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QUALITY AND COORDINATION OF OFFICIAL DEVELOPMENT AID IN PAKISTAN

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QUALITY AND COORDINATION OF OFFICIAL DEVELOPMENT AID IN PAKISTAN

Abdul Malik

INTRODUCTION

Pakistan has historically received large volumes of aid but it has also faced an increasingly difficult task of aid coordination. In 2007, Pakistan received more than U.S.$2.2 billion in Official Development Assistance (ODA), ranking the country as the sixth largest recipient of official aid in the world. This overall sum, however, came from diverse sources in an erratic fashion and was being spent on many different activities, often through a combination of budgetary and non-budgetary arrangements, thus leading to a complex task of coordination. This study investigates these various aspects of aid composition, fragmentation, and volatility as key measures of aid quality and discusses their implication for the coordination and effectiveness of aid.[1]

In this study, the composition of aid—*aid mix*—refers to the patterns of aid disbursement through different channels (e.g. food assistance, technical assistance) and modalities (e.g. grants, development loans). The aid mix is an important determinant of aid effectiveness because some forms of aid, such as food aid and technical assistance, are generally considered to be less effective than others (Easterly and Pfutze 2008). Such non-monetized forms also reduce the amount that is actually available to the recipient country to spend on projects and programs (Kharas 2007).

The *fragmentation* of aid explores the extent to which aid received by a country is atomized among many different donors and is spent on various projects across different sectors, thus leading to the proliferation of many small-sized donor assisted activities on the ground. High fragmentation of aid generally implies higher transaction costs, coordination failures, and loss of efficiency for both donors and aid recipients (Ibid). Similarly, aid *volatility*—the extent to which aid flows are steady, hence more predictable—affects the ability of the recipients to bring quality and long-term orientation in their planning and spending practices (Bulir and Hamann 2006, Kharas 2008).

These three aspects of aid quality—the composition of aid, its fragmentation and volatility—are explored in the following section. The assessment of aid quality is followed by a presentation of selected case studies that highlight current and past efforts of different aid players in Pakistan to manage the issues emanating from disjointed and unstable aid on the ground. The penultimate section presents a brief overview of overall coordination structures and efforts at the country level. The conclusion summarizes key insights that emerge from the study.

THE CHANGING MIX OF AID

The composition of aid plays a central role in determining the availability and flexibility of financial resources that are accessible for programming purposes. One simple way to look at this flexibility is to gauge the net cash flows that are actually available to a recipient to expend on long-term development programs, after accounting for the loan repayment obligations and other non-cash items, such as Technical Cooperation (TC) and in-kind aid. This net aid can be termed as Country Programmable Aid (CPA) (Kharas 2007). Figure 1A shows that Pakistan's CPA ratio has been generally above the average for all aid recipients in recent years. During the period 1998-2007, Pakistan had a CPA to net ODA ratio of 66 percent compared to 54 percent for all developing countries and 52 percent for South and Central Asia.

One explanation for the higher share of CPA in Pakistan is the significant recent decline in TC, food, and humanitarian aid that accounted for about 40 percent of the net ODA in the 1980s (Figure 1B). While high levels of humanitarian aid in the 1980s were associated with the Afghan refugee crisis, the peak in the share of TC coincided with the structural reform period of the early 1990s. Over the last decade, however, the share of TC in net ODA to Pakistan averaged 10 percent, compared to the average of 25 percent for all developing countries. While the increasing share of CPA is an encouraging sign, a decline in TC in absolute terms is not necessarily desirable.

Recent studies of TC in Pakistan have underscored the significance of well designed, need- based and demand-led TC in addressing local capacity gaps (JICA 2008, GOP and ADB 2008). One such example is the model of the National Highway & Motorway Police (NHMP), which is deemed a major success in demand-driven TC. Clarity about the capacity needs and performance objectives, demand-led intensive in-country and overseas training, and close monitoring of performance were key factors behind the NHMP success. Strategy and Policy Unit (SPU) Faisalabad, which aims to facilitate public planning and decision making, is another example where design aspects, such as assessment of sector baselines, systems for performance reviews and rewards, and feedback mechanisms through regular citizens' opinion surveys on service delivery have been key in increasing the effectiveness of TC (Ibid).

At the same time, limited need assessment, insufficient local consultation and communication in designing TC programs, and inadequate attention to follow up support to ensure greater impact of TC programs (e.g. training) remain key concerns (Ibid). These concerns about limited consultation on the need and modality of TC were also confirmed by the Monitoring Survey of the Paris Declaration 2006 (MSPD). The progress on the Paris Declaration's indicator IV—which seeks coordinated support in TC in the *neediest* areas through the most *suitable* arrangement—suggested that only 28 percent of all TC in 2005 met the criterion of "coordinated support." Some TC recipients in Pakistan also noted that the effectiveness of TC delivered through international consultants in some cases is reduced by the consultants' limited understanding of the local context. One official summarized his skepticism in a single line, "TC is what we pay for the international consultants' learning."

Like the changing mix of aid channels, the composition of aid to Pakistan has also changed in terms of its sources and modalities (i.e. loan versus grants). According to OECD-DAC disbursement statistics, the average number of donors in Pakistan has increased from 25 in the 1970s to 40 during the last 10 years.[2]

Figure 1:

Figure 1A: Trends in Country Programmable Aid (CPA)

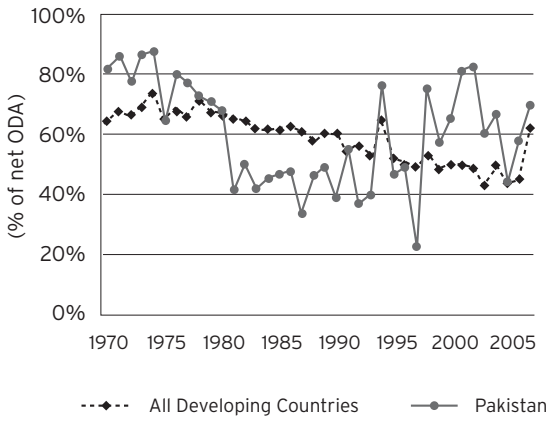
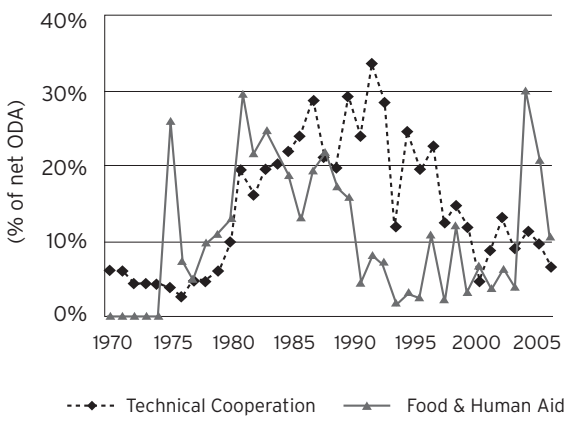


Figure 1B: Changing Composition of Aid in Pakistan



Source: OECD-DAC Statistics 2008

Moreover, aid flows from some non-DAC donors, such as China, have increased markedly in recent years. Table 1 gives the breakdown of foreign assistance to Pakistan committed by 11 traditional bilateral and four major non-DAC donors—termed as *China+3,* which includes Saudi Arabia, Kuwait and Oman.[3]

The table shows that China+3 nearly equaled the aid commitments made by 11 traditional bilaterals, averaging 12.4 percent of all aid commitments compared to 16.5 percent committed by the latter during 2002-2007. The share of China+3 in loan assistance actually surpassed that of the traditional bilaterals, averaging 11.2 percent compared to 6.7 percent. Among the members of China+3, China dominated the scene in terms of aid contribution. During 2001-2007, China's aid accounted for 66 percent of the total aid commitment and 86 percent of total loans committed by China+3, though its share in total grants was only 15 percent.

The statistics from Pakistan's Development Assistance Database (DAD*Pak*) also confirm the significant presence of non-traditional bilaterals in Pakistan.[4] According to DAD*pak*, China+4 (including the United Arab Emirates) accounted for 8 percent of all disbursements to *ongoing regular projects* in 2008. Figure 2A shows that the funds from China+4 were spent exclusively on off-budget activities in 2008. In terms of thematic focus, China+4 committed 39 percent of its assistance to power generation, 23 percent to the transport sector, and 17 percent to the cause of crisis prevention and disaster reduction. On the contrary, the largest share of aid commitments from all other donors went to crisis-related work (14 percent) followed by the transport sector (1 percent) and budgetary and balance of payment support (10 percent).

Figure 2B summarizes the changing composition of aid with respect to aid modality. It shows that the share of loan component in the net ODA has gone down over time, though aid to Pakistan still contains

Table 1:

	FY02	FY03	FY04	FY05	FY06	FY07
I. Share in Total Commitments (percent)						
Traditional Bilaterals	26.6	12.6	11.6	16.7	17.3	14.3
China+3	9.1	12.8	6.1	24.4	12.9	9.0
II. Share in Committed Grants (percent)						
Traditional Bilaterals	76.1	44.0	62.3	85.8	51.2	64.4
China+3	9.4	36.4	17.0	2.1	22.9	24.6
III. Share in Committed Loans (percent)						
Traditional Bilaterals	2.1	6.0	14.0	2.5	7.5	8.3
China+3	8.9	8.4	4.2	29.6	9.8	6.0

Source: State Bank of Pakistan Annual Report (2007)

a fairly large share (39 percent) of loans. The *DADpak* statistics on disbursements to ongoing projects suggest that the share of loan component in the aid from China+4 is much larger than that from all other donors. In 2008, 75 percent of disbursements from China+4 were in the form of loans compared to 59 percent for the rest of the donors.

With regard to changing aid composition in terms of aid sources and modalities, three observations are worth mentioning. First, the excessive concentration of non-traditional donors on off-budget activities is at odds with the commitments made in the Paris Declaration. This undermines the government's efforts to align aid flows with its national priorities. Second, while an increasing role of non-DAC donors undoubtedly remains crucial to expanding the pool of financial resources, it also poses new challenges for coordination, especially when such new players do not participate, voluntarily or involuntarily, in the dialogue on aid policy and coordination.

Experience suggests that China and other non-DAC donors do not actively participate in aid coordination forums in Pakistan. Discussions with various actors suggested that this exclusion from policy forums is voluntary. As noted in some other countries, such as Kenya and Tajikistan, the recipient government sees an incentive to keep its dealings exclusive with such new players, often on the pretext that their aid comes with limited conditionality. Such exclusive dealings with new players, however, also dilute the government's efforts to influence the behavior of traditional donors. For instance, one government official noted that some donors resist the government's calls for untying of their aid on the premise that similar concessions are not sought from the new players.

The final observation relates to aid modalities. While a higher share of grant component is preferred for obvious reasons, it also creates perverse incentives on the recipient's side. In particular, it was noted that the government does not typically resist receiving

Figure 2:

Figure 2A: Aid by Donor and Support Categories (2008)

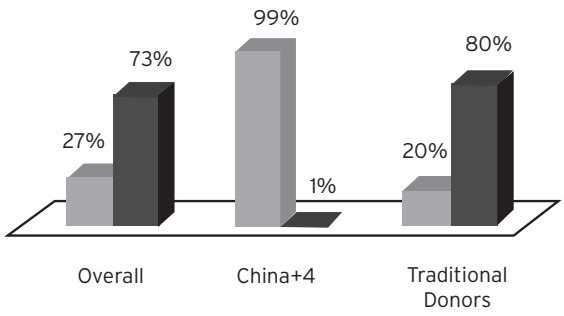
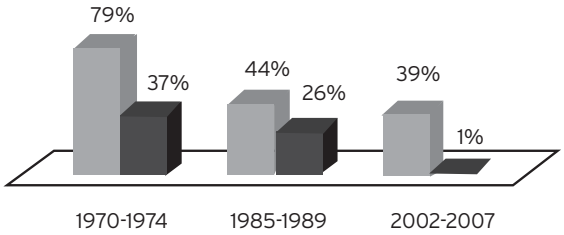


Figure 2B: Share of Net Loans in Net ODA



Source: A) Development Database Pakistan (DADPak) June 2008; B) OECD-DAC

small grants, on the premise that they are cost-free. In reality, the government ends up paying high transaction costs in the form of time and resources spent on administering such small grants. Moreover, some officials noted that the government found itself better prepared to align loan component to its development priorities as it entailed extensive negotiations with donors.

THE FRAGMENTATION OF AID

Various studies have assessed the fragmentation of international aid and its adverse impacts.[5] These studies have used the term aid fragmentation to refer to a state in which the following conditions exist: a) funds from a single donor are distributed among many different countries or sectors or activities; and/or, b) funds received by a country come from many different donors. The former condition is also known as "use proliferation," while the latter is sometimes referred to as "source proliferation." Regardless of the nature of aid fragmentation, there seems to be a consensus that it reduces the quality of aid by increasing transaction costs and creating inefficiencies, including duplication and dilution of aid efforts on the ground.

Seen from the perspective of source proliferation, the level of fragmentation faced by Pakistan in recent years, measured by the Herfindahl-Hirschman Index (HHI), is generally high (i.e., 0.22) compared to the average (0.30) for all aid recipients (Figure 3A). The situation seems to have slightly improved over the last decade. Figure 3B shows that the level of fragmentation, as measured by HHI and aid concentration ratio (D4)—the share of top four donors in total aid—went down after 1994. This decline is not due to a decrease in the total number of donors to Pakistan, but mainly to the expansion in funding, initially from the multilaterals like the Asian Development Bank (ADB), followed by an overall jump in contributions from the United States and other donors in the aftermath of the September 11, 2001 attacks.[6] There is an indication that the aid in most recent years has started to revert back to greater fragmentation.

Table 2 captures some aspects of use proliferation by presenting statistics on aid activities by different donor groups for the period 2002-2007.[7] It shows that there has been a general increase in the number of total aid activities financed by the bilaterals and the multilaterals, with a corresponding decline in the average amount per activity. About two-thirds of all aid activities from the bilateral donors to Pakistan involved amounts of less than U.S.$1 million in 2006-2007. Even among the multilateral agencies, such small-sized aid activities seem to be on the rise. The proportion of aid activities valued at less than U.S.$1 million has risen from 28 percent in 2002-2003 to 40 percent in 2006-2007.

It is also useful to look at the fragmentation at further levels of disaggregation. The OECD-DAC's CRS database provides statistics on gross disbursements by major thematic areas such as social and economic sectors. Based on the CRS data, it appears that the social sector, which accounted for about a third of the total disbursements to Pakistan, was the most fragmented of all sectors, with an HHI score of 0.19 between 2001-2006. The aid to infrastructure-related activities was the least fragmented, with an HHI score of 0.66. Within the social sector, aid to education, government, and civil society-related activities experienced the highest level of fragmentation, each with an index score of 0.21.

Another way to look at the aid fragmentation is to explore how individual donors are spreading their aid commitments across different sectors. Figure 4 gives a snapshot of donors' presence in various aid activities in 2007. Pakistan received aid commitments from different donors for 114 out of 194 activity categories. All except three donors were engaged in more than one aid activity category, with Japan and the U.S. present in as many as 55 and 39 aid activity categories respectively (see Figure 4A). Moreover, 61 percent of all donor activities in 2007 were less than U.S.$1 million in size. In terms of thematic focus, more than

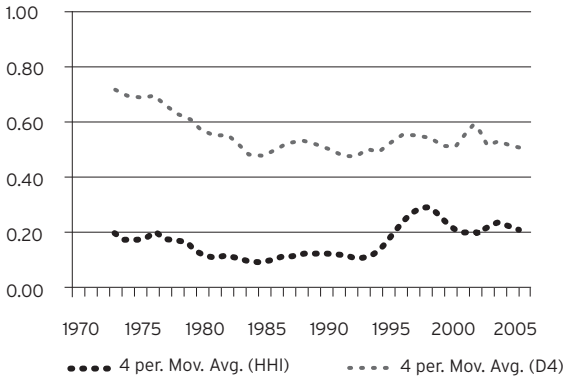
Figure 3:

A. Aid Fragmentation (HHI Index)

Recipients	1970-79	1980-89	1990-99	2000-05
All recipients	0.52	0.41	0.38	0.30
Countries with Per Capita Income >=500	0.53	0.40	0.38	0.32
Countries with Per Capita Income =< 500	0.33	0.18	0.18	0.17
Pakistan	0.17	0.12	0.20	0.22

Note: HHI Score (0-1): 1 being least fragmented

Figure 3B: Trends in Aid Fregmentation in Pakistan



Source: Author's Calculations OECD-DAC Statistics 2008

Table 2:

	2002-03	2004-05	2006-07
Donor Activities (Number)	**220**	**268**	**345**
Bilateral	185	229	300
Multilateral	35	39	45
Average Size of Activity (U.S.$ Mil)*	**10.8**	**8.2**	**7.0**
Bilateral	6.2	3.9	4.8
Multilateral	35.9	34.1	21.2
Activities Size Less than U.S.$1 Mil (percent)	**62.9**	**65.7**	**66.8**
Bilateral	69.7	71.4	70.7
Multilateral	28.0	34.0	40.2

*Source: OECD-DAC/CRS Statistics 2009. *Debt Forgiveness and Debt Rescheduling from Japan and USA, accounting for more than U.S.$4 billion, has been excluded from the calculations.*

60 percent of all donors and over 80 percent of all bilaterals committed resources for the thematic area of emergency and disaster relief, followed by primary education in overall size of commitment by activity (Figure 4B).

For good reasons, policy makers as well as government and non-government actors working in the field are concerned about the highly fragmented aid architecture in Pakistan. The government looks at high fragmentation as a direct outcome of donors' own priorities, which span a wide range of topics, leading to

Figure 4:

FIgure 4A: Number of Aid Activities by Donors (2007)

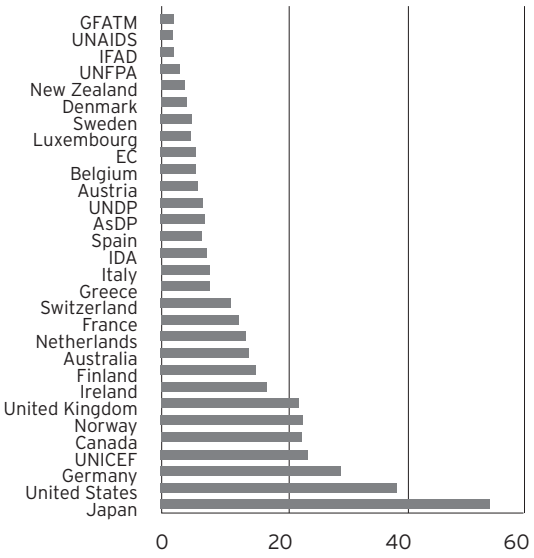
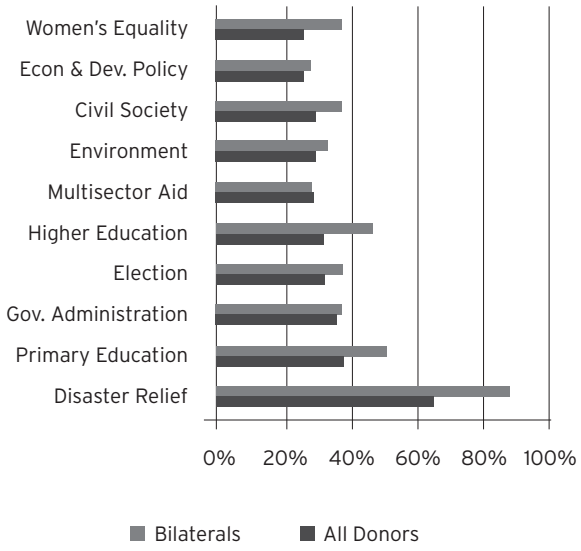


Figure 4B: Top 10 Sectors by Donors Presence (2007)



Source: OECD-DAC Statistics 2009

the proliferation of a very large number of small-sized projects (GOP 2008). This leaves the government with the daunting task of coordinating and aligning a multitude of aid activities with limited success. The time and resources spent on coordination, involving frequent meetings with individual donors and the preparation of various aid-related reports, were identified as the most obvious transaction costs associated with high aid fragmentation.

Duplication of effort and waste of resources are other oft-cited problems that emanate from high levels of aid fragmentation. The MSPD 2006 reports that only 41 percent of the total ODA was disbursed in support of initiatives that adopted program-based approaches, with a large part of this share (82 percent) coming from only two major donors—the World Bank and USAID. Moreover, only 12 percent of 592 field missions conducted by 16 major donors in 2005 were coordinated in some way. The survey also found limited evidence of joint analytical work among donors. Only 41 percent of analytical work was conducted in a concerted manner in 2005. With regards to duplication caused by parallel implementation structures, the survey found only four parallel PIUs, though the large presence of semi-integrated PIUs did point toward potentially high levels of duplication.

VOLATILITY OF AID

Unsteady aid flows lead to many undesirable outcomes, including poor program planning, excessive focus on short-term projects, and downsizing or discontinuity of programs due to unexpected liquidity issues. Experience suggests that a shortfall in aid is usually followed by a cutback in government spending and an escalation of taxes in most aid-dependent countries (Bulir 2003). Kharas (2008) estimates that volatile aid flows to developing countries result in a deadweight loss of 15 to 20 percent of international aid.

Evidence suggests that Pakistan experiences high levels of aid volatility. Figure 5A shows that aid flows to Pakistan during the period 2000-2006 were 35 percent more volatile than those received by an average aid recipient. Aid to Pakistan was much more volatile than that received by some of its peers. For example, aid to Pakistan was three times more volatile than assistance to Kenya, and seven times more volatile than aid extended to Vietnam. Aid flows were also highly unstable in relation to Pakistan's key domestic and external sources of revenue. Figure 5B shows that ODA to Pakistan was 10 times more volatile than export revenues, and twenty one times more unstable than tax revenues.

The extent of aid volatility also varies across different aid components, sectors, and sources. Table 3 shows that variations in the loan component of aid accounted for 70 percent of overall volatility in 1997-2006. It also shows that the contribution of other components—such as grants, technical cooperation, and food aid--to the overall volatility has gone down over time. The contribution of different sectors (e.g. social, economic etc.) to overall volatility is unclear. The CRS data suggest that known sectors, such as social and commodity aid, contributed only 10 percent to overall volatility.[8] Within the social sector, about two thirds of overall volatility came from unstable flows to the health and education sectors, while the rest originated from unsteady aid to the civil society and government-related activities.

In terms of volatility by aid source, unsteady flows from the United States were the major contributor to overall volatility.[9] Table 4 shows that erratic aid from the U.S.government was responsible for 29 percent of overall volatility in 1998-2007. The U.S.contribution to the volatility of grant aid to Pakistan was much higher. About 76 percent of overall volatility in grants originated from the ebbs and flows in the U.S.grants. During the same period, the U.S.share in total aid to Pakistan averaged 5 percent and its grant component accounted for 22 percent of all grants received by the country.

A related and equally important issue in aid flows is predictability, defined as the difference between actual versus planned disbursements. Figure 6A shows that aid to Pakistan was unpredictable and fell short of the committed amounts in most years. The MSPD reports that about 29 percent of the scheduled ODA disbursements were not actually released. Fifty percent of all donors disbursed less than what they initially committed, while 12.5 percent of the donors disbursed more than their targeted amount. The survey also found that some donors did not even specify their planned disbursements, while many others did not communicate the timing of their intended disbursements, thus creating an "in-year" predictability problem (GOP 2006).

The question arises as to why the international aid to Pakistan is so volatile? While the usual explanations, such as simple gaps in recording of disbursements, reduction in funding due to recipient's poor

Figure 5:

FIgure 5A: Trends in Aid Volatility

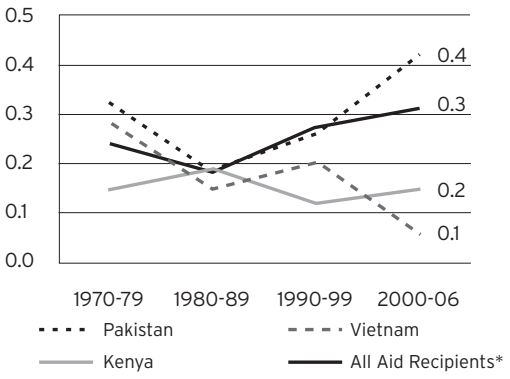


Figure 5B: Relative Volatility in Pakistan

	1981-89	1990-99	2000-06
Net ODA/GDP	1.9	5.2	7.0
Net ODA/Exports	2.5	4.3	10.5
Net ODA/Remittances	0.8	1.6	1.8
Net ODA/FDI	0.4	0.9	0.8
Net ODA/Taxes	-	5.2	21.0

Source: Author's Calculations based on OECD-DAC Statistics and World Development Indicators 2008.
Note: All Aid Recipients' volatility is weighted by their share in aid.

Table 3:

Period	General Grants	Loans	Technical Assistance	Development Food Aid	Humanitarian Aid
1977-86	0.50	0.45	0.00	0.04	-
1987-96	0.10	0.60	0.12	0.18	-0.01
1997-06	0.16	0.70	0.04	0.01	0.09

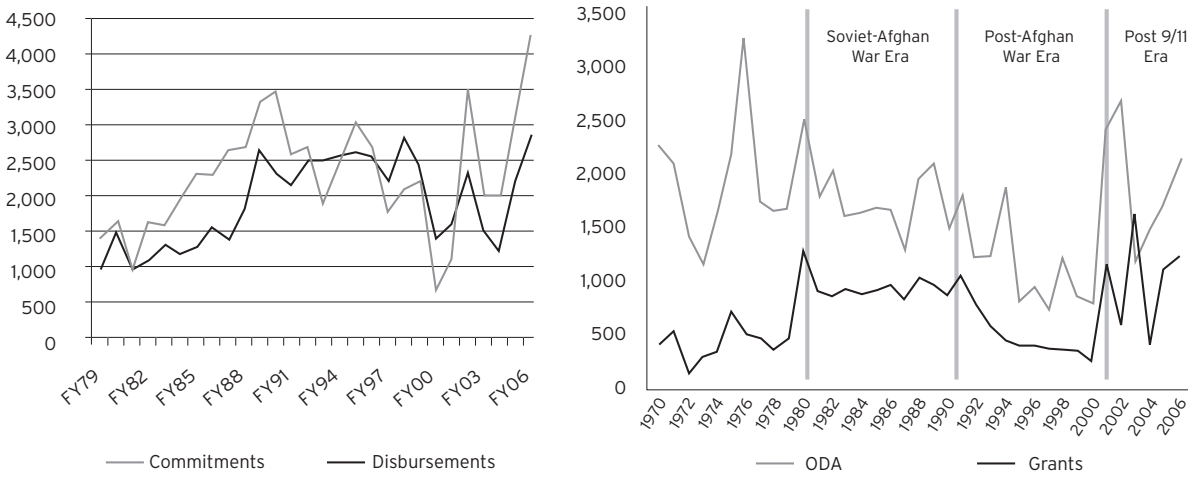
Source: Author's Calculations based on OECD-DAC Statistics 2008

Table 4:

Period	Contribution to Volatility in Net ODA (percent)		U.S.Share in Net ODA (percent)	Contribution to Volatility in Grants (percent)		U.S.share in Total Grants (percent)
	U.S.	Rest of Donors		US	Rest of Donors	
1976-85	20	80	12	4	96	9
1986-97	35	65	6	44	56	18
1998-07	29	71	5	76	24	22

Source: Author's Calculations based on OECD-DAC Statistics 2009

Figure 6:



Source: A) State Bank of Pakistan Annual Report 2007, B) Based on OECD-DAC Statistics 2008

performance, and limited implementation capacity cannot be ruled out, a prime source of aid volatility in Pakistan is changing donor priorities. There appears to be a visible link between the aid flows and changing geopolitical conditions in Pakistan and its surroundings. Figure 6b shows that Pakistan received relatively stable aid, particularly grants, for an extended period in the 1980s during a protracted war in Afghanistan. With the end of Afghan war, aid to Pakistan started to decline, with grants reaching their lowest point after 1998, when Pakistan conducted nuclear tests. The aid to Pakistan picked up again in 2001 with the start of U.S. War on Terrorism. It is also interesting to note that the high levels of international aid since the 1980s have coincided with military rule in Pakistan.

Unpredictability of aid in Pakistan, irrespective of its origins, has had an adverse impact on public planning and spending practices. One recent example has been the rescinding of funding to General Budget Support (GBS) by a large donor, which has curtailed the ability of the government to expand its public spending. According to the original funding agreement, the donor had committed to disburse U.S.$200 million on an annual basis for a period of five years for GBS. The agreement also stipulated annual assistance of U.S.$100 million for civil society programs in Pakistan. Midway through the agreement, however, the donor decided to provide only investment-based assistance, and discontinued its support for the GBS spending on the pretext that it did not provide greater transparency and accountability. While the direct costs associated with reduced GBS are hard to discern due to its flexible nature, government officials did note lower overall public spending and reduced ability to align spending to the sectors of highest priority as two major consequences.

Short-term orientation in aid planning is also a direct cause and consequence of high aid volatility. According to the DAD*Pak* statistics, about 45 percent of all ongoing development projects in 2008, which accounted for 34 percent of overall disbursements, were of the duration of three years or less. On the contrary, less

than a third of all projects (30 percent) extended over a period of more than five years. Donor-assisted programs that were reflected in the national budget, that is, on-budget activities, tended to be slightly longer term in their orientation compared to the off-budget activities. Around 38 percent of all on-budget activities had a lifespan of more than five years, compared to 28 percent for the off-budget projects.

A FRAGMENTED AND HIGHLY VOLATILE AID CONTEXT

The forgoing discussion confirms that aid to Pakistan is very fragmented and volatile. Increasing number of aid actors, divergent thematic priorities of donors, and the gaps in implementation capacity of the recipient, all contribute to the problem. Lack of a clear aid policy and the government's inability to nudge donors' efforts toward greater aid effectiveness are also identified as major weaknesses in the existing aid architecture (Killick and Shah 2006). Moreover, there are some indications that aid is diverted to activities where the time commitment is short, and distributed in a manner that requires low resource commitment. Geopolitical considerations also play a strong role in aid allocation to Pakistan.

Excessive aid volatility and high fragmentation ultimately limit the *continuity* and *outreach* of development efforts, thus impairing the potential for scaled-up impact. It is then useful to explore whether and how the government and donors in Pakistan have experimented with different aid channeling and coordination mechanisms to overcome the challenge of aid fragmentation and volatility and sustain support for better outreach and greater impact. To this end, we look at three examples: the Social Action Program (SAP), Pakistan Poverty Alleviation Program (PPAF), and post-earthquake work in Kashmir and the NWFP. The first two examples attempt to capture a glimpse of the past and current coordination efforts in development aid, while the third example looks at ongoing aid coordination in a humanitarian context.

Case Study I: Social Action Program

The Social Action Program (SAP) was launched in 1992-1993 to overcome Pakistan's chronic underperformance on social indicators by increasing overall expenditure on social services from 1.7 percent of GDP to 2.4 percent by 1997. Pakistan was ranked the lowest among South and Southeast Asian nations in terms of its expenditure on health and education, with only 3 percent of its annual public spending devoted to the two sectors during 1986-1992 (ADB2001). It was also believed then that many of the existing government and donors' efforts were narrowly focused and fragmented in terms of thematic and geographic spread.

SAP envisaged addressing the challenge of fragmented and inadequate social sector financing by the following: i) a *broad-based* approach, encompassing four key social sector services, including education, health, rural water and sanitation, and population welfare; ii) a *comprehensive* approach, involving policy reforms along with project investments aimed at expanding the coverage of social services at the grassroots; iii) an *inclusive* approach, involving both government and non-governmental actors; iv) a *scaled up* approach, covering all four provinces and the federal territories; and iv) a *coordinated* approach, requiring donors to pool their finances, and program monitoring and review processes.

The first phase of SAP was budgeted at U.S.$4 billion for a period of three years. Of this total, government was expected to invest $3.1 billion and the rest was to be contributed by the donors. SAP was extended in 1998 for another five year period, with an estimated budget of U.S.$10 billion, of which $8 billion were to be invested by the government (Word Bank 2003). The external assistance came in the form of a dedicated SAP financing component from five major donors, including the World Bank, Asian Development Bank (ADB), Department for International Development (DFID), European Commission (EC) and the Dutch government. The planned and on-going social sector projects termed as "umbrella projects" were also brought

under the broad financing framework of SAP. For all practical purposes, these were individual donor-assisted projects implemented separately as part of routine donor operations. During the implementation of SAP, the World Bank served as the lead agency. A Multi-donor Support Unit (MSU) was established and attached to the World Bank office to serve as a focal point for funding agency coordination and to assist implementing agencies in monitoring the progress on SAP.

According to the SAP executing arrangement, SAP donors developed an annual plan specifying their level of assistance for the year, reimbursement ratios for the government's implementing agencies, and an agreed mechanism for sharing financing costs among the donors. As agreed in the financing plan, donors reimbursed a proportion of all expenditure incurred by the government under SAP. These reimbursements by donors were meant to encourage increased and sustained budgetary spending by the government, in addition to catalyzing visible policy reforms in the four target SAP sectors. From a financing point of view, this mechanism warranted greater predictability for the government, as its investment plans were guided by a multi-year financing agreement with the donors.

After a decade of investment in SAP I (1993-1997) and SAP II (1998-2002), the program fell short in achieving the desired outcomes on most fronts. Various evaluations found SAP's outcomes, its sustainability, and its institutional development impact unsatisfactory or at best negligible (Birdsall et al 2005). The World Bank's Implementation Completion Report (ICR 2003) of SAP II found primary enrollments stagnant around 71-72 percent, infant mortality modestly improved from 89 to 82 per 1000 births, and access to drinking water marginally improved from 65 to 75 percent, with no change in the sanitary practices among communities. The performance in reducing fertility rates was slightly better, with the rates declining from 5.4 to 4.8 percent during the second phase of SAP.

SAP also fell short in achieving its primary objective of boosting overall expenditure on social services. The government met only 61 percent of its spending targets while SAP donors also failed to meet their targets. The donor spending was 66 percent of their allocated amount (World Bank 2003). The donors' contribution through its dedicated SAP component was expected to be 10 percent of overall spending, but the actual spending averaged at 6-8 percent (Birdsall et al 2005). Figure 7 A&B above show that the actual spending on social sectors increasingly fell short of the targeted levels, particularly on the government side.

While the causes of SAP's failure were many, including excessive focus on inputs instead of outcomes, gaps in governance, poor ownership of the project among sub-national governments, and limited uptake of lessons for course correction, operational issues, such as weak coordination among the donors and continued aid fragmentation in the sector were also contributing factors[10]. In fact, donors' support for individual on-going and newly planned projects in the social sectors continued alongside the dedicated SAP component, thus keeping the fragmentation levels high. There were at least 5 additional social sector projects being funded by the ADB during SAP I, for example (ADB 2001). As a result, provincial governments reported facing greater confusion as well as increased planning and reporting burdens due to coexistence of SAP and non-SAP projects.

With regard to donor coordination within the SAP component, the ICR 2003 notes:

Figure 7:

Figure 7A: Targeted vs Actual Spending on SAP (% of GDP)

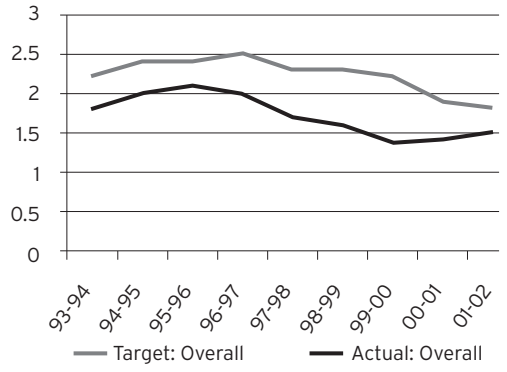
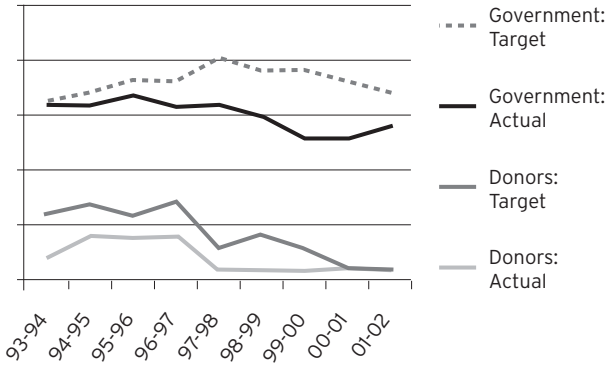


Figure 7B: Targeted vs Actual Spending by the Govt. and Donors on SAP (% of GDP)



Source: World Bank (2003), Birdsall et al (2005)

> "While donor coordination ensured policy consistency and complemented monitoring and supervision efforts, coordination became complicated because each donor, irrespective of the size of its financial assistance, wanted to be an active participant in the project and its supervision. As a result, it often became difficult to maintain a common, cohesive, donor stance. For instance, there was lack of clarity on compliance criteria for expenditures eligible for reimbursement; IDA would classify some expenditures as non-compliant which ADB would consider as eligible"

It also appeared that SAP in practice was defeating the very purpose of being a multi-donor undertaking. Cumbersome administrative and operational procedures tested the already weak capacity of the government institutions and caused undue delays in the uptake and implementation of various program components. The donor coordination efforts fell short in reducing the difficulties that are usually associated with fragmented aid. The ICR 2003 notes:

> "Supervision missions were often large and unwieldy, with each donor (irrespective of the level of their financial contribution to the program) represented…The Aide Memoires left with government were enormous, partly owing to the wide scope of the program, and failed to prioritize issues, actions and targets. The un-prioritized list of detailed actions for follow up became formidable because of the sheer number of tasks to be performed and the difficulty of line departments to absorb and respond in light of their limited capacities"

The second concern related to the ambitious nature of SAP in terms of scope and scale.[11] Though the original designers of SAP on the donor side foresaw and understood the unrealistic expectations with respect to the timeframe of the program and the implementation capacity of the government, no efforts were made to adapt the program design and test the unprecedented SAP model at a small scale to see what worked and where the adjustments were needed.[12] Instead, SAP

was launched at full scale with the motivation to command greater leverage and visibility for policy reform in the social sector, only to find out shortly that the concerns about the capacity and timeframe were well founded.

Given the complex and skills-intensive nature of SAP, capacity building for service delivery in each sector and strengthening of the supporting mechanism (e.g. financial management, procurements, M&E) was particularly important. Some of the key aspects of capacity building, such as the assessment of financial management capacity and procurement procedures and instituting a baseline capacity which should have ideally taken place the program design stage, were not addressed in a timely fashion, thus causing delays and poor fiscal management outcomes. The technical assistance component of the program went largely unutilized due to procedural issues, such as delays in instituting Imprest Accounts, which were deemed prerequisite for the delivery of technical assistance.[13]

The ICR 2003 sums up the experience of SAP implementation:

> "Complex programs such as SAPP-II that aim to bring about gigantic institutional reform take a long time to implement. A longer implementation time-frame, greater perseverance and stronger donor coordination are needed to move to scale on successful 'pilot' interventions and innovations and to undertake fundamental institutional and governance reforms that require, almost as a prerequisite, changes in orientation and mindset, attitudes, work ethics, and even political culture. The low levels of achievement under SAPP-II provide yet another example of the failure of umbrella projects..."

Given the enormity of challenges faced by SAP, there is no reason to believe that a simple extension in the investment timeframe under its existing model would have yielded any better results. There is little doubt though that launching SAP at a smaller scale in terms of its thematic and geographic spread and fine tuning the model based on the learning from initial piloting could have secured greater chances of success (see Box 1).

Case Study II: Pakistan Poverty Alleviation Fund

The creation of the Pakistan Poverty Alleviation Fund (PPAF) in 1998 as an autonomous fund under the Companies Act 1984, with an initial endowment of U.S.$10 million from the government, was inspired by the institutional innovation of state financed RSPs (Box 1). The PPAF serves as a wholesaler of funds to the civil society partners to plan and implement poverty reduction projects. Interestingly, the PPAF model works synergistically with the RSPs, which provide a ready institutional platform to utilize the funds from the PPAF to benefit the communities at the grassroots. Initial external funds for the PPAF came in the form of an IDA loan worth U.S.$90 million from the World Bank.

To date, the Fund sits on a much larger and diversified pool of financial resources. As of June 2008, PPAF had mobilized a total of U.S.$1030.17 million from 6 donors, including the World Bank, USAID, U.S.Department of Agriculture (USDA), KfW, IFAD, and the Committee to Encourage Corporate Philanthropy of USA (CECP). In terms of its development thrust, the Fund focuses on four core themes: Credit and Enterprise Development; Water and Community Infrastructure; Capacity Building; and Education and Health. Currently, the wholesaling of funds for micro-

Box 1: A Gradual Approach to Scaling up: Rural Support Programs in Pakistan[14]

When SAP was being implemented, the government was also taking part in another scaling up effort that markedly differed from SAP's approach in its character. This second initiative of the government was inspired by Aga Khan Rural Support Programs (AKRSP)'s experiment in participatory rural development in five districts of northern Pakistan. AKRSP's model involved organizing communities and co-managing social and economic initiatives, ranging from the microfinance to rural economic infrastructure. Convinced by the decade-long successful performance of AKRSP, the government decided to replicate the model nationwide in 1992 by creating the National Rural Support Program (NRSP) with an endowment of approximately U.S.$40 million. The government also supported the creation of similar RSPs at the provincial level. By 2008, there were 10 Rural Support Programs operating in 94 out of 138 districts in the country, providing a wider range of services including microfinance, social services, capacity building and so on, with outreach to about 2.13 million households.[15] Of the 10 RSPs, five were established with financial support from the federal and provincial governments.

There were many salient features of RSP's replication that were in sharp contrast with SAP's approach to scaling up. First, the replication of RSP was gradual and more organic in nature. The RSP model was in place for 10 years before the first attempt was made to replicate the model at the national scale. The government and donors weighed in to the scaling up process, once they were convinced with the results and efficacy of RSP model. Independent evaluations of AKRSP by the World Bank and the first hand exposure of policy makers to AKRSP's project area and beneficiary communities strengthened their belief in the potential of the model.

The second important feature of RSP's scaling up was its institutional arrangement, which granted considerable organizational autonomy to the government financed RSPs. The RSPs were created as independent non-profit bodies, incorporated under the Security and Exchange Commission of Pakistan. This autonomous arrangement insulated RSPs from political interferences and governance issues at a time when the performance of other initiatives, such as SAP, was being seriously affected by the widely prevalent issues of poor governance and accountability.

One crucial requirement for RSPs scaling up was to ensure the continuity of support—material and political—over a sustained period to allow necessary time to demonstrate results and expand when conditions were ripe. Such long term and flexible support is hard to secure in a volatile aid context. At the experimental stage of the RSP model, consistent commitment from the Aga Khan Foundation along with some key donors, such as the Canadian and the UK government, gave much-needed time and flexibility to test the model. Interestingly, the first demand for AKRSP's expansion came from the NWFP government in 1989, when USAID was withdrawing from the province . At the later stages, the most crucial demand and financial resources for scaling up of RSPs came from the federal government, which provided core funds to the newly-created national and provincial RSPs. Over time, RSPs leveraged these core funds to undertake donor- and government-assisted development projects.

finance purposes constitutes the largest component of the Fund's operations. In fact, the Fund covers close to two thirds of its operating costs through the fees earned on the bulk supply of credit to its civil society partners.[17]

From the standpoint of aid delivery and coordination, the PPAF model is a hybrid arrangement between two aid delivery extremes—aid spending through government *versus* non-governmental channels. Currently, the World Bank is the most dominant financier of

the Fund. According to the existing arrangement, the government receives aid from the Bank as a soft loan and passes it on to the PPAF under further subsidized terms to implement poverty- focused projects through its civil society partners. This arrangement is unique in that it puts the government in a facilitator's role as opposed to its usual role as an implementer. Moreover, the autonomous nature of the Fund also allows the government to overcome the usual problems of 'capacity and capture' which it sometime confronts in its implementation role. Yet the government's central role in negotiating credit agreements with the World Bank and representation on the Board of the Fund allows it to take part in PPAF's strategic decisions to nudge the Fund's efforts to national development priorities.

In some ways, the PPAF has served as a scaling up fund. As an interface between development financiers (e.g. donors and the government) and project implementers (the civil society partners), the PPAF has ensured the steady supply of financial resources to programs and projects that have a proven track record of success. Figure 8A&B shows the expanding coverage in terms of districts and the scaling up of the microfinance and community managed infrastructure that were first piloted by AKRSP in northern Pakistan. The PPAF-facilitated microfinance disbursements have increased from around U.S.$19 million in 2002 to over U.S.$260 million by 2008, for example. Similarly, the number of PPAF funded community- managed infrastructure projects has increased from 1,900 to 17,000 during the same period.

The PPAF model has interesting implications for the fragmentation of aid. There are instances in which the PPAF has helped reduce duplication and avoid waste. In one case involving two PPAF program partners engaged in constructing drinking water supply projects in the same geographic location, the Fund was able to negotiate a better division of labor based on the institutional advantage of each partner, for instance. At the same time, working with diverse partners allows the Fund to recognize the plurality on the ground and internalize it to warrant greater innovation and competition, which is sometimes undermined in consolidated approaches to aid coordination.

In some cases, the Fund has also helped its partners overcome the issues of aid volatility by providing sustained access to financial resources. In northern Pakistan where AKRSP was facing difficulty continuing a high impact community managed infrastructure program due to the withdrawal of external funding, partnership with PPAF allowed the organization steady access to resources to continue and expand the outreach of the program. Moreover, for many small CSO partners who are exposed to greater aid volatility due to the lack of required capacity as well as scale to attract external resources on a sustained basis, the PPAF serves as a platform to consolidate their demand. It also provides an opportunity for its partners to upgrade their capacity through accessing PPAF's training programs and instituting the operational standards, for instance, the preparation of business plans and better financial management practices.

Initial evaluations conducted by the Operations and Evaluations Department of the World Bank and Gallup do indicate that the PPAF's aid intermediation model and its programs have the potential to create impact on the ground(PPAF 2003, PPAF 2008). There are also some good signs of institutional development and replication. Two of the PPAF's longstanding partners in microfinance delivery, the National Rural Support Program (NRSP) and the Kashf Foundation (KF), have already started the preparation to bring fur-

Figure 8:

Figure 8A: Coverage: Number of Districts and Partners

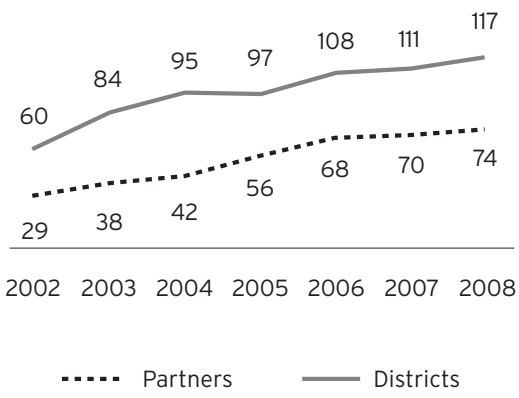
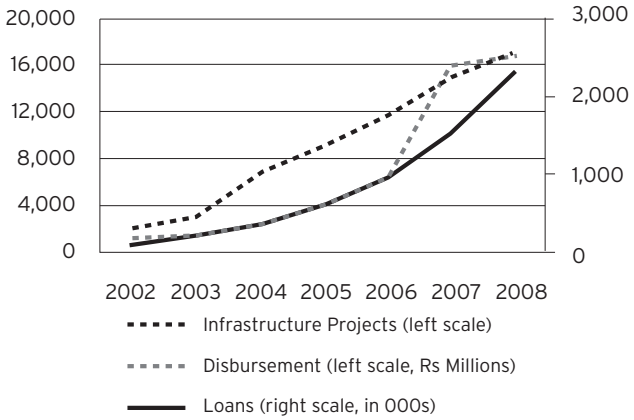


Figure 8B: Scaling up in Microfinance and Infrastructure



Source: Pakistan Poverty Alleviation Fund Annual Reports

ther sophistication to their operations and transform themselves into independent microfinance banks. The institutional model of PPAF is also being replicated in other parts of the world, including Afghanistan and Nepal, while other countries, including China, have approached the Fund to learn from its experience.

Despite its high conceptual appeal, the Fund has not been able to fully diversify its donor base to further enhance the scope and scale of its operations. Of the total funds mobilized thus far, around 62 percent came from a single source—the World Bank. Similarly, two of the remaining five international donors—KfW and the CECP—have come on board in the context of earthquake reconstruction efforts. This rather inadequate subscription to the PPAF by other large donors is partly due to the Fund's own gradualism, which some term as a conservative approach toward expansion. A large part of the problem, however, lies with the fact that the PPAF is seen by many donors as the "Bank's initiative," which obviously limits the appeal and incentives for others to participate. In reality, as one Bank official put it, "donors often compete, not cooperate."

Case Study III: Coordinating Aid in Post-Disaster Context

On October 8, 2005, Pakistan faced one of the worst humanitarian crises in its history when a devastating earthquake measuring 7.6 on the Richter scale jolted Azad Jammu and Kashmir (AJK) and parts of the NWFP. The human and financial toll of the disaster was enormous. 73,338 people lost their lives and another 128,309 sustained injuries. About 2.3 million people were left without shelter. The material needs to cope with the losses were estimated at U.S.$5.2 billion. The loss of public and private assets was estimated at an additional $2.3 billion and indirect losses accounted for another half a billion. The short term reconstruction costs were estimated at $3.5 billion (World Bank and ADB 2005).

Figure 9:

Figure 9A: Commitment (US $ Million)

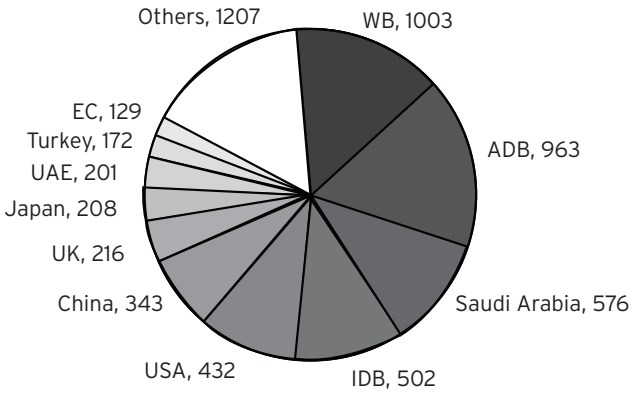
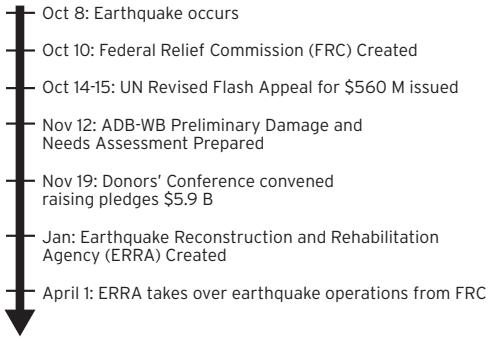


Figure 9B: Timeline: Key Actions



Source: A) DADPak 2008, B) Various studies quoted in the study

The enormity of the disaster and the fear of further losses due to ongoing aftershocks and impending winter led to an unprecedented outpouring of aid from national and international donors. A total 67 bilateral and multilateral donors committed more than U.S.$5.9 billion (DADpak 2008). Many domestic donors brought in additional in-kind and volunteer support. The commitments exceeded the initial estimate of needs by around $0.7 billion, thus offering a possibility to build back better. Besides the pledges made by the World Bank, Asian Development Bank, Islamic Development Bank and the European Commission, major commitments were made by traditional bilaterals including the USA, Japan, and the UK as well as by non-DAC donors including Saudi Arabia, China, UAE and Turkey (Figure 9). The World Bank provided supplemental financing of U.S.$200 million within weeks of the earthquake to help the government meet emergency expenditure requirements (World Bank and ADB 2005). The U.N.also launched a flash appeal of U.S.$560 million to raise immediate relief assistance to Pakistan (ERRA and UN 2006).

The Extent of Aid Fragmentation in Relief and Reconstruction Efforts

Given the large scale of the disaster in a geographically difficult setting, the number of aid actors involved in the earthquake work was inevitably large. At the early stages of relief, as many as 85 bilaterals and multilaterals and more than 100 non-governmental organizations were supplementing the efforts of the government, which were primarily led a very large contingent of Pakistan Armed Forces (Ibid). During later stages of the reconstruction, an estimated 191 donors were engaged in implementing a total of 3,930 projects in the earthquake-affected regions.[18] A large proportion of these ongoing projects are being implemented by national and international NGOs. A recent figure provided by the State Earthquake Reconstruction and Rehabilitation Authority (SERRA) suggests that a total of 137 NGOs are currently implementing 1,481 recovery-related projects in various sectors, including health, education, social protection, gender, environment, and water and sanitation in the Kashmir region. Clearly, the presence of such diverse

and large numbers of government and non-government agencies at the relief and reconstruction stages presented a difficult challenge of aid coordination.

Performance at the Relief and Reconstruction Stages

The rescue and relief phase of the earthquake work started within hours of the disaster and officially came to an end on April 1, 2006.[19] By most accounts, Pakistan's response at the rescue and relief stage was a success. The widely-feared second wave of deaths from injuries and disease outbreaks was avoided. There was no increase in morbidity and mortality rates compared to the pre-earthquake benchmarks. No food deficiency was experienced. About 90 percent of Internally Displaced Persons (IDPs) in the camps received access to safe water and 70 percent accessed adequate sanitation facilities (Ibid). At the initial stages, however, the relief work also faced some coordination gaps, such as supply of inappropriate relief goods and overconcentration of relief efforts in accessible areas.[20] These early problems were eventually resolved.

At the concluding stages of the relief work, the U.N.Resident Coordinator noted:

> "This has been a success and as always success tends to have many parents…of course there can only be two parents and I think that the first one is strong national leadership and the [Federal Relief Commission] FRC's openness and flexibility in dealing with international organizations and NGOs and the UN. The second parent is on our side, well coordinated humanitarian community and military partners from overseas" (GOP 2007b).

The performance of the post relief phase, that is, the reconstruction effort, is hard to gauge at this point due to incomplete information and conflicting accounts of progress. According to the official accounts, the reconstruction efforts are moving forward satisfactorily (ERRA 2008). The ERRA Monitoring & Evaluation Report for 2007 shows that about 99 percent of affected people were supported with housing solutions, and only 4,933 IDPs were still living in tent villages at the start of 2008. The progress on other aspects of reconstruction is also deemed satisfactory. There are some disputing views about the pace of reconstruction, however. An independent study of the first 18 months of the reconstruction work reported slow progress on most fronts (Zaidi et al 2008). The study noted that only 51 percent of housing, 6 percent of education, and 15 percent of health targets were met by the end of the mid-term. The study also claimed that only one in two deserving families received support under the livelihoods program.

The DADPak statistics, which at best are indicative, show that the total disbursements accounted for 62 percent of all aid commitments to the earthquake work on June 6, 2008. The disbursement rates were slightly higher (66 percent) in the NGO-implemented projects. This is also corroborated by the project completion rate, which shows that 987 out of 1481 NGO-executed projects in Kashmir have been completed. Figure 10A shows that progress in terms of disbursement rates has been variable across different sectors. In some sectors, such as health and nutrition and agriculture, progress has been slow, while other crucial sectors, such as housing and road infrastructure have registered significant progress. A recent social impact assessment study commissioned by ERRA shows that in areas where progress is being made, such as the transport and housing sectors, the objective of building back better is being met to a greater extent (see Figure 10B).

Figure 10:

Figure 10A: Disbursement Rate by Sectors (2009)

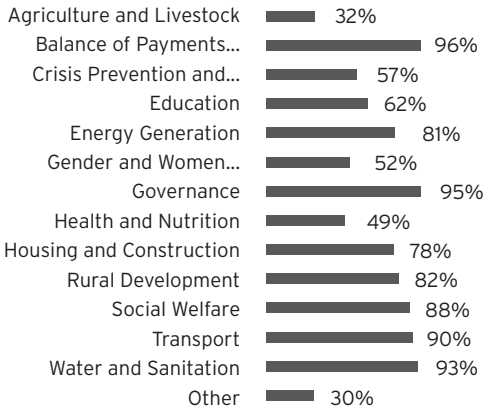
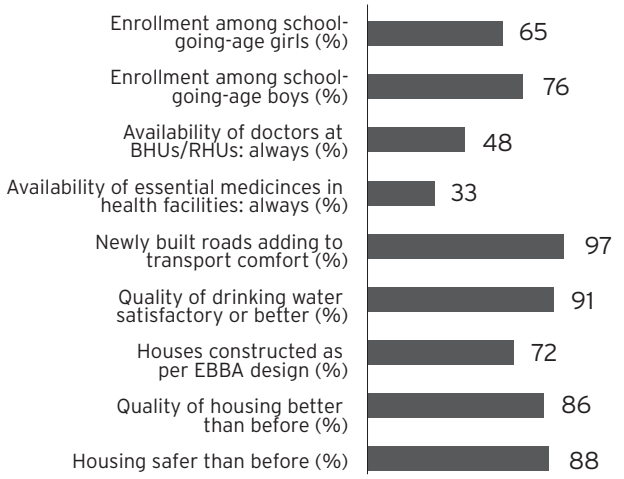


Figure 10B: ERRA Social Impact Survey Findings (2008



Source: A) DADPak June 9, 2009, B) ERRA: Social Impact Assessment Report (2008)

Securing success, particularly at the rescue and relief stage, amidst the coordination challenges posed by fragmented aid coming from a large number of diverse actors, including the government agencies—military and civilian—as well as national and international donors and NGOs, owes a great deal to a number of institutional structures and coordination mechanisms that were put in place at the various stages of the post-earthquake work. The creation of a single focal point, preparation of a unified framework for coordination, division of labor, and financial and capacity building arrangements are some of the noteworthy elements of success.

Creating a Focal Point: Federal Relief Commission and Earthquake Reconstruction and Rehabilitation Agency

From the standpoint of aid coordination, the creation of the Federal Relief Commission (FRC) with an exclusive mandate to coordinate all relief work was perhaps the most important decision. Within days of its formation, the FRC prepared a National Action Plan and shared it widely with the national and international stakeholders to evolve a consensus on the relief operations. The FRC also constituted a Strategic Leaders' Group (SLG) that had representation from senior army officials, commanders of foreign military contingents, concerned civilian agencies, and the heads of all major international NGOs. Weekly meetings of the SLG were held to review progress, formulate strategies, and to make policy decisions on relief work. The model of SLG was replicated in the field to ensure similar coordination at the operations level.

Many factors made the FRC an effective focal point. First and the foremost was the unrelenting support of country's top leadership, including the President, Prime Minister and the Cabinet-level Earthquake Relief Cell (ERC) to the FRC. As no government agency with the mandate for relief work existed before the earthquake, the newly created FRC commanded high legitimacy and was able to avoid bureaucratic hurdles

and adapt its response as the relief work unfolded. Swift action to allow foreigners, particularly external military contingents, to hitherto restricted region of Kashmir and rapid processing of foreign relief goods in various ports were some examples of cutting the red tape.

The second important feature of the FRC was its composition. The FRC had the representation of both military and civilian authorities. The creation of a military wing was very crucial as the Pakistan Army was by far the largest player at all stages of rescue and relief operations. The army was involved in rehabilitating road links, organizing aerial relief operations, managing the distribution of relief goods, and organizing disaster related information. The civilian wing of the FRC was further divided into a *ministerial* wing to engage all relevant line ministries and an *institutional* wing, representing organizations like the National Logistics Cell, National Utility Stores Corporation, Special Communication Organization (SCO) and the National Database and Registration Authority (NADRA). This integration of various agencies into the FRC ensured a more coordinated and more comprehensive response to the disaster.

Once the relief phase officially came to an end on April 1, 2006, the responsibility of early recovery and reconstruction work, along with the residual relief work, was formally transferred to another newly-created authority, the Earthquake Reconstruction and Rehabilitation Authority (ERRA). Mandated with overall responsibility for planning and coordinating the reconstruction work in the affected regions, ERRA has established an extensive network of planning, consultation, and implementation layers at all levels of the government. ERRA is supported by two provincial-level authorities—the Provincial Earthquake Rehabilitation and Reconstruction Authority (PERRA) in NWFP and the State Earthquake Rehabilitation and Reconstruction Authority (SERRA) in AJK. There are also District Reconstruction Unit (DRUs) at the district level.

Unlike the FRC, which enjoyed greater support due to the urgent nature of the relief and rescue task, the ERRA is facing the usual challenges that a transition from relief to reconstruction and development entails. Chief among the concerns is the lack of full ownership of ERRA among the relevant line departments and provincial and district level governments. Many central and regional institutions actually resisted the creation of ERRA from the very beginning and advocated for channeling funds through the existing channels of the two provincial/state governments (ERRA2007).

Instituting a Unified Framework for Action: The U.N.Cluster Approach and Early Recovery Plan

At the relief stage, the implementation of the U.N.Cluster Approach has been crucial to better coordination. It entailed organizing relief work into key themes and assigning the responsibility for planning and coordination for each cluster to one lead agency.[21] Though this model was never tested before, the FRC and the U.N.agreed to deploy the approach for the relief work. Following the modalities of the approach, the relief work was organized into 10 clusters: emergency shelter; protection; water and sanitation; education; communications/IT; logistics; nutrition; health; camp management; and early recovery and reconstruction.

The cluster approach, despite some initial hiccups due to its experimental stage (e.g., concerns about the capacity of the lead agencies to involve and work with diverse actors), proved a very crucial tool in harmonizing the efforts of all actors in each cluster. The adoption of cluster approach by the FRC provided a

common framework for the military and the civilian agencies to coordinate and conduct relief efforts and overcome the challenges that emerged at the early stages of the relief work due the difference in the approach and working cultures of the actors. As a result, the relief efforts in Pakistan emerged as one of the best examples of civil-military coordination in a post disaster setting (ERRA and UN 2006).

For the coordination of post-relief work, the U.N.and the ERRA worked together to develop an Early Recovery Plan (ERP), which provided a unified framework for recovery and reconstruction efforts by all stakeholders, including provincial governments, NGOs and international donors. This plan provided a basis to group the recovery and reconstruction work into 12 sectors and helped constitute core and general groups for each sector by bringing together diverse aid actors. These groups continue to meet on a monthly basis for planning, coordination, and progress review purposes. These coordination efforts are further strengthened through other forums, such as monthly NGO meetings, monthly meetings of G7 involving seven large official aid agencies, and regular meetings of the members of steering committees of the state reconstruction agencies at the provincial/state and district levels.

Division of Labor

At the early stages of relief work, there were some instances of duplication and oversupply of relief goods in the low-lying urban parts of the earthquake affected areas, while the remote disconnected parts were not receiving sufficient aid. With the initial rehabilitation of road and communication infrastructure to more remote areas, along with increasing information on the needs and relief actors facilitated by need assessments and the U.N. Cluster Approach, the matching of relief work and needs was gradually improved. With regard to food supply, for instance, the FRC took the lead and assigned defined territories to the specific government and aid agencies to avoid duplication. The provincial government of the NWFP was assigned the responsibility of supplying food in the areas that fell under its provincial territory. Likewise, the AJK government was responsible for its own jurisdiction. The World Food Program (WFP) was made responsible for delivering food to a population of one million living in certain inaccessible parts of the NWFP and AJK (GOP 2007b).

At the reconstruction stage, the ERRA took the lead in instituting mechanisms to coordinate aid efforts for better outreach. As early as September 2006, an operational manual was produced, outlining the scope of work for each tier of the ERRA—Federal ERRA, SERRA and PERRA, and DRUs—with respect to coordination and direct implementation of reconstruction work. Furthermore, following up on the ERP, strategies and annual work plans for 13 reconstruction sectors have been prepared, identifying the overall reconstruction needs in each sector. These plans provide a basis for the assignment of work to different government and external agencies.

To ensure better alignment and division of labor in all NGO and donor implemented projects, each external agency is mandated to obtain a No Objection Certificate (NOC) from the ERRA. This allows the ERRA to weigh the proposed project(s) against the work plans and assess whether the proposed activity avoids duplication and meets an unmet demand. While these institutional mechanisms have been crucial in reducing waste, in practice, there were cases where the diversion from the plans and duplication was also noticed (ERRA 2007).

Cooperation in Technical Assistance

Technical Assistance (TA) by the international donors at the different stages of relief and reconstruction has also been vital for effective response to the earthquake. Within two weeks of the disaster, different aid agencies under the leadership of the World Bank and Asian Development Bank came together to assist the government in conducting a Preliminary Damage and Needs Assessment(World Bank and ADB 2005). Experts from various government agencies as well as international organizations also participated in the exercise.[22] These efforts were complemented by another U.N. needs assessment exercise that primarily focused on the relief and early recovery aspects. This Damage and Needs Assessment exercise provided the first solid estimates for the Donors' Conference on November 19, 2009, which succeeded in securing pledges of U.S.$5.9 billion from official and private donors.

Another good example of coordinated TA is the UNDP-led Technical Assistance for Management of Earthquake Early Recovery (TAMEER). TAMEER is a coordinated effort of major donors, such as the DFID, German government, UNDP, and UNISDR that aims to build the governance capacity of ERRA in support of the reconstruction work. Reports suggest that TAMEER played a crucial role in strengthening ERRA by providing much- needed technical assistance at its formative stages (ERRA 2007).

Financing Arrangements in the Relief and Recovery Work

Unlike in Aceh, Indonesia, where a multi-donor trust fund was created to pool funding from major donors, aid for the reconstruction work in Pakistan is channeled through multiple arrangements. These include: a) international donors contributing to the ERRA's consolidated fund, which is channeled through its dedicated provincial setup (PERRA and SERRA) to the DRUs for the implementation of specific projects; b) projects jointly identified by the donors and ERRA and disbursements handled jointly by the donors and the ERRA, often through a Project Management Unit; and c) donors obtaining NOCs from the ERRA for a specified sector and/or region and executing projects through their own implementation arrangements.

The existence of multiple arrangements not only limits the opportunities for the use of country financial and procurement systems but also take away the flexibility that is needed to adapt the response in a post disaster context. Major donors, such as the ADB, with the exception of bringing down their bidding time requirement from 45 to 30 days, adhere to their standard safeguards, for example. China continues to tie its aid by making it conditional upon sourcing 60 percent of capital procurements from its home markets. Such individual agency-specific procedural issues have added to the administrative burden of coordinating agencies. There are some instances, however, in which one agency has taken the lead to pool funds from different aid agencies for specific themes, thus reducing the fragmentation of financial support. At the initial stages of the earthquake response, the ADB established the Earthquake Fund with an initial commitment of U.S.$80 million, which was supported by other donors, including the governments of Norway (U.S.$20 million), Finland (Euro 10 million), and Australia ($20 million).

MECHANISMS FOR AID COORDINATION AT THE COUNTRY LEVEL

The forgoing discussion highlighted the opportunities and challenges that the government and donors face in making aid work on the ground. This section briefly looks at the efforts of aid players in strengthening overarching policy and dialogue for effective aid. It appears that macro-level efforts in Pakistan have gained momentum after the signing of the Paris Declaration. For example, the government has recently created a Donor Coordination Cell within the Economic Affairs Division (EAD) to strengthen aid coordination along the lines of the Paris Declaration. Similarly, a survey aimed at monitoring the status of the Paris Declaration was conducted in 2006. A second round of the survey is currently underway.

With respect to aid effectiveness in Pakistan, some interesting developments are taking place on the donors' side as well. The U.N. is currently in the process of implementing its 'One UN' initiative that aims to harmonize the efforts of 19 different U.N. entities by bringing them under one program with one budget. Similarly, the EU has taken some initial steps to implement its Code of Conduct on Complementarity and Division of Labor that seeks to bring more focus in its aid sectors and allow one agency to take lead for each priority sector; however, the progress on these donor initiatives is deemed slow (GOP 2008).

Other overall aid coordination efforts in Pakistan are discussed below:

Framework for International Aid

Currently, Pakistan lacks an explicit aid framework. Though the Medium Term Development Framework (MTDF) and Poverty Reduction Strategy Paper (PRSP) outline the country's overall development strategy and include plans to achieve the Millennium Development Goals (MDGs), it is argued that these policy documents do not provide an adequate basis to guide the donors' assistance strategies (Killick and Shah 2006). In fact, unlike in many other developing countries, the PRSP in Pakistan was not introduced as a framework for international aid. As a result, the role of MTDF and PRSP, as far as the aid is concerned, has largely been limited to consensus building among the donors on the country's overall development priorities rather than providing specific guidelines for effective utilization of aid (ADB 2001).

Mindful of these concerns, the Economic Affairs Division, along with the Ministry of Finance and the Planning Commission, is currently taking the lead in developing a Foreign Assistance Policy Framework that will outline the government's priorities with respect to aid modalities, areas of support, and the division of labor. In support of this process, the government together with its key development partners is reviewing priority areas for promoting aid effectiveness. The review process is organized under four groups: *Financial Management and Procurement Harmonization and Country Systems group* chaired by the Ministry of Finance and co-chaired by the World Bank; *Sector Wide Approaches (SWAP) group*, chaired by the Ministry of Education and co-chaired by the World Bank; *Capacity Development group* headed by EAD and co-chaired by ADB; and *Harmonizing Monitoring and Evaluation Systems group* chaired by the Planning and Development Division and co-chaired by DFID.

Mechanisms for Dialogue

Pakistan Development Forum (PDF) is the most broad-based and all-inclusive forum for discussions between

the government and its development partners. Since 2001, the Economic Affairs Division in collaboration with key partners such as the World Bank and the ADB has convened PDF on an annual basis to share the government's priorities, initiatives, and future plans with its development partners. Thus far, the forum has largely remained an event for information sharing and general discussion on broader development themes. The PDF meetings, due to their broad scope and limited frequency, are generally considered to be non- conducive for a meaningful dialogue or decision making on aid issues.

There are other forums, such as the Joint Government-Partner Aid Effectiveness Steering Committee and G7 Donors meetings, which primarily involve large multilateral and bilateral agencies such as ADB, DFID, WB, USAID, and the Embassy of Japan. Similarly, there are occasional meetings between the EAD and the group of donors from Islamic countries. Most donors, including small aid agencies, meet the relevant government agencies on an individual but a frequent basis to discuss their aid agenda and programs. This fragmented dialogue does not help when it comes to reducing transaction costs. Donors also convene meetings amongst themselves in an informal group called the Donor Poverty Reduction Working Group (D-PRWG), though the participation from some large as well as new donors in these informal meetings has been very limited.

Instrument for Information Exchange: The DAD*PAK*

The Development Assistance Database (DAD*Pak*) is an attempt to facilitate the exchange of information for better aid coordination. The project was launched in 2006 with the technical and financial support from the UNDP to address the gaps in the collection and exchange of standardized data on aid flows and their utilization. From a technological perspective, the DAD*Pak* is designed and customized to facilitate online entry of information on aid flows by development partners. It also has the potential to improve the quality of aid by providing information on geographic and thematic concentration of aid, and showing gaps between commitments and disbursements, thus allowing all partners, including citizens, to track aid flows and allocation patterns.

Clearly, the effectiveness of the DAD*Pak* greatly depends on the quality of data that is fed into the system. The system allows the development partners to input their aid data, but it is not mandatory. Thus far, the enthusiasm on the part of donors has rather been limited, as many of them view data entry as an additional burden (GOP 2007). As a result, the completeness and accuracy of the data and the reports generated by the DADPak remain in doubt. A proxy for the overall usage and effectiveness of the DAD*Pak* is the total number of visits paid to the website. It shows that only 10,996 visits have been paid to the website between May 2, 2006 and December 21, 2008.

CONCLUSION

Official aid to Pakistan, though large in volumes, suffers from high levels of volatility and fragmentation, thus leading to high transaction costs and inefficiencies in the planning and spending practices. These issues, particularly the volatility aspect of aid, have compounded in recent years, coinciding with the surge in aid flows that occurred due to the renewal of donors' interest in the region after September 11, as well as owing to the influx of aid in the aftermath of the earthquake2005. With the growing volumes of aid from diverse sources, the challenge of coordinating aid has also become more complex. The task has further grown in difficulty due to an ever increasing role of non-DAC donors, such as China and the Gulf countries, whose assistance is mainly channeled through non-budgetary mechanisms, adding to the already fragmented aid context in Pakistan.

Managing the costs and consequences associated with on-going unstable aid greatly depends on the willingness and the ability of the donors and the government to secure progress on the pledges made in the Paris Declaration (PD). Thus far, the progress on the PD front has been slow, however. Inadequate initiatives on the part of donors in aligning and harmonizing aid notwithstanding, the case yet again highlights the need for a clear aid policy that emphasizes thematic focus in aid spending, division of labor, and inclusive dialogue in aid dealings. Outlining an aid framework is crucial from the perspective of strengthening the initiative and leadership of the government in guiding aid practices. Realizing this, the government, together with key donors like the World Bank and ADB, has already initiated a process of reviewing existing aid experiences. The lessons from the reviews are expected to feed into the aid policy. The effectiveness of the policy, however, will greatly depend on the government's ability to couple it with an institutional arrangement that serves as a single interface between the government and the donors for policy dialogue on aid. To this end, strengthening the role of the Economic Affairs Division remains crucial.

Equally important are the institutional innovations and coordination efforts at the implementation level that bring greater effectiveness in aid while also recognizing some of the virtues of fragmentation and volatility, such as greater competition, innovation, and greater flexibility in responding to the performance and needs of the recipients. The case studies in coordinating aid in both humanitarian and developmental settings in Pakistan highlight important lessons in strategies that have been instrumental in increasing the effectiveness of resources amidst fragmented and volatile conditions.

- First, the experience of aid coordination in the ongoing earthquake response which involves many donors and implementing agencies, underscores the importance of creating a single government interface with sufficient autonomy and authority—initially Federal Relief Commission (FRC) and later on, Earthquake Reconstruction and Rehabilitation Authority (ERRA). These two institutions have played a lead role in articulating the need and facilitating the division of labor. The U.N.Cluster Approach, for instance, helped the FRC in organizing the scope of work into distinct thematic areas and also helped facilitate the division of labor among diverse aid actors by providing lead role to a single agency in each cluster. Similarly, the Early Recovery Plan, supported by sector focused strategies and annual plans at the reconstruction stage, helps ERRA articulate the need and serves as a guide in issuing the NoCs to the interested aid actors to work in given sectors and regions without undue duplication of efforts.
- Second, the experience with designing and delivering Technical Assistance in various programs, including SAP and the earthquake response, un-

derscores the importance of demand driven TA that is informed by local consultation and thorough capacity need assessment. While SAP suffered from inadequate attention to capacity issues of the implementer, further compounded by delays in delivering TA, the coordinated and prompt response of major donors to the government's request in the needs assessment exercise in the earthquake area, which served as a basis to mobilize funds for the relief and reconstruction effort highlighted the value of technical support from the international partners on a need basis. Similarly, joint TA programs, such as TAMEER, have been instrumental in building the capacity of the newly formed ERRA.

- Third, the case of PPAF shows the role that a funding intermediary between the donors and NGO implementing partners can play in stabilizing aid flows to small organizations to expand their planning horizon and creating conditions for scaling up grassroots programs. Supporting scaling up efforts of microfinance and financing the community based infrastructure models through diverse civil society partners across Pakistan are two important areas where the PPAF as a funding as well as technical intermediary has played a central role. The PPAF's experience also highlights that such intermediaries, without the support from wider donor groups, cannot easily realize their full potential in terms of outreach and impact.

- Fourth and finally, scaling up aid programs in a fragmented and volatile context is not easy. Rolling out new ideas at a pilot scale, allowing sufficient time to test and adapt the model, and ensuring continued political and financial support at the scaling up stage are crucial. The case of SAP illustrates the risk of failure when an un-tested idea is rolled out at a massive scale. The scaling up of microfinance and community managed infrastructure models in Pakistan through grassroots civil society organizations, with the support from the PPAF and RSPs, on the other hand, underscore the importance of gradualism in taking pilot initiative to scale.

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ENDNOTES

1. This study discusses issues in aid effectiveness primarily from the perspective of the recipient, focuses on how various aspects of aid quality, such as the level of fragmentation and volatility, affect the recipient's ability to coordinate aid. It is acknowledged that the donors' perspective with respect to the performance of the recipient in facilitating and utilizing aid is equally crucial but has not been dealt in detail to limit the scope of the study.
2. The actual number of donors is arguably larger as the OECD disbursement statistics either do not record aid flows from some new bilaterals or present them in an aggregated manner.
3. Referred to as consortium bilaterals, these include USA, Canada, UK, France, the Netherlands, Norway, Sweden, Japan, Italy, Germany and Belgium.
4. There are some concerns about the reliability of the data from the DADpak. These are discussed in a later section in the report.
5. See Acharya et al (2004), Knack and Rehman (2007), Kharas (2007), Roodman (2007), and Easterly and Pfutze 2008.
6. Based on OECD-DAC statistics, the number of donors between 1994 and 2006 increased from 34 to 44.
7. Aid activity refers to a funding flow to any of the 194 purposes categorized under the OECD-CRS. These purpose categories sometimes lump together many sub categories. Therefore, there is a reason to believe that the actual number of activities may be larger than the estimates presented here.
8. The largest share of volatility came from aid disbursed through "miscellaneous" category which is hard to specify in terms of aid sectors.
9. Aid from the United States accounted for 21 percent of net ODA and 41 percent of total grants to Pakistan in 2007.
10. 1See ADB (2001), World Bank (2003) and Birdsall et al (2005) for detail accounts on these factors.
11. For instance, the ICR 2003 noted that the Program did not fully taken into account the capacity constraints and time required to bring about far reaching reforms in large institutions.
12. Birdsall et al (2005) notes that SAP was seen as a high risk high gain opportunity.
13. See World Bank (2003) and ADB (2002). ADB (2002) TA completion report also found 18 month delay in its TA input due to clearance issues.
14. While the author has had first-hand experience of working with the first RSP (i.e. AKRSP), the findings presented in this section are primarily based on a paper "Scaling Up Rural Support Programs in Pakistan" prepared by Rasmussen et a l (2005) for the World Bank's Shanghai Conference on Scaling Up Poverty Reduction.
15. Source: www.rspn.org, accessed on February 5, 2009.
16. The provincial government initially approached AKRSP to expand its operations but eventually created a new RSP for the province.
17. Based on the discussion with the CEO of the PPAF.
18. Based on official statistics obtained from ERRA.
19. In practice there was no clear demarcation between relief and recovery work. Some residual work like providing GI sheets for the construction of shelters continued even after this data while some of the recovery work like rehabilitation of roads etc coincided with the relief phase.
20. RISEPAK and LUMS (2005) noted that the accessibility—distance from a major road— as opposed to the extent of need had a positive association with the level of assistance received.
21. This approach was conceived by the U.N. after the experience of poor coordination of international aid agencies in tsunami efforts. This would orga-

nize all support to rescue, relief and early recovery efforts into nine clusters: health, nutrition, water and sanitation, logistics, camp management, emergency shelters, telecommunications, protection of vulnerable groups and early recovery.

22. Other international agencies that participated in the exercise included EU, DFID, GTZ, KfW, JBIC, JICA, USAID, WHO, FAO, UNICEF, and UNDP.

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