



Recalibrating the Public Sector Development Programme for Pro-poor Growth



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RETHINKING PUBLIC INVESTMENT FOR PRO-POOR GROWTH

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// Properly targeted public investment can do much to boost economic performance, generating aggregate demand quickly, fuelling productivity growth by improving human capital, encouraging technological innovation, and spurring private-sector investment by increasing returns.

Michael Spence, Nobel Laureate in Economics¹. //

Investment is one of the keys to economic growth and increasing per capita income. Theoretical and empirical research, and country experiences (China, India, and Ethiopia, for instance) suggest that growth is a precondition for poverty reduction. Consequently, investment is also crucial for poverty reduction.

Both public and private investment are crucial for economic growth and complement each other, but public investment matters more for the poor and backward areas or regions. The private sector invests for the profit motive and channels the investment to where the expected returns are the highest. And while the public investment's *raison d'être* is also to generate social returns and stimulate economic activity, it must also, in principle, consider welfare and equity issues. Available evidence suggests that public investment crowds in private investment, so public investment in poor or backward areas could potentially attract private investment in those areas. In sum, public investment has both growth-enhancing and pro-poor functions.

However, investment in Pakistan, pro-poor or otherwise, is worryingly low. During the 2017-19 period, the average public, private, and total investment as a percentage of Gross Domestic Product (GDP) were 4.47%, 10.3%, and 14.47%, respectively. For the record, the average GDP growth rate during the same period was 4.2%². In Bangladesh, on the other hand, during 2017-19, the average public, private, and total investment as a percentage of GDP were 7.8%, 23.3%, and 31.1%, respectively. During the same period, Bangladesh's economy grew at 7.76%, and the poverty rate in 2019 was 20.5%³. The fact that investment in Pakistan, especially public investment, is

inefficient, ridden with delays, cost overruns, and throw-forwards add to the woes.⁴

The debate on the efficiency and returns on public infrastructure investment aside, even the public infrastructure investment that is made, cannot be deemed directly pro-poor. Low investment rate, coupled with inefficient public investment, place the poor and backward areas disproportionately at a greater disadvantage. Unfortunately, the data on the spatial allocation of public investment in Pakistan is not available, so we have to rely on secondary sources. Some of the available research⁵ shows that in Punjab, for example, the communications, social, and utility infrastructures are predominantly concentrated in Punjab's developed districts.⁶ On the other hand, all the Southern Punjab districts are amongst the most deprived. The situation in Khyber Pakhtunkhwa is not any different. A study⁷ shows that road density is the highest in the province's developed districts, implying a higher public investment in these areas. UNDP's Human Development Index 2017 Report for Pakistan also shows that the developed urban centres rank the highest on the overall HDI and its sub-components (immunisation, expected years of schooling, mean years of schooling, living standard, and health facilities).

Thus, Pakistan is perhaps a classic example of the core-periphery model of development, according to which the central regions develop at the cost of backward areas and regions. One of the reasons that the central regions attract higher investment at the expense of peripheral regions is that marginal factor productivity in the outlying areas is low. Low factor productivity, in turn, is low in backward areas and is because of poor social and physical infrastructure, among other things. Although Pakistan's

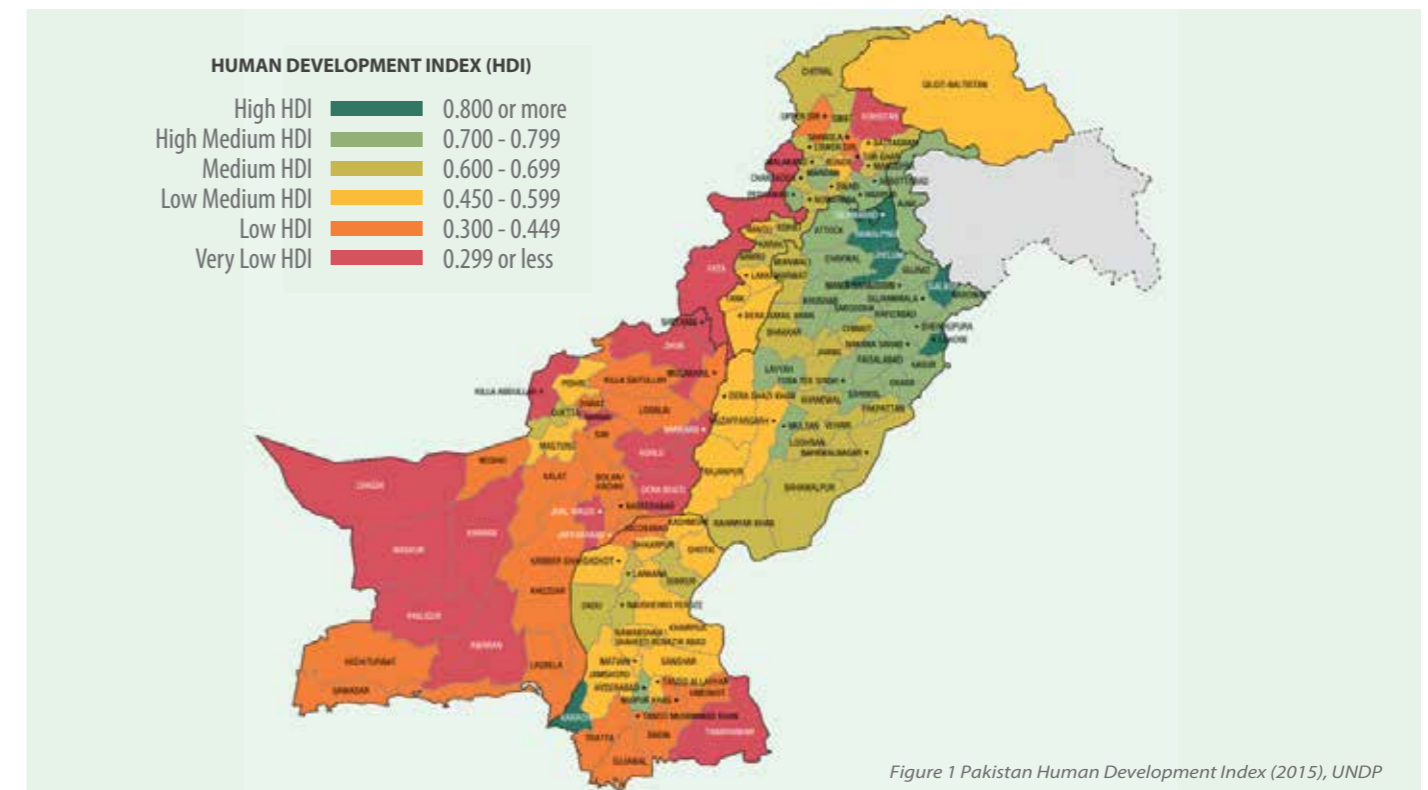


Figure 1 Pakistan Human Development Index (2015), UNDP

public sector programmes predominantly focus on brick and mortar projects⁸, their concentration is in big-ticket infrastructure projects – motorways, dams, urban roads, and rapid transit systems in urban centres.

The literature, on the other hand, shows that public investment in agricultural research and development (R&D) and irrigation (increase in agricultural productivity and food production), transport and communication infrastructure in backward areas (access to markets and lower transaction costs), and housing, health, and education (social infrastructure increases labor productivity and capabilities) have a positive effect on attracting private investment, pro-poor growth, and poverty reduction. However, in Pakistan, agricultural R&D, as a percentage of agriculture GDP, is the lowest in the region; it was 0.18% in 2012, only a fraction of the internationally proclaimed target of at least 1 percent⁹. Even though the transport and communication infrastructure has improved over time, the focus is still on provincial highways. Besides, being at the lowest level of the transport system hierarchy, the rural road infrastructure does not receive the attention it deserves. Similarly, the plight of health and education facilities in backward areas, especially rural areas, is no different.

Thus, the status quo must be challenged to increase effective pro-poor public investment, especially in rural areas, to enhance the poor's capabilities and increase opportunities for them. Effective pro-poor public investment happens, for example, when market access for the poor is increased so that they take their output to the market. Pro-poor public investment also happens when, for instance, a woman in a peripheral area can provide education to her children without worrying about food and physical security. Sometimes, even removing regulatory hurdles can bring out the poor's entrepreneurial capabilities. A debate generated at PIDE shows that by simply removing regulatory hurdles for

the street economy, the poor's economic opportunities can be increased, and their decent livelihood ensured¹⁰.

At a more fundamental level, there is a need to rethink public investment on the whole and not just the pro-poor public investment. First of all, there is a need to adopt a result-based management system for public sector programs. Currently, the focus is only on input, i.e. public investment, without evaluating the output, i.e. the desired results. Based on the cost-benefit analyses, only those projects must be prioritised that have higher expected benefits relative to the costs.¹¹ It will not only increase the efficiency and transparency of the public investment, but it will also help the benefits of the resulting growth to trickle down to the poor.

The pro-poor public investment in Pakistan certainly requires a rethink. There are areas that can be prioritised. Rural infrastructure, for example, needs to be strengthened. The focus must not be only on physical infrastructure but on services as well. It will improve access to education, health, market access, ultimately increasing the poor's productivity and economic opportunities. Furthermore, R&D investment, particularly, agriculture R&D, have to be increased and made a part of PSDP outlays. Currently, there are no significant R&D outlays in PSDP. It must be emphasised that R&D takes places in universities and research institutes, so linkages with academia must be established and strengthened. We must remember that pro-poor public investment does not have to be in the form of monetary expenditures; removing regulatory hurdles through policy changes can also rope in private investment in activities that directly benefit the poor. Finally, planning, implementation, and monitoring of pro-poor public investment must adhere to the principles of neutrality and impartiality to achieve the desired results.

¹ Spence (2015). Why Foreign Investment? <https://www.cfr.org/blog/why-public-investment>

² Investment and GDP growth rate figures for Pakistan are taken from Pakistan Economic Survey 2019-20.

³ Investment and GDP growth rate figures for Bangladesh are taken from Bangladesh Economic Review 2020, whereas the source for the poverty rates is <https://bdnews24.com/economy/2019/12/17/bangladesh-poverty-rate-down-to-20.5-in-2019-fiscal>

⁴ Pakistan Institute of Development Economics (2020). Doing Development Better. PIDE Policy Viewpoint No. 11:2020. PIDE, Islamabad. <https://pide.org.pk/pdf/Policy-Viewpoint-11.pdf>

⁵ Paras, I., Mohey-ud-din, G. & Fareed, F. (2018). Infrastructure Development in Punjab, Pakistan: From Assessment to Spatiotemporal Analysis at District Level. *Journal of Quantitative Methods*, 2(2): 75-103.

⁶ Surprisingly, Lahore and Gujranwala rank low on the social infrastructure index but that is because of the increasing population; in absolute terms, these districts still lead the development.

⁷ Burki & Khan (2010). Spatial Inequality and Geographic Concentration of Manufacturing Industries in Pakistan. A paper presented at the 26th AGM & Conference of the Pakistan Society of Development Economists, December 28-30, 2010, Islamabad.

⁸ See footnote 4.

⁹ Gert-Jan Stads, Muhammad Azam Niazi, Lang Gao, and Nouman (2015); <http://ebrary.ifpri.org/utills/getfile/collection/p15738coll2/id/129864/file/130075.pdf>

¹⁰ Pakistan Institute of Development Economics (2020). Settlement of Street Vendors in Public Spaces of Pakistan. PIDE Webinar Series, November 9, 2020. <https://pide.org.pk/index.php/89-pide/research/seminars/817-webinar-on-settlement-of-street-vendors-in-public-spaces-of-urban-pakistan>

¹¹ Pakistan Institute of Development Economics (2020). Getting More Out of the PSDP Through Results Based Management. PIDE Policy Viewpoint No. 15:2020. PIDE, Islamabad. <https://pide.org.pk/pdf/Policy-Viewpoint-15.pdf>

BEYOND MONETARY INVESTMENTS FOR PRO-POOR SERVICE DELIVERY¹

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The Public Sector Development Programme 2020-21 budget allocation promised a special programme of Rs. 70 billion to mitigate the impact of COVID-19. This focuses on education, sewerage, solid waste management, clean drinking water and upgrading health facilities. While it is extremely important to make monetary investments to improve the infrastructure or alleviate financial constraints that prevent household investment in these, there is potential to enhance the effectiveness of these investments by applying behavioural insights.

Behavioural development economics departs from standard economic models of humans optimising behaviour based on their preferences and beliefs. It acknowledges that people often have non-standard preferences, systematically biased beliefs and may deviate from utility maximisation.² These biases are not specific to the poor but can be particularly costly for them. There is a growing experimental literature that uses behavioural interventions to encourage certain behaviours that we can learn from when designing pro-poor programmes. Here I focus on two key areas highlighted by the PSDP that are a particular challenge for Pakistan due to historically low rates of investments in these: education and health.

EDUCATION

COVID-19 lockdowns pose potentially serious consequences for children's education with huge losses in learning, particularly for the most poor who cannot access online learning. In addition, there are concerns that vulnerable children will not go back to school, permanently dropping out, thereby exacerbating inequalities.

Labelled cash transfers

A commonly used tool to alleviate financial constraints is to provide poor households with cash transfers. These have larger effects on educational outcomes of children

when these are conditional as compared to unconditional transfers that do not mention education of children.³ Conditional transfers have children's education such as continued enrolment into schools as a condition. These conditions are used to force investments in children but are administratively hard to implement. An alternative, less administratively onerous option is to label cash transfers. Labelling cash transfers in this context means communicating to the recipient that the purpose of the transfer is for investment in children's education such as to pay their school expenses. There is limited but promising evidence comparing conditional cash transfer programmes to labelled cash transfers which finds that they are on average just as effective in encouraging children's educational outcomes.⁴ Hence, even without the costly monitoring that is needed to make sure that the conditions attached to a transfer are met, it may be possible to achieve the same desired outcome by just labelling it and not enforcing it.

Mindset interventions

A potential path that is starting to be explored is to directly target student's mindset, encouraging them to exert more effort to improve their learning outcomes and making them believe that they can achieve better outcomes. This has immense potential due to the low cost and easy scalability of this type of intervention. Promising evidence is emerging on the potential for relatable role models in raising aspirations and hope thereby improving student performance. Bhan (2020) in India and Riley (2017) in Uganda find promising results with school children in the short-run on student test-scores of watching videos of local role models.⁵

In Peru, an extremely cost-effective growth mindset intervention (cost of \$0.2 per student) with students and teachers in public schools asked them to read an essay on how to grow intelligence followed by a 90-minute session

on discussing the article, focusing on how brains grow. The students were then asked to write a letter to a friend to explain the concept and advise them on how to grow their brain/mind. This intervention led to large impact on test scores equivalent to increasing parental education by two to three years.⁶



Figure 1 Peru faced wide gaps in test scores between students from high-and low-income households. Instead of investing more in teacher training and learning materials, the team designed a growth mindset intervention to change beliefs and mental models on the part of educators and students alike (World Bank, 2017)

There is also some evidence that targeting parent's mindset to promote self-beliefs and future-orientedness can encourage investments in children by the poor.⁷ These light touch interventions can also be added to cash transfers though research on this is ongoing. Another avenue that hasn't been explored much in low and middle income countries is the use of reminders and messages to parents to monitor student behaviours in addition to providing them information about their attendance and performance.⁹

HEALTH

A key to avoid pressure on healthcare systems is to encourage preventive health behaviours by people. This is especially relevant in the context of the COVID-19 pandemic, the spread of which can be slowed by people washing hands with soap. This has the monetary cost of buying the soap and non-monetary time and inconvenience cost of performing the action.

High sensitivity to price

Existing literature highlights that there is a very high responsiveness of people to price of these products with small changes in prices leading to 40-60 percentage point decline in demand of products such as chlorine disinfectant

in Zambia, insecticide-treated bed nets and deworming tablets in Kenya.¹⁰ Even small increases in price lead to large decreases in demand and so the key is to keep the price of these products low, often requiring subsidisation.

Non-monetary costs

It has been shown that it is not just the monetary cost but also the time and hassle cost that play a part in take up of preventative healthcare even if it is free. Certain strategies have been successful in literature to lower these costs. Implementation intention plans encourage people to think through what actions they need to take in order to make it possible to reach the goal and these have been particularly successful in ensuring follow through.¹¹ In addition, reminders have been shown to be helpful in encouraging compliance with medicine regimes and checkup schedules.¹² There is also the potential to encourage individuals to visualise their future and using trusted individuals in communities to communicate the message.¹³

CONCLUSION

The growing evidence from low- and middle- income countries in the use of behavioural insights to encourage desired behaviours is promising. In a resource constrained setting, low cost additions have immense potential to enhance the effectiveness of any monetary investment or as standalone interventions to achieve desired outcomes. This is particularly the case in rural areas, where budgets for infrastructure investment are very low and any enforcement through audits can be very costly. The interventions need to be carefully adapted to local contexts and more research is needed to understand the challenges in implementing them at scale.

1. This note draws on a series of briefs curated by the Mind and Behaviour Research Group at the University of Oxford.

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3. Baird, S., Ferreira, F. H., Özler, B., & Woolcock, M. (2013). Relative effectiveness of conditional and unconditional cash transfers for schooling outcomes in developing countries: A systematic review. *Campbell systematic reviews*, 9(1), 1-124.

4. Morocco: Benhassine, N., Devoto, F., Duflo, E., Dupas, P., & Pouliquen, V. (2015). Turning a shove into a nudge? A labeled cash transfer for education. *American Economic Journal: Economic Policy*, 7(3), 86-125; Kenya: Heinrich, C. J., & Knowles, M. T. (2020). A fine predicament: Conditioning, compliance and consequences in a labeled cash transfer program. *World Development*, 129, 104876.

5. Riley, E. (2017). Increasing students' aspirations: the impact of Queen of Katwe on students' educational attainment. In CSAE Working Paper WPS/2017-13; Bhan, P. (2020). Do role models increase student hope and effort? Evidence from India.

6. <https://www.worldbank.org/en/results/2017/04/25/peru-if-you-think-you-can-get-smarter-you-will>.

7. Bernard, T., Dercon, S., Orkin, K., Seyoum Taffesse, A. (2019). The Future in Mind: Experimental Evidence from Ethiopia. Working paper. Draft available upon request.

8. Orkin, K., Garlick, R., Mahmud, M., Sedlmayr, R., Haushofer, J., Dercon, S. (2020). Aspirations, Assets, and Anti-poverty Policies. Working paper. Draft available upon request.

9. Early results from a study (<https://www.povertyactionlab.org/evaluation/impact-communication-messages-student-performance-sao-paulo-brazil>) in Brazil using a randomised control trial show promising effects on ninth graders of SMS sent to parents to increase salience of the need to monitor them.

10. Ashraf, N., Berry, J. & J. M. Shapiro. (2010). "Can Higher Prices Stimulate Product Use? Evidence from a Field Experiment in Zambia." *American Economic Review* 100 (5): 2383-2413; Cohen, J. & Dupas, P. (2010) "Free Distribution or Cost-Sharing? Evidence from a Randomized Malaria Prevention Experiment". *The Quarterly Journal of Economics*, 125 (1): 1-45; Kremer, M. & E. Miguel (2007) "The Illusion of Sustainability" *The Quarterly Journal of Economics*, 122 (3): 1007-1065

11. Milkman, K. L., Beshears, J., Choi, J. J., Laibson, D., & Madrian, B. C. (2011). Using implementation intentions prompts to enhance influenza vaccination rates. *Proceedings of the National Academy of Sciences*, 108(26), 10415-10420; Milkman, K. L., Beshears, J., Choi, J. J., Laibson, D., & Madrian, B. C. (2013). Planning prompts as a means of increasing preventive screening rates. *Preventive Medicine*, 56(1), 92-93.

12. See brief here for more details: https://mbrg.bsg.ox.ac.uk/sites/default/files/2020-05/reminders_-_mbrg_policy_brief_1.pdf

13. See brief here for more details: https://mbrg.bsg.ox.ac.uk/sites/default/files/2020-07/preventative_health_brief.pdf

BALUCHISTAN'S DEVELOPMENT DEFICIT

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Two oft-repeated portrayals of Balochistan since nearly three-quarters of a century are “Balochistan is rich in mineral resources” and “Balochistan is the least developed province of Pakistan”. This contradictory description continues to hold true even today.

Two oft-repeated portrayals of Balochistan since nearly three-quarters of a century are “Balochistan is rich in mineral resources” and “Balochistan is the least developed province of Pakistan”. This contradictory description continues to hold true even today.

A search of economic development events over the first two decades of Pakistan's independence shows that Balochistan does not figure meaningfully in any economic plan or budget documents, except for the discovery and extraction of natural gas at Sui in Dera Bugti. And an analysis of growth in Balochistan over the next three decades – 1970s to 1990s – and post-2000 testifies to the continuing saga of long-term neglect.

Statistics depict a depressing story. Over the three decade period – 1970s to 1990s – Gross Regional Product¹ (GRP) growth in Balochistan averaged 3.8% and per capita growth averaged negative 0.5%; i.e., decline in income. Resultantly, Balochistan's average share in national income dropped from 4.5% in the 1970s to 4% in the 1980s and 1990s²; indicating continued stagnancy and marginalisation.

The socio-economic stagnation in Balochistan has been recorded by a series of studies, which rank districts of Pakistan by development, deprivation or poverty levels. All studies show that Balochistan districts are consistently at the bottom. The 1982 study showed that out of the bottom 10 districts of Pakistan, 9 were in Balochistan, while the 2001 study showed that out of 26 districts in Balochistan, 24 were in the ‘high deprivation’ category.

Six out of 11 districts designated as Low Human Development by UNDP (2006) were in Balochistan.³

The situation does not appear to have improved post-2000, given that GRP growth in Balochistan over the decade 2000-11 has been the lowest at 2.8%⁴ – less than 60% of the average combined GRP growth of the other three provinces. Balochistan is not only lagging behind other provinces, but is falling further behind.

PROFILES OF NEGLECT

Instances of neglect are aplenty. However, two stand out particularly: exploitation of gas reserves and absence of road connectivity.

Exploitation of Gas Reserves

Natural gas was discovered in Balochistan in the early 1950s and an elaborate network of pipelines was laid to supply gas to Karachi and central Punjab. Balochistan contributed over 80% of gas to the country till the 1980s, but did not receive a whiff of gas for three decades. Currently, Balochistan's share of gas consumption, excluding gas supplied to Uch power plant,⁵ is a mere 2%⁶ and three-fourths of the province's area continue to remain without gas supply.⁷

The cost of extraction of gas deposits at Sui was low and Pakistan adopted a cost-plus pricing policy, instead of pricing the non-renewable resource at scarcity value. While low price is advantageous to the consumer, it is disadvantageous to the producer. Thus, Balochistan suffered on two



counts. One, its monetary gains were abysmally low, and two, the low price induced wasteful consumption nation-wide and over-consumption depleted the wells; sharply reducing even the low gas-related revenues accruing to the province. Estimates show that resource transfer equal to Rs. 7.6 trillion in 2014 prices has occurred from Balochistan to other provinces over 1969-2014.⁸

Absence Of Road Connectivity

Balochistan constitutes 44% of the land mass of the country. It would stand to reason that developing surface communications would be a priority to bring remote areas into the national mainstream. No such agenda existed till recently and road density in the province is half the national average: 0.16 and 0.32, respectively.

Pre-2000, a vast area of 100,000 km² area of central Balochistan was almost completely devoid of anything that could be called a highway. It was Balochistan's Empty Quarter.⁹ The 1,000 km distance between Gwadar and Quetta was connected by a patch-work of winding pot-holed part blacktop, part shingle road and part dirt track. Similar was the ordeal of travelling from Gwadar to Karachi. The trip had to be made on a dirt track and required 2 to 3 days to cover the 800 km distance, with passengers making overnight stops in the open. Vehicles carried one or two spare tyres and axles to attend to

breakdowns. There are as yet no dual-carriageways anywhere in the 347,000 km² province.

PERSISTENT UNDER-INVESTMENT

The reasons for persistent under-development can be traced directly to gross federal under-investment in basic infrastructure in the province. Data for the period prior to 1990 is patchy. Post-1990, Balochistan's share of federal PSDP allocations for development schemes over 1990 to 2001 has averaged a mere 4% and 0.17% of GDP – less than one-fifth of one percent. These meagre shares are also over-estimates; given that actual releases are generally less than budgetary allocations; some schemes do not see the light of the day.

Balochistan's share of federal PSDP allocation picked up post-2000, with the ‘discovery’ of Gwadar's strategic value. The average share of allocations to infrastructure schemes relating to Gwadar port and federal security agencies and civil administration installations escalated from one percent during 1990-2001 to 17% during 2002-16.¹⁰

However, the employment and income multiplier of these enclave investments is low for Balochistan and its people. A province that is rich in mineral resources continues to suffer from widespread hunger, malnutrition, illiteracy, health problems, poverty and deprivation.

¹ Gross Regional Product is the provincial equivalent of Gross Domestic Product estimates for the country as a whole.

² Bengali and Sadaqat (2005), Provincial Accounts of Pakistan: Methodology and Estimates 1973-2000, Social Policy and Development Centre, Working Paper No. 5.

³ Pasha and Hasan (1982), Development Ranking of Districts of Pakistan, Pakistan Journal of Applied Economics, Volume I, No. 2; Pasha, Malik and Jamal (1990), The Changing Profile of Regional Development in Pakistan, Pakistan Journal of Applied Economics, Volume IX, No. 1; Ghaus, Pasha and Ghaus (1996), Social Development Ranking of Districts of Pakistan, Pakistan Development Review, 35:4 Part II; Social Policy and Development Centre, Social Development in Pakistan, Annual Review 2001, Growth, Inequality and Poverty; Jamal and Khan (2007), Trends in Regional Human Development Indices, Social Policy and Development Centre, Research Report # 73.

⁴ Social Policy and Development Centre, Social Development in Pakistan, Annual Review 2014, State of Social Development in Rural Pakistan, Table 2.2.

⁵ Uch power plant is located in Balochistan; however, the power generated is fed into the national grid.

⁶ Bengali, Kaiser, A Cry for Justice: Empirical Insights from Balochistan, Table 1.1 and Chart 1.1, Oxford 2018; calculated from Government of Pakistan, Pakistan Energy Yearbook, various issues.

⁷ Ibid. Map 1.1, drawn from data in Pakistan Energy Yearbook, various issues.

⁸ Ibid. Table 1.3

⁹ See Map 2.1 in Bengali, Kaiser, A Cry for Justice: Empirical Insights from Balochistan, Oxford 2018.

¹⁰ Bengali, Kaiser, A Cry for Justice: Empirical Insights from Balochistan, Oxford 2018, p. 55

WEAKNESSES IN THE PROJECT CYCLE OF PUBLIC SECTOR INVESTMENT

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Public sector development projects are unique due to their specific project life cycle and different from private sector where project preparation scrutiny and approval stage is squeezed and worked out in detail. Because of influence of various stakeholders on putting projects in Annual Development Plans (ADPs), approvals and release

of funds, not all public projects show a uniform performance pattern. To meet the ever increasing demand often **more schemes are financially planned** in ADP and approved as compared to the available annual cash cover. The number of development schemes vary each year. Alongside there are **estimated liabilities**

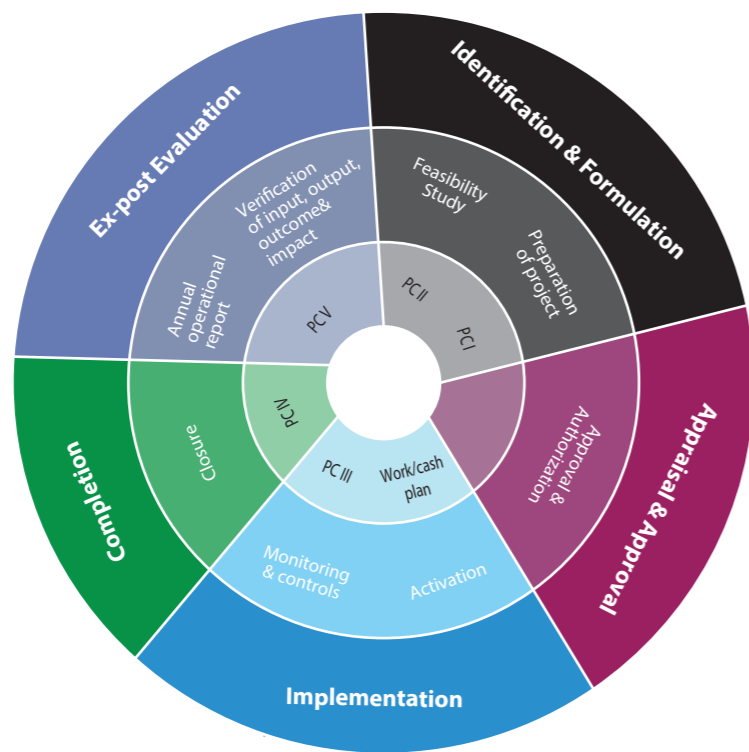


Figure 1 Planning, Implementation, and Monitoring Cycle adopted for public sector development projects. Source: Planning Commission of Pakistan, 2019

(throw forward) to complete existing ongoing schemes which is three times of original development budget. As a consequence, there exists a huge gap in annual provincial financial development funds.

Another planning aspect is that the public project proposals (PC-Is) are made on **rough cost estimates**, i.e., often without detailed designs, which results in cost and time revisions later. In an evaluation of 450 public

projects of various sectors, it was observed that more than 70% projects were either revised for time or cost.¹ Consequently, sometimes the extra funding and time is not available which leads to abandoning some development projects midway and thus causing an overall loss to public exchequer.

Due to large capital-intensive nature of these projects, Risk Assessment & Management, Stakeholder Management,

Communication Management should be made integral to project planning. Moreover, public project designs are often assessed to be inefficient. There is a need for **more rigorous economic and financial analyses** during the proposal appraisal stage.

There is also an urgent and emergent need of **building capacities** of officers, officials, project managers and other partners for better service delivery.

Over the course of time, monitoring practices have improved but need to be further enhanced. Monitoring is input based and only financial performance and physical targets are monitored through PC-III on quarterly basis. However, there is a strong urge of **results-based monitoring and evaluation** and mechanisms for early warnings and alerts. Further there is leakages in public funds during execution of public project which reduce the value for money and as a result beneficiary receive low quality projects. **Resident supervision mechanism** stands unusable and civic engagement is missing. In the evaluation of 450 projects, it was observed that around 50% projects had significant construction defects and did

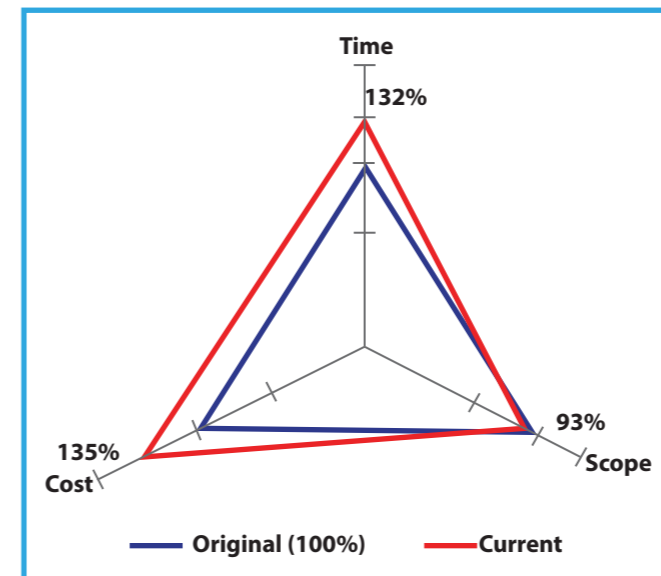


Figure 2 Planned vs actual time, cost, and scope of projects (2011)

not meet the standards set out in the original plan. Overall, in public projects there is weak internal/external M&E mechanism.

While considering execution of projects, one significant problem appears to be delays in releases of funds from finance department. By average, project executors require three additional months by average to get fund released at disbursement level after approval of projects by any relevant forum Provincial Development Working Party (PDWP), Departmental Development Sub-committee (DDSC), Departmental Development Working Party (DDWP), District Development Committee (DDC) etc. Sometimes, projects executors have to have thin funding

releases due to changing government priorities or policies resulting in execution of projects in bits and pieces. Moreover, funds are also not released according to the promised release pattern mentioned in ADP. Project executors, contractors, consultants have to face bureaucratic barriers throughout the life cycle of the project. Austerity measures and ban on procurement and hiring of staff simply add on the problems in the project execution.

The mechanism has improved in Punjab and the government has shown commitment on evaluation. As a result, the Punjab government has established a full-fledged Directorate General of Monitoring and Evaluation with extraordinary powers. However, true experiment-based impact evaluations are missing. Moreover, lessons learnt of success or failure from earlier projects or project evaluations need also to be incorporated while planning new projects.

WAY FORWARD

- 01 Project planning and resource allocation process must be reformed to check and control the political or other stakeholders' influence.
- 02 Project feasibilities and designs must incorporate a third-party check for all studies.
- 03 Proper monitoring and evaluation system should be developed for all public projects. Results based M&E frameworks and mechanisms should be developed and implemented for social sector projects.
- 04 Impact evaluations must be conducted for all major public projects and their lesson learnt should be incorporated in future projects and planning processes.
- 05 Procurement process must be reformed to have quality contractors and consultants as one of the most important development partners in the whole process of project development, implementation and operations.

1. Mubin, Sajjad and M. Ahmed, J. Sial (2011) Terminal Evaluation of Public Sector Development Projects: An Analysis of 85 Evaluated Development Projects of Punjab Province

WEAKNESSES IN THE PROJECT CYCLE: FROM DEVELOPMENT TO COMPLETION

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In Pakistan, public sector development works is carried out at the levels of federal, provincial and local governments, and district, municipal and union councils. Long term, medium term, short term, annual planning is done by the various tiers of government. The overall development of the country, employment generation, income level enhancement, and distribution of public goods and services depend on achievement of the development goals through implementation of development projects. In Pakistan, the completion of projects gets delayed in certain cases, due to a number of gaps and bottlenecks in project planning, between implementing departments and the extent to which the beneficiaries are engaged in the process.

Project cycle is one of the most important and determining factors for national development and sustainability in the economic growth. Conceiving ideas, planning, development, implementation, completion, alignment with goals, monitoring, and achieving results, are major areas that create a difference of impact, efficiency and cost escalation¹.

A number of projects are delayed in implementation by the federal government, provincial government, and local government. The cost-over run of the delayed projects is observed by Shah SAH (2018). The study points out that there is a positive relationship of GDP growth with PSDP

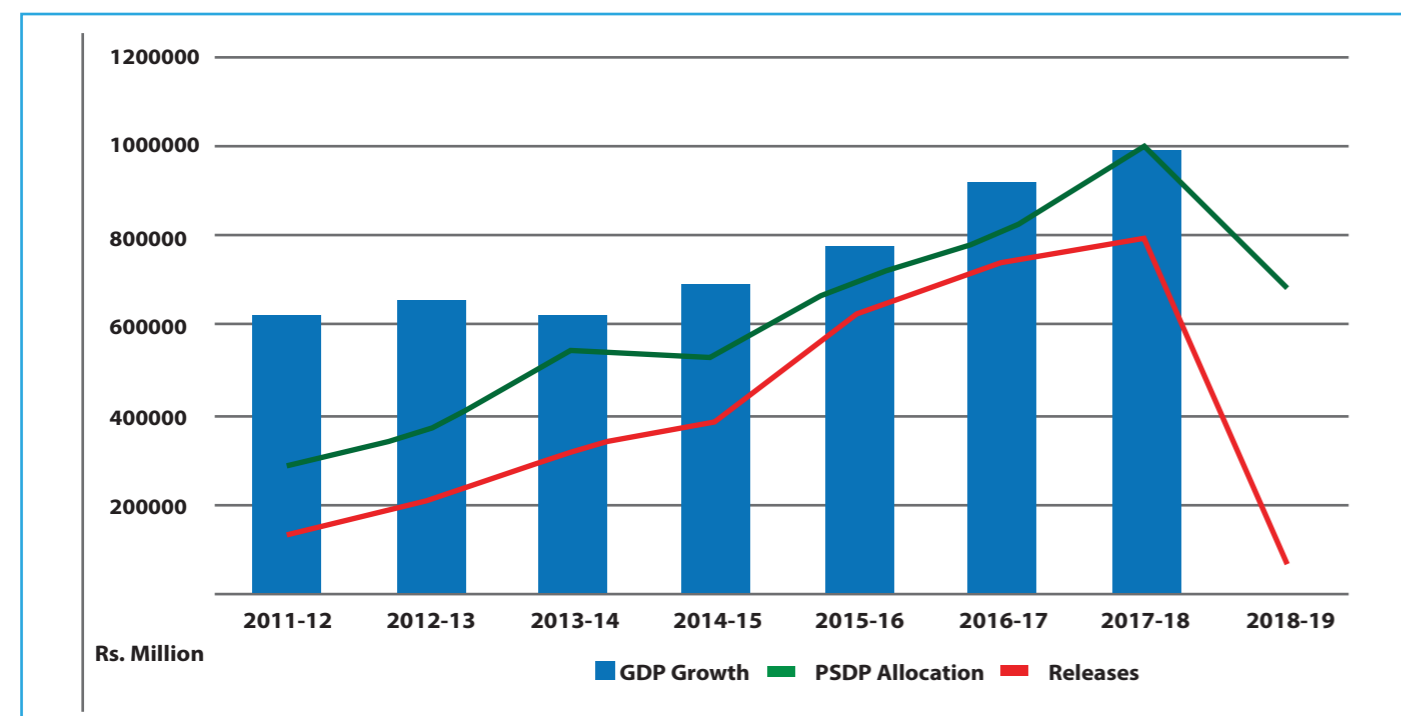


Figure 1 GDP Growth with PSDP Allocation and Release



and funds release to projects. Public sector development allocation and making expenditures is based on releases of the amounts to particular sectors, sub-sectors and projects. The throw forward analysis indicates a huge increase of future liabilities from 2013 onwards whereas increase of allocation does not match with growth of throw forward in Pakistan. It predicts that if the PSDP allocation trend remained the same then it will take several years more to complete ongoing projects².

PROJECT CYCLE GAPS

- (i) Conceiving a National Development goal and sectoral goal
- (ii) Sectoral goal and sub-sectoral goal
- (iii) Sub sectoral goal and development project
- (iv) Conceiving a project and matching capacity of the project implementing agency
- (v) Project Implementation Agency and its internal structures and personnel
- (vi) Project implementing agency and its associated implementing partners
- (vii) Project Implementing Agency and its facilitating Ministries, Departments and Agencies
- (viii) Implementing Agency and beneficiaries of the projects
- (ix) Project achievements and the machinery interlinking it with national Goals
- (x) Implementation and sustainability of project

Source: Shah Syed Akhtar Hussain (2018), Appraisal of PSDP Projects' Implementation

There are around 10 major gaps that exist in implementation of development projects, which lead to delays in completion of the projects. The gaps exist between conceiving rational development goals and achieving the goals, while a consistent gap exists between approval

and implementation of projects. These gaps increase formalities, number of communications, leading to unnecessary activities that take additional time and consequently slow down project implementation. The inter-governmental communication may take more time and energies on discussions, meetings, and delaying the process of implementation. This enlargement of process leading to overall delay escalating monetary costs while resulting in suboptimal achievements of pronounced goals, objectives. Shah S.A.H 2018 identifies 13 bottlenecks during monitoring of implementation of around 500 projects from 2011 to 2018³. These bottlenecks largely relate to lack of management and decision making capacity, staff turnover, and very critical conditions, such as land acquisition, law and order situation, and release of funds.

13 PROJECT MONITORING AND IMPLEMENTATION BOTTLENECKS

1. Lack of decision making at certain levels in execution of projects
2. Lack of management capacity of the persons involved in the overall process
3. Turnover of project director and staff
4. Delay in recruitment of project employees
5. Governance issues within and outside the project areas
6. Delay in procurement of materials
7. Problems with contractors
8. Coordination issues amongst different stakeholders
9. Delay in consultants' appointments/designing of ToR
10. Nonexistence of project management unit
11. Land acquisition for project activities
12. Law and orders situation in the project areas
13. Delay in releases of funds

Source: Shah Syed Akhtar Hussain (2018), Appraisal of PSDP Projects' Implementation

In Pakistan, a part of development projects implementation is delayed with cost over-run and time over-run, which needs improvement through integrated and comprehensive strategy. Therefore, the government will have to develop a comprehensive implementation strategy basing on out of the box solutions to address the bottlenecks and gaps in the project implementation cycle.

1. Shah Syed Akhtar Hussain (2018), Appraisal of PSDP Projects' Implementation.

2. Shah Syed Akhtar Hussain (2018), Appraisal of PSDP Projects' Implementation.

3. Shah Syed Akhtar Hussain (2018), Framework for Optimization of Projects Implementation.

SOCIALLY & ENVIRONMENTALLY RESPONSIBLE PSDP: A WAY FORWARD TO SUSTAINABLE GROWTH

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If the interest is to highlight sustainability as a leading theme along with pro-poor growth, then the basic criteria for the Public Sector Development Project (PSDP) might be changed. For a clean and green resource efficient economy in Pakistan, PSDP should be aligned with the “Green Investment, thus, stimulating greening of some of the sectoral projects under PSDP.

Some of the environmental services that an ecosystem provides is clean air to breathe; water for drinking for humans and animals; crops, plants and trees for food; animals, fish and birds as part of the food chain; and safe place to build human dwellings. We need to identify what activities should be financed under the green investment to keep benefiting from the environmental services. Two measures for greening of investments are important here:¹

Fixing the degraded environment by restoring the environmental services to their optimal condition

Maintaining the environment and natural resources in a pristine condition and protect as much as possible

SECTORS FOR GREEN INVESTMENT

The sectors for green investment are: **1) Agriculture 2) Industry 3) Energy 4) Transport 5) Urban Planning.** As all activities consume some level of energy, therefore, energy consumption is considered a proxy for environmental degradation. This makes it convenient to estimate a financial figure for environmental degradation represented by the energy consumption. It is suggested that this money is placed in a specific fund and name it CEM – Cost of Environmental Management for pro-poor development and environmentally sustainable growth.

The greening of these sectors will be possible through natural resource conservation and skills training as detailed out below.

Natural Resource Conservation

For conserving air, water, soil, forests, and animals the foremost activities are:

- i. Monitoring and assurance of environmental quality standards
- ii. Water availability and water use and consumption efficiency
- iii. Related Projects: Forest Cover Projects; and Sea Plastic Pollution Preservation Projects

Monitoring air quality and water quality is separate from assuring environmental quality standards. In Pakistan, the Environmental Protection Agency (EPA) is the regulatory body to enforce air quality and water quality standards. EPA also monitors industrial emissions and effluents and serves notices to industries for compliance. EPA then forwards this information to the service providers, such as Public Health Engineering Department, water and sanitation authority, local government to fix the quality where applicable. While we have regulatory bodies at the provincial and federal levels, the resources limit their outreach and hence cannot adequately monitor environmental quality throughout the region.

On the other hand, a service provider should ideally have many technologies and equipment depending on if it is responsible for fixing air quality or water quality or both. However, fixing environmental problems needs investments. For that there are many avenues both for of collaboration for technology transfer as well as mitigation and adaptation at the local level. Our universities need to research on technologies through partnership with global universities and bring the technology to the country. Detailed plans for ensuring air quality encompassing activities (such as urban plantation to stop dust pollution), human resource requirement, and associated training



needs would help clarify what to do in order to improve environmental quality.

To ensure air quality standards, projects need to be designed for reduction in urban anthropogenic air pollution, carbon emissions and smog. Foremost, the energy sector efficiency needs to improve at levels of: production, transmission, and distribution. Also, provincial level plans need to be devised for increasing renewable energy base. In the year 2047, a future with 300,000 MW of electricity is assumed for Pakistan requiring an investment of PKR 6 trillion over 26 years². Likewise, possible projects could be identified for improving water quality for human consumption; farming, agriculture and food crops; and marine ecosystems and fish catch quality.

Urban planning should incorporate green space interventions for increasing forest cover. To offset carbon emissions, industrial and transport sectors would need to set aside land for natural regenerative forest, plantation and agro forests for carbon sequestration.

Along with air pollution and water pollution, solid waste management, particularly, for plastic bags needs special attention. For seawater plastic pollution, coastal cities and river water systems require designing specific plastic pollution reduction projects.

Skills Trainings

There should be an inclusive skills training programme for youth from all provinces, including needy youth from lower-income groups for training on clean and green innovation and practices to ensure natural resource efficiency and conservation. Besides, an exclusive training programme for technology transfer and indigenisation should be put in place.

WAY FORWARD—RAISING MONEY FOR SOCIALLY & ENVIRONMENTALLY RESPONSIBLE PSDP

According to the various Conferences of the Parties arranged by the United Nations Framework Convention on Climate Change there is a US\$ 100 billion fund that will be provided by the rich countries to the poor countries to implement climate change adaptation and mitigation from 2020 onwards. If they are willing to support Pakistan, we could count on the fund. Otherwise, Pakistan could also, on a pattern similar to Zarai Taraqiati Bank of Pakistan, set up a Renewable Energy Development Bank. In the same vein, a Climate Change Investment Bank could be set up for climate financing and help build resilience to the mounting impacts of climate change. The bank could be a public sector or corporate sector venture or a combination of both to provide financial services and technical know-how for climate change mitigation and adaptation.

1. Mallick, S., Sinden, J. A. and Thampapillai, D. J. 2000, The Relationship between Environmentally Sustainable Income, Employment and Wages in Australia, Australian Economic Papers, v39, n2, p231 (14)

2. Mallick, S. 2018. Energy Mix – Change of Focus for the Energy Sector of Pakistan, published in the: Proceedings of the International Conference on Renewable, Applied and New Energy Technologies, ICRANET-2018, 19-22 November 2018, Air University, Islamabad, Pakistan

IDENTIFYING LIMITS TO EFFICIENCY OF PUBLIC INVESTMENT: UTILISING THE LOCAL GOVERNMENT STRUCTURE AS ASSET FOR GROWTH

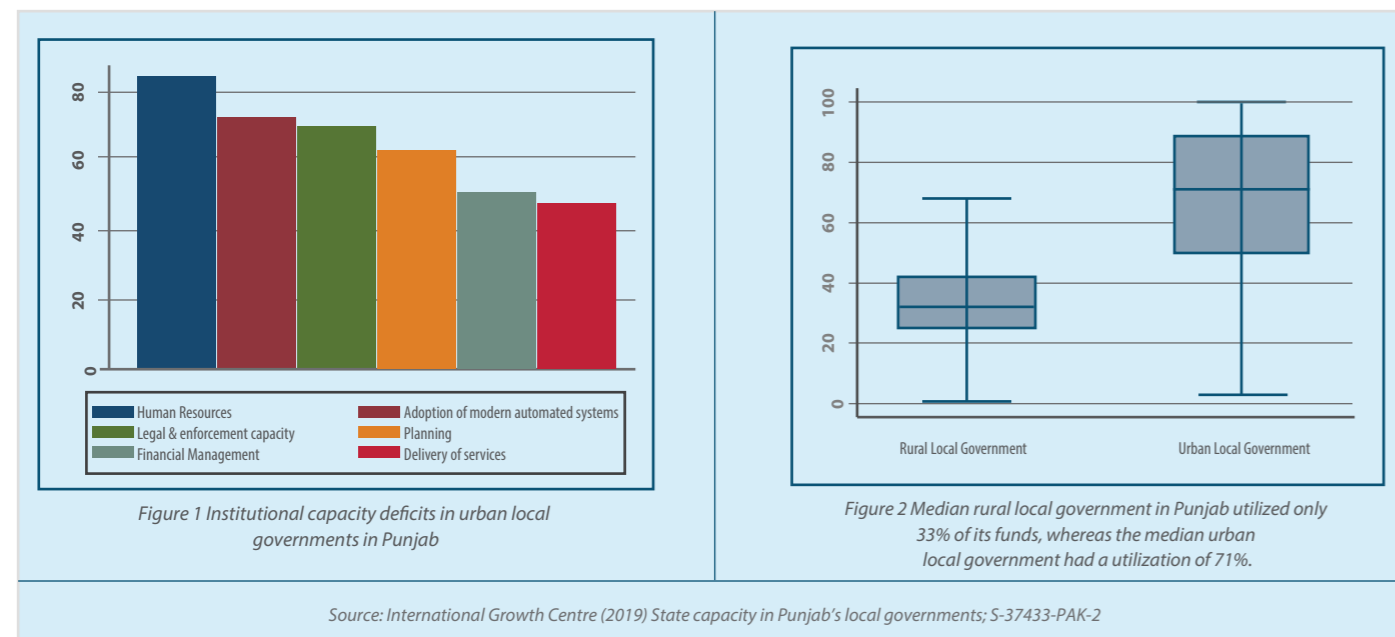
Prof. Dr. Abdul Salam Lodhi

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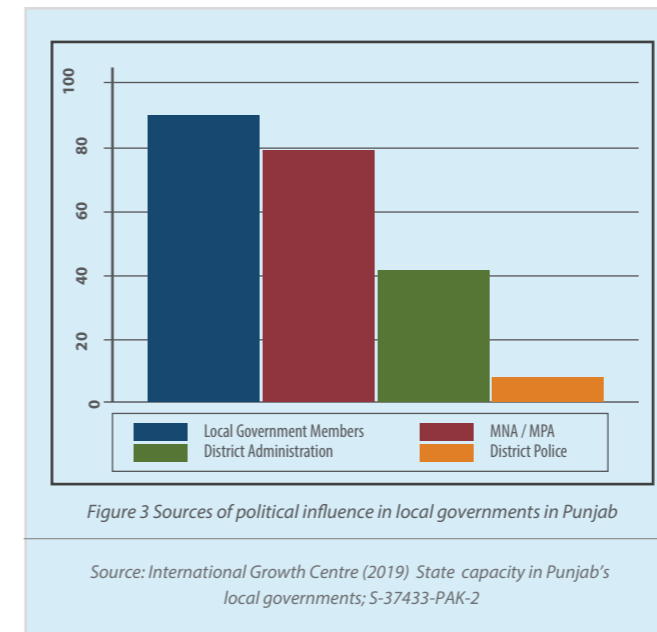
Effective governance is critical to creating an enabling environment for poverty alleviation, growth and sustainable development. The aspects of governance, accountability and transparency vary from province to province in Pakistan and even within a province depending on the levels of literacy and enlightenment of the people of the region. In most of the cases, there is a dearth of technical skills and expertise along with inadequate knowledge at various levels of the government and in civil society organisations. When institutions lack capacity, their dependence on external resources increase and so is the case of our local government institutions. Their potential has not been tapped to make them assets and “solutions and drivers of economic and social development”¹.

INEFFICIENCIES IN PUBLIC INVESTMENTS

According to Acemoglu & Robinson (2013) in *Why Nations Fail* “economic institutions are critical for determining whether a country is poor or prosperous” and strong economic institutions would be formed if we have strong political institutions, furthermore, strong political institutions are a product of strong educational institutions. Hence education is essential for human capital formation and accelerating economic growth through knowledge, skills, and creative strength of a society. Moreover, the governance and accountability issues become severe in areas where a majority of the people are unaware of their rights and entitlements. This is particularly in our rural areas. Because of low literacy and lack of awareness, people are unfamiliar with the concept of **social accountability** which, according to the World Bank, is society’s role in improving government’s accountability. Public officials inform about



1. UN-Habitat (2015) *The Challenge of Local Government Financing in Developing Countries*



and justify their plans of action, their behaviour and results and are sanctioned accordingly.”² Because of the absence of channels, the civil society cannot engage, and public investments cannot be accounted for.

Another reason for inefficiency of government projects is lack of **technical soundness**. There are influential people in political parties and during their party’s reign, they implement a part of the project in their own areas, sidestepping technical details and project feasibility aspects. They are mostly concerned with seizing the project rather than its execution and outcome—something that matters to the local community and local government. Also, we see that often bureaucrats lack relevant technical and professional knowledge required to manage a particular project. Furthermore, frequent transfer and postings of civil service officers make the project more complicated to execute.

ADDRESSING THE WOES

The local government provides basic public goods and services at the grassroots level and is more **accessible and accountable to the people**. Furthermore, the local government ideally may ensure a secure, stable, and nurturing environment in which economic development could take place, such as by providing social care, schooling, basic infrastructure and city planning. The local government is also responsible for providing physical infrastructure roads, water supply, waste management, and promote public health, education, and environmental sustainability. So, there is a strong need for revival of local government system that would ensure availability of basic public goods and services which are desperately

2. World Bank (2005), *Social Accountability in the Public Sector*
 3. Jonathan Gruber 2011, *Public Finance and Public Policy*, Worth Publishers.
 4. UNDP 2018, *Development Advocate Pakistan Sustainable Urbanisation*, Volume 5, Issue 4
 5. Vincent and Stephen, *J Pol Sci Pub Aff* 2015, 3:1, *Local Government Capacity Building and Development: Lessons, Challenges and Opportunities*

needed not only in the remote areas but also in district headquarters. According to Tiebout, the local spending should be focused on the programmes that have few externalities and relatively low economies of scale, such as local road repair, provision of streetlights, garbage collection, and street cleaning³. This system can also monitor schools and hospitals at district level very efficiently and effectively as compared with the provincial and federal governments and on a continuing basis with reduced dependence on external resources.

On delegation of power at lower tiers Dr. Ishrat Hussain said: “The country would gain enormously as more and more gas, oil and coal fields, dormant at present, become operational and energy shortages are eased as the national revenue collection increases. The delegation of financial powers to the lower tiers of government, where most services essential to the welfare of the people are offered, would remove the present vertical imbalances and inefficiencies. To sum up, the economic health and vitality of Pakistan and the delivery of services to the citizens are likely to improve if the provinces and districts are given a larger share of the financial and human resources, over-centralization and personalized decision-making are substituted by institutionalized and delegated processes and a balance is struck between the powers and authority of the federal government, provinces and districts”.

Source: Hussain, I (2009). “A confused federalism”, *DAWN*, June 21, 2009

Growth of cities is linked to their sound governance architecture. An empowered city government could generate its own revenue and manage the delivery of municipal and other services⁴. Our local governments too have the potential to generate revenue by charging fee for the locally provided public goods and services as well as create new revenue streams and thus developing a sustainable system that could execute its responsibilities to local communities and local businesses. Expecting this from the local government would require human resource development (people), institutional development (local government system) and the overall policy environment within which the local governments (as public service organisations) operate and interact⁵. The potential of the local government needs to be leveraged to create wealth and opportunities and the challenge lies in identifying and prioritizing the opportunities, and bolstering capacity to avail those opportunities.

ENTREPRENEURIAL ORIENTATION OF PSDP FUNDING IN PAKISTAN

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The Public Sector Development Programme (PSDP) has launched many programmes and funded projects related to science, technology, Research and Development (R&D) labs, and infrastructure for research, such as facilities, knowledge-based resources and services. The PSDP also funds human resource development projects as well as makes funds available for chambers and business associations, through Export Development Fund, for industrial training setups and building infrastructure.

These are all traditional streams of funding for basic development. The technology programmes of PSDP are governed through the traditional system of public sector management organisations that create a lot of red-tapism and inefficiency.

However, the PSDP has missed the entrepreneurial programmes that can directly drive innovation in the industry and develop industrial competitiveness.



Public Sector Development Programme

The PSDP potential for driving economic growth can be enhanced if it prioritises funding innovation in industries and academia.

ENTREPRENEURIAL FUNDING OF PSDP

The PSDP needs to add another stream of entrepreneurial funding programmes to respond to the very dynamic and fast-growing world market. The entrepreneurial funding programme must have two characteristics:

- Funding directly to industry
- Funding on technology diffusion

1) PSDP FOR INDUSTRIAL FUNDING

Presently, industries are not eligible for public sector funding to support their innovation initiatives. This approach has inhibited the growth of innovation in the industry.

There should be a legal framework for the private sector to get public funds to make advancements and growth. The private sector is more dynamic and efficient in utilising funds for growth. This investment directly to the industry will generate many fold more tax collection, increase employment opportunities, add new business activities and contribute to export and GDP.

2) FUNDING FOR TECHNOLOGY DIFFUSION

This public sector approach of technology funding is currently too slow to respond to the fast-moving dynamic technology world. PSDP funding mechanism should be available to industry to promote technological advancements for competitive growth. The PSDP funds disbursement mechanism for this purpose will itself need to be updated as the speed of idea to market is much shorter in today's technological era than the current public sector approvals system of desk-to-desk manual file movement.

Revised procurement rules are needed to offer technology funding to the industry. The following types of entrepreneurial fundings are proposed.

- Green technologies in Pakistan
- Joint ventures to bring foreign technologies to Pakistan
- Raw material substitution
- Venture into innovative technology
- Technology utilisation and awareness
- Cheaper production of new technology for selected period
- Other technology-led growth plans

GOVERNANCE OF ENTREPRENEURIAL PUBLIC SECTOR DEVELOPMENT PROGRAMME

A separate mechanism of entrepreneurial funding under PSDP be created and led by members of both the public and private sectors. The mechanism would then identify and assess the opportunities of fast-track growth in the country and fund the project directly to industry. Such a mechanism could be piloted with a first investment of PKR 5 billion dedicated to it to assess its impact on export and GDP for a few years before mainstreaming it.

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COVER

Boats and nets provided to fishing community under Ehsaas Amdan and National Poverty Graduation Programme for creating livelihood opportunities. Shikarpur, Sindh



PAGE 9

A causeway built under the KfW supported Livelihood Support and Promotion of Small Community Infrastructure provides a safe passage and connects villagers with nearby towns. Buner, Khyber Pakhtunkhwa



PAGE 15

Arfanullah is one of the 300 youth participants provided with market-relevant technical and vocational skills under the Revitaizing Youth Enterprise Project. Killa Saifullah, Balochistan



PAGE 5

Small-scale fish farmers benefit through value-chain of fish and fishery products under the Programme for Poverty Reduction. Gwadar, Balochistan



PAGE 11

A 5.5 kW solar mini-grid system installed in Karak, Khyber Pakhtunkhwa

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