estimates of district revenue raising efforts. A District Annual Development Programme is also prepared. The District Council, chaired by the Nazim approves the budget. The DCO forwards it to the EDO(Finance) who informs the respective EDOs. A copy of each department’s budget is passed to the DAO for exercising budgetary control.

Notwithstanding this autonomy in establishing budgets, the financial powers of district officers continue to be governed by the 1991 Provincial Delegation of Financial Powers. As such, the financial powers beyond routine expenditures continue to rest with the respective Provincial Secretaries who themselves have to seek expenditure approval from the Provincial Finance department. Fiscal devolution has, therefore, not been fully affected, and the district governments are subject to the lengthy and many-layered reporting and approval process associated with the release and expenditure of allocated funds.
Attachment F - Legal requirements

The following provides a brief discussion of the legal requirements associated with the provision of support for the key education sector reform initiatives presented in Section 2. This provides information for much of the context within which a Direct Budget Support instrument to the education sector would have to operate.

Articles 78 and 79 of the Constitution of Pakistan define the basis of the public finance management system in Pakistan. As per Article 78, the Federal Consolidated Fund has been defined as follows:

All revenues received by the Federal Government, all loans raised by that Government, and all moneys received by it in repayment of any loan, shall form part of a consolidated fund, to be known as the Federal Consolidated Fund.

Article 79 defines the custody, etc., of Federal Consolidated Fund and Public Account:

The custody of the Federal Consolidated Fund, the payment of moneys into the Fund, the withdrawal of moneys therefrom, the custody of other moneys received by or on behalf of the Federal Government, their payment into, and withdrawal from, the Public Account of the Federation, and all matters connected with or ancillary to the matters aforesaid shall be regulated by Act of [Majlis –e - Shoora] (Parliament) or, until provision in that behalf is so made, by rules made by the President.

For the Provinces similar financial procedures have been laid down in Articles 118 and 119, with suitable changes in the words relating to a Provincial Government.

The Government has prescribed “Rules of Business” which, among other things, determines the rules through which foreign assistance may be provided to the GoP. The “Rules of Business” give the Economic Affairs Division (EAD) of the Ministry of Finance responsibility for engaging with international donor organisations with regard to receipt of donor funds. The relevant sub clauses of rule 7 are reproduced below:

- Assessment of requirements, programming and negotiations for external economic assistance from foreign Governments and organizations.
- Matters relating to IBRD, IDA, IFC, ADB, and IFAD.
- Economic matters pertaining to UN etc………………
- Negotiations and coordination activities, etc, pertaining to economic co – operation with other countries.
- Assessment of requirements, programming and negotiation for securing technical assistance to Pakistan from Foreign Governments organisations including nominations for EDI courses.
The above stated “Rules of Business” clearly amplify that all external finance is the responsibility of the Federal Government through the EAD. It implies that the EAD should be the focal point for all assistance, whatever its form. The assistance may be for the Federal Government, Provincial Government or any Federal or Provincial project. The sovereign guarantee for loans etc. is that of the country. For debt swaps, the EAD would, through the Finance Division, set off the original loan and its adjustment in the books through the Accountant General, Pakistan Revenues (AGPR), the office responsible for maintenance of national accounts. The grants may be for specific purpose, Federal or Provincial, but they cannot be directly negotiated without the participation of the EAD.

There would, however, be no restriction with regard to where resources are to flow under a DBS instrument (whether to the federal, provincial or district level).