Environmental Fiscal Reforms
Mid-term Review Report

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List of Acronyms

ACS	Abbottabad Conservation Strategy
CU	Comsats University
EFR	Environmental Fiscal Reforms
ELG-2	Ecological Livelihood Group-2
FBR	Federal Board of Revenue
FFEJ	Frontier Forum for Environmental Journalists
IUCN	International Union for Conservation of Nature
LGO	Local Government Ordinance
MTR	Mid-term review
NRB	National Reconstruction Bureau
NWFP	North West Frontier Province
PAC	Project Advisory Committee
PHE	Public health engineering department
PIDE	Pakistan Institute of Development Economics
PRSP	Poverty Reduction Strategy Paper
PSC	Project Steering Committee
Q&M	Quarrying and mining
SDC	The Swiss Agency for Development and Cooperation
SDPI	Sustainable Development Policy Institute
SPCS	Sarhad Provincial Conservation Strategy
SRSP	Sarhad Rural Support Program
TMA	Tehsil Municipal Administration
TO	Tehsil Officer

UA	Union Administration

Executive Summary

The EFR Project (2006-2009), financed by SDC was launched to implement environment fiscal reforms in Pakistan. The project focused on District Abbottabad and aimed to work through initial action research studies for benchmarking and identification of EFR options and then following up with demonstration projects. The efforts were to be supported by capacity building and advocacy. Lessons learnt were then to be broadcast for adoption. The MTR review (December 15-22) looked at project implementation to bring out the following summary of analysis and recommendations:

Validity of Project Design. Two committees have important roles to play: Project Advisory Committee (PAC) and Project Steering Committee (PSC). The PAC met once since the start of the project on 2nd April 2008. PSC has met only 2 times (26/02/07 & 02/05/08) but has now decided to hold quarterly meetings. PSC constitution does not provide sufficient members to local community. EFR has a strong linkage with policy making. The provincial government has recently increased the water rate from Rs.60 per unit to Rs.100 per unit. The studies under the project, once completed, could feed into such decisions, laying out the extent of the difference between the marginal cost of supplying a unit of water and the water rate in force. PIDE has not delivered well on studies as partner institution. SDPI has been brought on board since December 2007. Contrary to the expectation of the design precepts, the project has not benefited from the research based inputs of the partner institution in this case. The delay in studies, the unclear focus on EFR in the narrative and difficulty in getting engaged all seem to have contributed. IUCN does not have a local office. Without it work on EFR will be difficult. The mission notes the following lessons for implementation: (a) IUCN has the potential of mobilizing experts for engagement with the project; (b) when the experts' work is planned to integrate with locally ongoing activities, it supports progress toward development of locally suitable EFR options; (c) a distant role of experts is not very beneficial for project success and trouble shooting can only partially benefit activities and outcomes; (d) the role of the experts if clearly defined and planned at the beginning of a planning period as an integral input into the activities will optimally contribute to EFR; and (e) IUCN experts' may share joint responsibility with local staff for technical contribution to development of EFR options.

Progress against objectives. Against the project allocation of Rs.53.45 million, the total utilization at the end of November 2008 was Rs.24.92 million, with only 5 of the 36 months of project time remaining. Studies and other project activities have not gone at the planned pace. Six studies are being conducted under the project as attempt at benchmarking and identifying EFR issues and options. Two studies are charting out devolution related issues and issues relating to local expenditure and revenue in Abbottabad. Four studies are benchmarking for issues and options for EFR in sectors namely drinking water, solid waste management, ecotourism and quarrying and mining. The progress on the studies has been slow. A demonstration project has been identified in Nawanshehr for water tariff reform and provision of water to households currently not getting piped water. The project is not based on a completed study of the sector as envisaged in the project design. But it benefits from the drafts and ongoing work on the study. At this stage the EFR option in the project is not fully developed.

Political and institutional issues. The following were identified: (a) Policy making in government does not use research unless it is compelling and convincing. (b) Decentralization is being reviewed but it seems any changes will not materially affect the sectors in which EFR will be attempted under the project. (c) The research of the partner institutions in general is not linked with local issues and communities, with some notable exceptions. (d) UA Nawanshehr does not have operation and maintenance and revenue collection responsibility for water supply scheme. (e) There is no strong evidence of IUCN's institutional mechanisms and processes in operation in Abbottabad. (f) EFR ownership is varied, with the provincial government and PRSP expressing noteworthy support for it.

Recommendations and options for the remaining project period

1. The PAC membership should be strengthened by co-opting or inviting experts to the meetings.
2. PSC should be reconstituted to add Nawanshehr and TMA members. For this one option is to bring the chair to TMA instead of the district.
3. Roundtable should be created around the PSC.
4. A project office with sufficient resources and a project manager should be located close enough to the site of activities.
5. Studies should be concluded by either specifically asking the researchers to clearly identify EFR issues and options, in addition to the sector analysis, if their TORs permit, or getting support from IUCN's regional experts in developing notes for this purpose.
6. The community ownership of the demonstration project's idea is strong. But in addition to the developmental side of the project, fiscal reform needs to be incorporated in it systematically.
7. The project management should explore the possibility of bringing in Comsat University (CU) as a partner institution.
8. The project should take up work on forging linkages with the provincial reform program supported by the World Bank and the PRSP secretariat.
9. IUCN, as the implementing agency, could play its role in the following ways: (a) Provide senior management support to project management, when required by instituting periodic technical reviews and provision of stop gap management if there is again a discontinuity in the office of the project coordinator. (b) Make specific plans for linking its regional technical resources with project management. It may include call dawn arrangements where project management can seek technical support in capitalizing on opportunities, review of documents and research, development of locally applicable EFR options. This should include a level of shared responsibility as much as permitted by IUCN's organizational norms. (c) Create panels of experts to assist project bodies and management in the study and application of EFR options. (d) Make arrangements for providing institutional lessons from SPCS and ACS implementation to the project.

Extension for 6 to 9 months.The mission, considering the slow pace of implementation on the one hand and the potential for success on the other, recommends that extension may be linked to achievement of readiness benchmarks in 60 days. These would be: (a) Completion of studies bringing out a robust discussion of EFR issues and options; (b) Evaluation of the possibility of bringing in CU as a partner institution and concluding of partnership agreement with them; (c) Substantial progress on handing over of water supply scheme to Nawanshehr UA for operation and maintenance and revenue collection; (d) reconstitution of PSC to add local members; (e) establishment of an appropriately staffed and functional local project office in Abbottabad; and (f) Conclusion of IUCN's organizational arrangement for linking regional expertise with project management for the remaining duration of the project and its possible extension.

Second phase. The mission reviewed the prospects of a second phase of the EFR Project. For this purpose toward the end of the project, assuming that the critical arrangements identified above are met and extension is granted for project completion, the following indicators of successful implementation should be considered: (a) Handover of water supply scheme to Nawanshehr for its operation and maintenance and revenue collection; (b) Functionality of PAC and PSC; (c) Working of EFR roundtable; (d) Successful implementation of IUCN's organizational arrangement for linking regional expertise with project management; (e) linkages with other agencies; (f) communication of lessons of EFR implementation in Abbottabad; (g) readiness of government agencies and leadership for undertaking EFR work in Q&M, drinking water and sanitation, solid waste management and ecotourism; (h) The tenure of the project coordinator is stable and institutional memory is ensured.

Introduction

An Environmental Fiscal Reform (EFR) is “a strategy that redirects a government’s taxation and expenditure programs to create an integrated set of activities to support sustainable development”. This includes the use of policy tools such as taxation, tax exemptions, permit trading, tax rebates, direct expenditure, program expenditure and tax credits, with a view to improving the environment by reducing natural resource degradation and pollution

The SDC is financing a Rs.53.4 million Environmental Fiscal Reforms (EFR) Project, being implemented by IUCN and partner institutions since May 2006. The project has been conceived for adopting fiscal measures that rationalize the tax structures with a view to improving the environment by reducing natural resource degradation and pollution. It recognizes that a carefully designed and implemented EFR can also contribute to poverty reduction by improving poor people’s access to environmental services, freeing up finances for pro-poor investments and addressing environmental problems that affect the poor. For example subsidy reforms and taxes that change the prices of natural resources (e.g. water, forests, and fisheries) or of products with high environmental externalities (e.g. fuel and electricity) would help in raising the sustainable growth rate and the incomes of the poor. The context for EFR is at the interface between fiscal issues, decentralization, poverty and environmental challenges facing the country.

The purpose of the three year EFR Project, May 2006 – April 2009, is to strengthen the devolution process in Pakistan by using appropriate fiscal instruments for the benefit of environment (changing behavior) and at the same time reduce poverty. This would not primarily imply considering imposing new taxes, but to conduct research on the feasibility of various EFR instruments in the context of Abbottabad district, and test their implementation through pilot projects.

The overall goal of the EFR project is that poverty is reduced through environment fiscal reforms that generate revenue and improve the environment. The specific objective of the project is to identify institutional, legal and policy arrangements for effective and sustained fiscal decentralization and promote district level implementation and build capacity and support among government and civil society for EFR options that reduce poverty and improve the environment.

Midterm Review Objectives and TORs

The MTR has been undertaken from December 15 to 22, 2008 to assess the validity of the approach chosen, identify the project achievements so far, the constraints and measures taken to address these and develop recommendations (a) for the remaining period of the project and (b) for the future of EFR processes in Pakistan.

Objectives of the Mid-Term Review:

1. To assess the validity of the project design, institutional set-up, strategy and approaches in terms of effectiveness and sustainability.
2. To assess the overall progress of the project against its objectives (especially in relation to policy/ systems change) in terms of results, outcomes and efficiency.
3. To formulate recommendations and assess options for the remaining period of the project and beyond.

The detailed TORs of the MTR are given at Annex-I.

MTR Approach and Methodology

The MTR team composed of two persons having expertise in natural resource governance, Government of Pakistan Devolution Plan (particularly Fiscal Reforms), with an understanding of Abbottabad district and its socio-political and environmental context.

The mission had its inception briefing with SDC and IUCN on December 15, 2008 followed by a series of discussions in the project, and comprehensive field visits and meetings (A list of the persons met is attached as Annex-II). The mission was provided with necessary reading material. In addition, the project management provided additional documents requested by the mission members. The mission visited IUCN office in Islamabad, met with various government and non-government agencies concerned with EFR in Pakistan and reviewed the progress of the pilot demonstration project in Nawanshehr, Abbottabad. It participated in a community meeting and discussed various aspects of the demonstration project, specially those relevant to adoption of EFR.

The mission wishes to express its gratitude to the SDC staff and the project management for making the arrangements for meetings and field visit and facilitating access to documents and office records.

Validity of Project Design

The validity of project design has been assessed on the following counts:

Brief description of Project design

The project is designed for implementation by a lead implementation agencies supported by a partner institutions with strengths in action research. In its basic formulation, it envisages implementation of EFR through action research. Initially, action research would identify possible options which could be adopted by the project. The research studies were to be identified with local level consultation with government, non-government, private sector and civil society members. After identification four studies were to be carried out, using an action research methodology. The studies were built in the project design to identify issues and options for EFR implementation in the project area. Once the studies identified the EFR options, the project would undertake one or two demonstration projects and project the lesson learnt there to a larger audience through networking with other agencies and government departments. In the project document a sum of Rs.10.8 million was allocated for management and operations and Rs.33.463 million for project activities (detailed budget is at Annex III)

Committees and decision making

Two committees have important roles to play: Project Advisory Committee (PAC) and Project Steering Committee (PSC). PAC is at the apex level, chaired by Member Planning Commission, Infrastructure whose brief includes environment. The members from the federal government represent Environment Section, Planning Commission, NRB, FBR, PRSP Secretariat and Ministry of Environment and from the provincial level those of the Departments of Finance, Environment and Local Government. The District Nazim Abbottabad through his membership of the PAC links it with the PSC. The membership is well thought out and brings all relevant governmental stakeholders on the panel. The PAC met once since the start of the project on 2nd April 2008. In the meeting it had a detailed discussion on EFR options in Abbottabad. The members however indicated the need for additional briefings and technical information on the options. The PAC is not only a forum for giving advice to the project, but at this stage of introduction of EFR to the policy domain in Pakistan, it could serve as a mechanism for garnering support for the reforms from important ministries and stakeholders.

PSC comprises of district government officials and members drawn from the local civil society. Important omissions are TO Infrastructure, TO Finance and Nazim UA Nawanshehr. Since the demonstration project is located in Nawanshehr and most of the activities are likely to gravitate toward this

jurisdiction, inclusion of the UA Nazim will serve the purpose of adding an important voice to the discussions in this forum. There is another issue with the PSC membership also. The studies and demonstration projects are moving in sectors which are the exclusive functional domain of TMAs or even UA, the latter with the willingness of the provincial government for such assignment. The decisions that might be required for implementation of EFR in these sectors do not closely match the responsibilities of the official members of the PSC.

PSC has met 2 times (26/02/07 & 02/05/08) since the project inception as against the decision to hold quarterly meetings[1]. The members of the PSC are aware of the project activities and have participated zestfully in the meetings. However, the understanding of the value of EFR, specially the components relating to revenue measures, is variable among its members. This indicates the need for further briefings, may be even technical outputs being made available to the members of the committee. The committees have been useful in providing fora for discussion and support to decision making. They have been very effective in bringing many stakeholders together. This is particularly true for the PSC. The members of the PSC have been useful in pushing the project agenda outside the committee meetings also. Sungi, for instance, has been able to support project advocacy of EFR with the district government due to their ongoing initiatives in the area. They supported the project in gaining access to decision makers in Abbottabad due to their regional clout. But the two committees have not served as the driving forces behind the project. They have not been able to identify issues and delays in time nor have they been able to address the issues to put implementation on a smooth and timely course. This is an element in-built into the committee design. The committees cannot convene other than when meetings are arranged by the project itself. They do not have an institutional status where such meetings lie in the path of their normal institutional processes. For instance PAC is not part of the ordinary agenda of the Member Planning Commission. Similarly, PSC meeting is not on the ordinary agenda of the District Nazim. In both cases, they would be convened as extraordinary agenda items. PSC meeting should be part of the District calendar whereby Chairman of the committee can convene the meeting quarterly as it has been decided in the first PSC meeting. The meeting should also be convened as and when required may be to monitor the project or to asses the progress of the project.

[1] Draft Minutes of the Second Project Steering Committee Meeting, EFR Project, 27 May 2008.

Nexus with policy making

EFR has a strong linkage with policy making. During the mission visits it was evidently apparent that policymaking in NWFP and District Abbottabad can potentially benefit from the project work on EFR. For instance, the Government of NWFP increased the water rate from Rs.60/cu.m. to Rs.100/cu.m. This is a step toward increasing cost recovery in water supply schemes. The decision now applies to all drinking water supply schemes across the province. At the same time, nearly 1100 schemes have been chosen for major investment and rehabilitation where the new charges will mandatorily apply. The policy content of the decision is aiming at better cost recovery in recognition of low pricing of water. The studies under the project, once completed, could feed into such decisions, laying out the extent of the difference between the marginal cost of supplying a unit of water and the water rate in force in any jurisdiction. Secondly, the pilot project could demonstrate effectively with local evidence the manner and details in which water rates could be changed to become closer to the marginal cost of supply of water. The community meeting in Nawanshehr during the mission and the draft study on water supply both indicate that willingness-to-pay could be weaved into the reform and a jurisdiction by jurisdiction approach will be efficient, more closely matching the willingness-to-pay with the locally applicable tariffs. Such lessons could benefit policy making if there is an ongoing interaction between the project management and policy making levels of the government.

Partner institutions

There are two partner institutions, in place of one, as implementation has progressed. The second, SDPI, has been added in December 2007 to supplement the first, PIDE, after the studies were delayed and the project managed developed quality concerns about the ongoing research. The primary objective of including a partner institution in the project design was to supplement IUCN's role in research, technical support and evolving research based pilots. In the mission meetings, the partner institutions presented their progress and discussed issues relevant to their work. PIDE has a major interest in research in areas other than EFR. Most of their work does not belong to public economics. Contrary to the expectation of the design precepts, the project has not benefited from the research based inputs of the partner institution in this case. The delay in studies, the unclear focus of the research on EFR and difficulty in getting engaged with the local communities and IUCN. The project has not been able so far to draw upon the institutional strengths of IUCN and bring them to bear upon the ongoing work in Abbottabad. On the one hand, as discussed elsewhere this could be a responsibility of the IUCN management, but from another perspective it is primarily the responsibility of the project management to draw upon the

institutional strengths of IUCN and link them with ongoing and planned activities (a more detailed discussion under IUCN's role) all seem to have contributed. SDPI by comparison has progressed better on the study of Q&M sector in Abbottabad. But the report will require further development to bring it to focus on EFR issues and options in Abbottabad in this sector. In addition to these two institutions, the mission visited Comsats University (CU) in Abbottabad. The faculty is engaged in research on current issues with an avid focus on the region and local issues. There is emphasis on developing linkages with local industry and communities. By comparison and based on the faculty interest, geographic location, research focus and readiness to build local linkages, CU seems to offer better prospects of fulfilling the role envisaged for a partner institution.

Presence in project area

IUCN has a longstanding presence in the NWFP and Abbottabad. Their work in the past has included consultation for and formulation of conservation strategies and sustainable development strategies at the district level. At the time of project preparation, selection of Abbottabad was materially influenced by IUCN's presence in the district. Not only would it benefit implementation due to an established local office but also be helpful because of the political, administrative and social linkages that the organization had nurtured in the area. However, the mission noted that the local office was wound up in 2006. Currently, a consultant works for the project. He has been diligently working to develop linkages with the local leadership and communities. IUCN has attempted to maintain local networks by periodic interaction of unknown frequency. Introduction of EFR on the one hand requires sound research and technical solution suited to local situation. But at the same time any initiative needs to surmount initial skepticism through work with communities, local leadership and opinion makers to capitalize on opportunities for reform emerging out of the political and developmental processes. It would be difficult to argue that all these activities could be best accomplished without an appropriately staffed local project office.

IUCN's as implementing agency

IUCN has local and regional networks of experts. The mission noted that IUCN has mobilized two experts from its regional networks in support of the project. During the past five months two experts visited the project twice, each time for 5 to 15 days. They provided support to ongoing studies by commenting on the drafts, held intensive discussions with the researchers and met with local leaders. The drafts of the studies were reviewed by them and then returned to the researchers for improvement. The experts' involvement during the recent phase has clearly benefited the quality of work being undertaken in the project.

The mission notes the following lessons for implementation: (a) IUCN has the potential of mobilizing experts for engagement with the project; (b) when the experts' work is planned to integrate with locally ongoing activities it supports progress toward development of locally suitable EFR options; (c) a distant role of experts is not very beneficial for project success as trouble shooting can only partially benefit project activities and outcomes; (d) the role of the experts if clearly defined and planned at the beginning of the phase as an integral input into the activities will optimally contribute to implementation of EFR; and (e) IUCN experts' may share joint responsibility with local staff for technical contribution to development of EFR options.

Progress against objectives

In the following paragraphs the project progress in some key areas has been assessed and analyzed, with discussions of major issues in each area. In addition to progress on specific areas, general challenges faced by project implementation have also been discussed. Some specific details are reflected in Annex-IV:

Financial Utilization

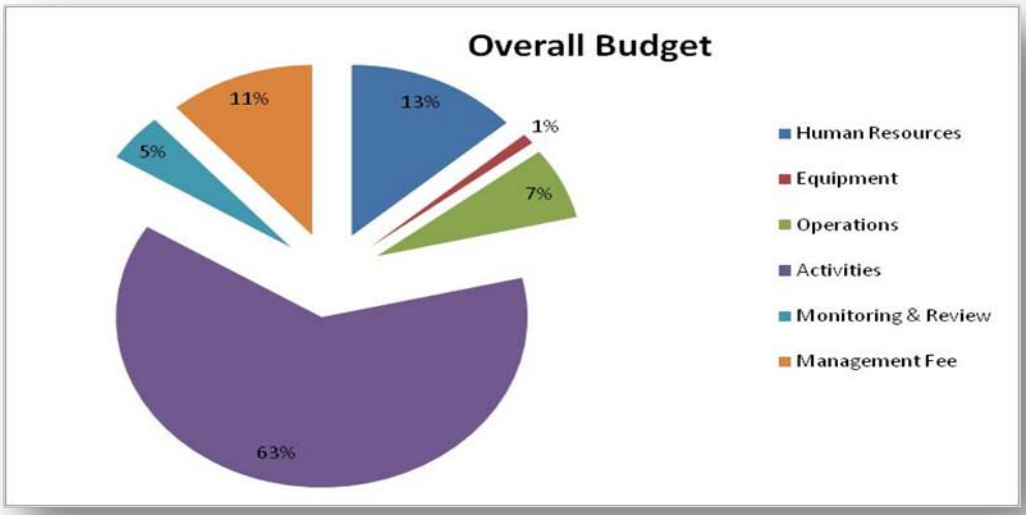
The project has been slow in utilizing the allocated funds. Over the last 31 months, it has utilized only Rs.24.91 million out of the allocated amount of Rs.53.45 million. This is less than half of the total allocated amount. Moreover, the utilization on human resource, equipment and operations has been much faster than that under activities. Equipment being a lumpy expenditure the earlier utilization is explainable. But the higher rate of utilization under human resource and operations may leave smaller amounts to support activities that have yet to be commissioned. To support activities in the future, reappropriation within the heads may be required.

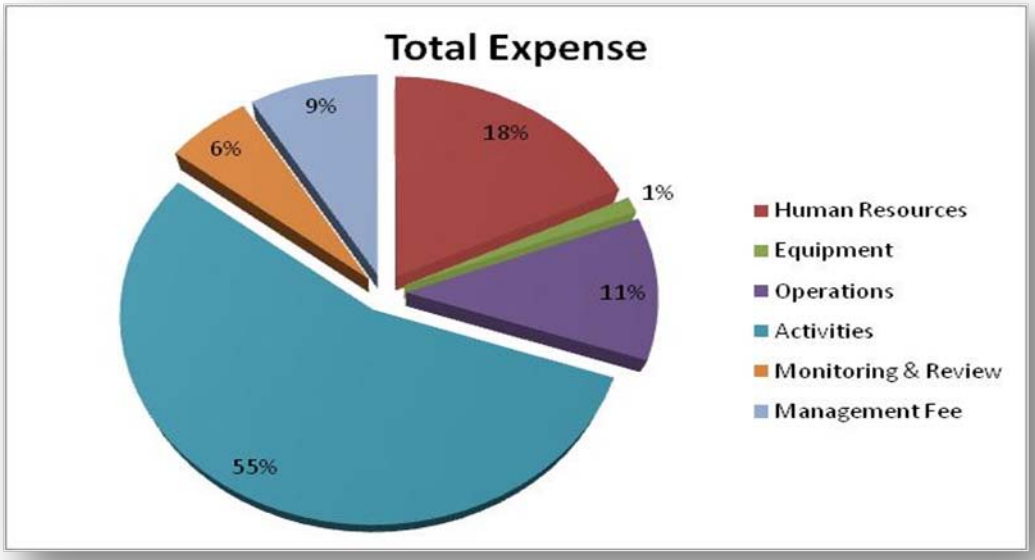
Table. Financial Utilization

Budget Line	Overall Budget	Year1	Year2	Year3	Total Expense
Human Resources	7,212,280	864,955	1,516,515	2,080,678	**4,462,148**
Equipment	526,240	-	303,800	2,000	**305,800**
Operations	3,637,920	564,507	1,273,702	933,255	**2,771,464**
Activities	33,462,000	1,616,126	2,788,164	9,395,449	**13,799,738**
Monitoring & Review	2,459,600	27,789	532,437	882,210	**1,442,436**
Management Fee	6,148,745	517,402	715,979	902,591	**2,135,973**
Total	**53,446,785**	**3,590,778**	**7,130,598**	**14,196,183**	**24,917,559**

The figures below also shows that the predominant utilization in some areas against others may change the overall composition of allocation under the project.

Figure A. Overall Budget and Utilization Components





Research an

In the current phase, the project was aiming to select one or two issues for EFR demonstration. In this regard, the strategy of the project has been to approach the problem in a logical way. First wide ranging consultations were held in Abbottabad which brought together various sections of the community and government. As a result of these consultations held in early 2007, 18 possible areas were identified for research. Later further consultations and discussions narrowed them to four areas namely, dirking water supply, solid waste management, Q&M and ecotourism. The project design envisaged action research in these areas resulting in the design precepts of one or two demonstration projects. However, delays in completion of the four studies narrowed down the time available for a demonstration project. Sensing that further delay would oust the possibility of a demonstration project within the planned timeframe of the EFR Project, a management decision was taken to initiate work on a demonstration project in drinking water supply sector in Nawanshehr. The decision was informed by the initial results and draft report of the study on the sector but has not been able to benefit from a completed study and report, highlighting EFR issues and options clearly for adoption in its implementation.

Gender balance in project activities

The project has attempted to involve women in its activities. The studies have made an endeavor to bring up issues concerning women. A review of the drafts reveals that the studies could further strengthen the narratives from application of gender sensitive guidelines on technical writing. The field consultations included

women and made attempts to include women's point of view in the deliberations. The demonstration project is focusing on drinking water, which is an issue affecting women disproportionately.

Challenges in project implementation

Project implementation has come up against the following challenges from time to time: (a) PAC constitution took longer than expected due to lack of consensus on roles among government departments. After constitution, the senior level interest in the project has been variable. Sometimes the project received due attention while at other times the Planning Commission has not viewed the project with much importance citing other large scale initiatives in the field of development placing greater demands on the time and attention of senior officials. This entails additional management work for the project in the form of repeated briefings. (b) IUCN's search for appropriate manager took a toll on the progress of activities. Since May 2006, 3 project managers have worked for various durations. The frequent changes in project management did not allow the activities to continue on at the planned pace. (c) The district government is concerned with general development largely symbolized by infrastructure projects. It wishes to respond to pent up demands for improvement in service delivery. At times this approach has led to reluctance toward revenue raising measures. It has also affected the PSC work to a certain degree. The project management has responded by increasing the level of contacts and enhancing interaction to further explain the concept of EFR and its linkages with revenue raising, environmental benefits and poverty reduction. But challenge of bringing EFR into the focus of the political leadership remains there.

Action Research Studies

Six studies are being conducted under the project. These were to focus on the four EFR options were identified during a consultative workshop at Abbottabad. These included:

1. drinking water,
2. solid waste management,
3. ecotourism, and
4. mining and quarrying

In addition to these four, two studies were to bring out the detailed aspects of the institutional and local financial issues for planning EFR projects. These were to focus on decentralization reform and expenditure and revenue patterns in Abbottabad.

The four studies were to provide an assessment of the policy, legal and institutional constraints. The scope of the studies had been defined to cover

assessment of policy, legal and institutional constraints, revenue generation, poverty reduction and environmental improvement and the willingness to pay.

The progress on the studies has been slow. The studies have also not fully addressed the issues as envisaged at the outset. IUCN regional staff, PAC and other reviewers have provided useful comments at different stages to bring the studies at par with the expectations. But the studies in their draft reports, beyond the sectoral analysis, do not fully provide a substantial ground of analysis for considering EFR issues and options. In some cases they remain at the draft stage and have not been able to identify demonstration projects in time for initiation of work on them. In others, they remain focused on sector analysis or narrow issues. In case of the latter they discuss important issues like willingness to pay, which are very useful to design of EFR options but they do not cover all the issues comprehensively.

Demonstration project

A demonstration project has been identified in Nawanshehr. It envisages reform of water tariff, provision of water to household currently not getting piped water and upgrading of water supply system. The project is not based on a completed study of the sector as envisaged in the project design. But it benefits from the drafts and ongoing work on the study. At this stage the EFR option in the project is not fully developed. Discussions with the community have measured strong ownership of the project where the support for the reform of tariff component is yet to be fully built. The work on the demonstration project is at an initial stage and details of the EFR content have yet to be worked out and agreed upon with the community.

Political and institutional issues and progress

EFR implementation is always influenced by political and institutional context in which it is implemented. Following are some of the important issues in this domain.

The manner of policy making

Policy making in government in general takes place in the departments through departmental processes. There is some evidence that the decision making is based on intra-departmental processes and information. The civil servants have faith in the departmental data and mostly base the decisions on them. Decisions are also based on long term experiential learning and views informed by job experience. EFR project approach aims at generating evidence from research and proposing policy options on its basis. The mission noted that acceptance of

such options and their adoption as government policy cannot be guaranteed. The research based findings will be measured against a high criterion of technical standards. Communication will need to be repetitive and covering a large number of officials in the government at various levels. So far the progress of the project on these counts is at the beginning. It is partially explained by the delay in finalization of the four sectoral studies. But pending their completion, the EFR concepts and experiences from elsewhere could serve fecund sources of communication to get connected with the policy making processes in the government. Starting with communication prior to completion of studies may not bring out specific local issues, but given the nature of the policymaking process, it could have served the project well in creating a readiness for adoption of options when followed up with proposals on adoption of specific measures.

Decentralization and local government

Since 2001, Pakistan has embarked upon decentralization of expenditure and revenue authorities to the district governments, TMAs and unions administrations under the provincial government. In the NWFP the earlier local bodies were replaced by the new local governments. By and large this meant decentralization of functions and management control from the provincial headquarters to the locally elected political executive. In some cases perverse reorganization also took place. In the interest of uniform application of the form, small municipal authorities working under the previous system with adequate decentralization were centralized into new TMAs. Nawanshehr is one such case, where the town committee was merged into the larger TMA Abbottabad. The process of the decentralization reform in Pakistan has received much attention over the years. During the last one year, criticism of local government performance and failures has been reflected in the media. The government has made various announcements that the local government system would be reviewed and revised. There are indications that the functional assignment of the local governments will be reduced. The provincial level civil servants argue that controls from provincial headquarters will be comparatively more effective in ensuring better services to the people according to their varied preferences. It is very likely that the local government system will be undergoing major changes. A possibility that has been discussed is to reformulate the functional assignment to bring the system closer to the one defined under the Local Government Ordinance 1979. This will mean, among other things, creation of separate rural and urban local governments carved out of the present TMAs, centralization of certain departments of the district government, reduction of the role of local councils in local development in areas like roads, major rural water supply schemes and law and order functions. These changes may be momentous and

may have far reaching consequences for service delivery. But for the purposes of the EFR Project the changes may not have major consequences. The water supply and solid waste management sectors, the two areas of interest in the project, in all likelihood will remain local government responsibilities even if a new local government or authority is carved out of the present ones.

Linkage of research with local EFR issues

The research of the partner institutions in general is not linked with local issues and communities with some exceptions. SDPI, for instance, attempts to focus on local issues. The project design envisaged action research to support EFR. PIDE does not have a lot of experience with action research and consequently decided to carry out research based on data collection in the region. Their forte is academic research in other sectors. Action research is a viable instrument in support of initiation, adoption and development of EFR. But it will require a higher level of commitment from any partner institution in addition to experience with it.

Functional assignment to local government

The mission's visit to Nawanshehr revealed that the Union Administration's water supply was assigned to TMA, when the TMA was created under LGO 2001. The management and operation of the water supply were now vested in the TMA through the local chief officer. Revenue from water rates is credited to TMA accounts. Similarly, property tax collected from Nawanshehr UA jurisdiction is deposited with the province, from where it is given as a grant to the TMA. The Nawanshehr UA receives an annual grant of Rs.250,000 from the TMA for development works. According to the council members, the amount had no link with the revenue collected from the UA jurisdiction. It was also not clear to them how much expenditure was carried out by the TMA in the Nawanshehr water supply system but claimed that it was less than the revenue collected from the households. The study on drinking water supply which is focusing on Nawanshehr under the project could do a good job of presenting this analysis and bringing out the facts. It would contribute to the political discussion in support of EFR. The council members averred that legally the water supply scheme belonged to the UA. Under the LGO 2001 also the scheme can be assigned to UA. Taking it up with the Local Government Department will be a major step toward creating local ownership for water sector issues and strengthen the will and readiness to find local solutions. It is in this context that EFR can be adopted and implemented with success.

Local revenue mobilization

Local revenue mobilization suffers from weaknesses. Districts and TMAs in NWFP have been assigned a few buoyant own source revenues. In most cases, the district finance about 95 percent of their expenditure from provincial grants and the TMAs finance more than 70 percent of theirs on average from such grants. Property tax, a local levy under LGO 2001, is administratively a provincial tax. The most important source of revenue is also not fully decentralized to the local government. Consequently, revenue mobilization is not a major priority for local governments in Abbottabad. The law gives the TMAs the authority to set rates but property valuation, assessment and collection is carried out by the provincial government. It is not surprising that given the near total dependence of local governments on provincial transfers, the citizens see little connection between benefits received and taxes and fees paid. As a result of this situation, there is more talk of mobilizing provincial grants and very little discussion of mobilizing local revenues. The mission noted that the community elders were very keen to mobilize provincial grants to solve local problems. But when given the hypothetical situation of getting the control over their water supply scheme, with operation and maintenance responsibility and revenue collection authority, they readily agreed to considering measures for local revenue mobilization.

IUCN structures and mechanisms in Abbottabad and NWFP

Since 1997 IUCN has worked in Abbottabad. During their work on ACS and SPCS a district roundtable was set up for devising and monitoring progress on sustainable development of the district. In addition to this under SPCS innovative mechanisms were introduced. Some were in the form of appointment of change agents called ‘focal persons’ in government agencies, communication strategies (FFEJ) and environmental awards. These mechanisms had an impact and helped the government departments imbibe sustainable development concepts and precepts for adoption in policy and program implementation. These mechanisms are not functional any more in the district. The project however can benefit from their incarnation in some form. Any reason for not doing so would be inconceivable. So far the project has not benefited from IUCN’s organizational experience or the lessons that it might have accumulated from the earlier work on SPCS and ACS. The project is aiming to create an EFR Roundtable in the district. Once this is accomplished, it would be step toward harnessing IUCN’s experiential learning for project implementation.

Abbottabad Integrated Development Vision

Under ACS, Abbottabad Integrated Development Vision was formulated. It contains actions under various sectors for sustainable development of the

district. The studies and pilot project are at still to reach a stage where they become inputs into planning for the district. At this stage the initiation of studies and the demonstration project could refer to the Vision, establishing a claim for later ownership. We could not find specific references to such linkages with the Vision.

EFR ownership at the three tiers of government

The mission attempted to map out the level and depth of ownership of EFR in the government. At the federal level, the Planning Commission was not very keen on the reforms. It seemed that working for further clarity on the objectives and nature of the reform would be useful. On the other hand, the PRSP secretariat in the Finance Division enthusiastically supported the concept and the endeavors underway, clearly seeing it as an instrument with much potential for poverty reduction and breaking the cycles of adverse effects of developmental initiatives on ecological resources in turn hampering poverty reduction initiatives. The provincial level ownership is there. But it also may benefit from more briefings on the concepts. Local level ownership in the community is there but will need to be nurtured with an ongoing dialogue, support to efforts for return of the water supply scheme to local control and further clarification of the benefits of the tariff reform.

Project Linkages

Additional financial resources

The project design envisages acquiring additional resources to add to the activities. Since the project resources are limited, additional resources would add to the scope of the project activities and would be necessary for deepening the impact of the reforms. At present no additional resources have been accessed. This issue would however be of more relevance as and when the project activities move toward a more significant status.

Linkages with other development agencies

In this regards the project is well positioned to link up with actors in Abbottabad, NWFP and those working at the national level. So far the local linkages with important NGOs like Sungi in Abbottabad have been established. These local linkages provide an immediate channel for communicating with other communities and local governments in the region after demonstration of success in EFR under the project. Sungi is also a useful resource for advocacy for adoption of reforms in this phase. Helpful linkages with organizations working

under government contracts like SRSP could be used to share experiences. Further linkages with local academia like CU are mandated for linking up EFR initiatives in the project with environmental and development research being undertaken there as well with discussions and dialogue on these subjects in the region. Through such attempts the project will be in a position to broadcast its successes and experiences. Other agencies worth considering are the Great Abbottabad Water Supply Scheme, PRSP secretariat of Finance Division, water and sanitation projects of the provincial government and TMA initiatives in the sectors of solid waste management.

Harmonization with other donor projects

The mission noted that there is much to be gained from harmonizing EFR efforts with the World Bank program on institutional reform housed with the Department of Finance in the provincial government (provincial reforms under the World Bank Structural Adjustment Credit). The program is undertaking a review of tax and expenditure policies of the government and has set in motion a number of initiatives. For instance, rationalization of water tariffs is one of the initiatives. The EFR in the demonstration project is aiming at rationalization of the water tariff in Nawanshehr, offering a test case for further work to the provincial level program.

Risk analysis for the future

Local government system in its further evolution may see substantial recentralization. This would entail major issues for initiatives banking on the current functional assignment. But the EFR project may not see a major problem for itself in any realignment down the road. Its work is very focused, in case of water supply and solid waste management, on subjects which are not likely to be centralized away from local government. These subjects will stay with local government as they have been with urban local governments in the past also. For the purpose of EFR initiatives in water and sanitation or solid waste management, the work will not be affected in a major way. If the UA Nawanshehr for instance becomes a local government in itself, it will be easier to work with it and carry out the demonstration projects. The project will have to ensure that if the proposed changes are legislated, the project management is on board and that it makes an effort to understand what is being changed, and equally importantly what is not being changed. The decision making may move from TMA to Nawanshehr or stay with TMA under a different name and with another list of subjects. The list of subjects will include the two sectors in all probability.

In case of Q&M sector, changes in local government mandates will not affect the sector in any major way. Presently, mining is managed and regulated under the Directorate of Mines, an agency of the provincial government with local offices. There is not much role for the local government except provision of services or implementation of industrial standards though the decentralized offices of Labor Directorate. If the project at some stage decides to work for introduction of EFR in Q&M sector, the process of implementation will remain largely unaffected.

General risk analysis of the project. The project is undertaking important reforms connecting environment, public finance and poverty reduction. The most important risk is the weak capacity of the local counterparts. Due to the underdeveloped policy discussions on these areas in the local governments, the EFR concept may not become fully internalized in the local decision making.

The local government has an overarching concern with enhancing access to services. Quality is relatively an underemphasized issue. This may be due to the discrepancies in the provision of services to different sections in the community and the demand for basic level of services is so intense that it dominates the agenda. The local government thus has a kind of lexicographic preference, where the main endeavor is to provide some basic level of services to feed the unmet demand, which may have accumulated over a period of time. It is only once this level is met that the quality concerns come into the choice considerations. If this is so it is not necessarily an unmitigated risk for EFR. It will but require that the EFR options be designed to cater to these preferences. For instance, if there is a higher preference for giving water to households presently without piped water supply, then the revenue measures in the EFR should be manifestly aimed to meet that expenditure and once the initial demand has been met then divert the additional revenue toward improvements in quality.

Changes in the local government laws are certainly a risk for the project. But for planning and executing the next steps in implementation it is important to chart out the exact dimensions of this risk factor. First of all there is no proposal under consideration whereby the provincial government considers completely redrawing the local government mandates, creating an unknown level of uncertainty. The changes in the law may recentralize important and major subjects currently assigned to local governments like law and order, industrial development, urban planning and some components of health and education. But the project is not working in those sectors. The four studies pretty much determine the scope of the subject areas where the project in likely to attempt introduction of EFR. Out of these four, drinking water & sanitation and solid waste management in likelihood will remain with the municipal authority. The level of decision making, the office in the local government which takes decisions

regarding these sectors and the role of the elected representative may change. All these changes will mean that work can be continued in these sectors with timely repositioning of efforts and with prior comprehension of the direction of change, project activities should be able to continue unabated. In the two remaining sectors, Q&M and ecotourism the role of the provincial government is presently ascendant over the local governments. This is not likely to change in a major way. The provincial agencies will continue to play the lead role in policymaking and revenue collection. If the project has built linkages with these agencies, then its work should be able to continue through the change.

Recommendations and options for the remaining period

The mission, based on its review and study of project implementation, makes the following recommendations in support of EFR implementation:

PAC. The purpose will be better served if the committee meetings were held more regularly, six monthly as in the committee TORs, and time could be allocated to in-depth discussions. In addition to presentations on studies, as done in the April 2008 meeting, introduction of experiences from other places should be made in the policy discussions. Together with this the PAC membership should be strengthened by co-opting or inviting experts to the meetings. The experts will be able to bring fruitful discussions into the committee deliberations channeling them in turn into technical advice to project management. For an effective PAC, the management will need to have a regular communication with the committee members. The mission agrees with the committee decision to hold future meetings in Abbottabad or Peshawar in addition to Islamabad. There is a need for follow up of the committee decisions regarding improvement of study reports, expediting work and periodic assessment of progress by the management.

PSC. Regular meetings and linking it up with the proposed EFR Roundtable will gather more support from the district level decision makers and strengthen

project implementation. It is not clear if the project management is conceiving the PSC to graduate into a roundtable or create the latter as an additional forum. But two options should be considered: (a) **Option I.** The PSC membership should be modified to include TO Infrastructure and Services (or Planning Officer In charge Water Supply) and TO Finance. The former is responsible for water and sanitation and solid waste management. The latter manages tax and fee collection in the TMA. In addition to these two officials, Nazim UA and other union councilors should be brought on to the PSC. (b) **Option II**. PSC should be reconstituted to match it closely to the TMA responsibilities. In this case the chair would be brought to TMA level and include more members from among the union councilors. It should be noted that in either case the membership will not address issues related to Q&M and ecotourism, if any of the sectors is one of the two selected for further work. Again two options should be considered. In the first case, representatives from the Directorate of Mining and Sarhad Tourism Corporation should be included in the membership. In the second case, a separate PSC could be constituted for the sector which is finally selected for a demonstration project.

Given the time that may be required for a major reconstitution of the PSC, the best way forward will be to add members to the present committee.

For the EFR Roundtable the comparative advantages of creating a roundtable in addition to the PSC or building a roundtable around the PSC membership should be considered. Roundtable will be a mechanism for introducing options into the local policy discussions. It will also serve the need for bringing stakeholders on the table, affording them an opportunity for resolving competing points of view resulting in a consensus on EFR options. The PSC is clearly not sufficient for meeting these objectives. But members of the PSC sitting on the roundtable will be able to present their institutional views and even move their positions toward resolution. Roundtable around each EFR could also be considered. In this case they will be less formal organizations but serve the purpose of building discussion and moving toward consensus.

Local office in Abbottabad. Local presence is a necessary condition for strengthening project activities in the district. For this purpose a project office with sufficient resources and a project manager should be located close enough to the site of activities. An office in Abbottabad will primarily work with the local leadership and civil servants to find opportunities for getting decisions in favor of EFR. Located in the city, the interaction with important stakeholders will be regular. It will also help win a higher level of confidence from the local stakeholders. In addition to these benefits the office will be able to carry out

networking with the members of the community and other organizations working in the area.

Studies, how to conclude them. The six studies will serve as the bedrock of future discussions on EFR. The mission reviewed the progress and quality of studies. It is not in its purview to make a detailed assessment of the research. But as an activity on which other activities stand we would like to add a brief comment and suggest a way forward. Further work on the fiscal decentralization study may or may not serve any important purpose at this stage. But the expenditure and revenue study is important for informing EFR options. Unless it is able to clearly identify issues in local finance germane to EFR it will only inform the readers about the state of finances in Abbottabad. Therefore, analysis leading to issues and options, or at least issues, for EFR could be very beneficial. The four sector studies similarly do an institutional and sector analysis. They could also lead to identification of specific issues for EFR, providing inputs into the policy dialogue generated by the project. The project management may consider specifically asking for these components in the studies if the agreed TORs permit. As an alternative, brief analytic notes should be requested from the IUCN experts, building on the sector analyses, to bring out the issues and options for EFR work in the project area.

Demonstration project. The community ownership of the demonstration project's idea is strong. There is willingness to discuss tariff revision with some provisos and conditions. The important among them being the return of the water supply management to Nawanshehr local government, with the right to collect water rate and retain the funds for local planning and expenditure. IUCN and project management should pursue the case with Secretary Local Government for return of the water supply management to the local area and simultaneously build support for a tariff reform. The mission discussions with union councilors and community elders indicated that there was readiness to discuss tariff revision to ensure that it is set at marginal cost pricing with possibly scheduler rates and a possible cross subsidy. For this purpose, computation of costs of water supply and possible tariff options should be worked out and presented to the UC and community elders. If the TORs of the study on drinking water permit then the scope should be refocused to provide such details. The discussions should be strategized in a series of seminars in Nawanshehr where the concept is presented gradually linking it to the strong sense of self-help and ownership of Nawanshehr assets.

Choice of Sectors. The four sectors identified through local consultations hold promise for EFR in Abbottabad. Drinking water supply has support in Nawanshehr. The local leadership's keenness in working on solid waste disposal

should also be noticed. At the same time Q&M indicates that it could be a useful demonstration for EFR options, given that it elicits high concern in local communities that environment is being degraded and workers are not getting a salubrious working environment.

Partner institution. The project management should explore the possibility of bringing in CU as a partner institution. The department has dedicated faculty and a vibrant research program. The faculty is also attempting to link their research to local issues and concerns. CU's geographical proximity will allow it regular and easy access to the demonstration projects and other areas of the district. The role of PIDE should be reevaluated in light of the studies and how much they meet the objectives of the TORs. SDPI has expertise in industrial pollution and may be helpful if further work is carried out on Q&M.

Linkages. The project should take up work on forging linkages with the provincial reform program supported by the World Bank. EFR initiatives can be broadcast through the agency of this program. In addition to this, PRSP secretariat offers an opportunity of bringing EFR to the national level and weaving it into implementation of other programs focusing on revenue mobilization, environmental protection or poverty reduction. At the same time, IUCN should continue to work closely with local NGOs in Abbottabad.

Role of IUCN. 'EFR implementation is not easy' is a common refrain, the mission noted. It is true. But it is not a sufficient explanation for the current status of the project. Another way of looking at the difficulty in EFR implementation is that when all opportunities are utilized, EFR implementation may still run against difficulties periodically which will need political or management support. Without sufficient activities the quantum of the difficulty or the exact impediments cannot be identified. Therefore, at this stage IUCN's role is of critical importance for the success of the EFR Project. IUCN could play its role in the following ways: (a) Provide senior management support to the project, when required by instituting periodic technical reviews and provision of stop gap management if there is again a discontinuity in the office of the project coordinator. (b) Make specific plans for linking its regional technical resources with project management. It may include call dawn arrangements where project management can seek technical support in capitalizing on opportunities, review of documents and research, development of locally applicable EFR options. This should include a level of shared responsibility as much as permitted by IUCN's organizational norms. (c) Create panels of experts to assist project bodies and management in the study and application of EFR options. (d) Make arrangements for providing institutional lessons from SPCS and ACS implementation to the project.

An alternative to this arrangement could be recruitment or placement through internal arrangement of a full time EFR expert in the Islamabad office. This could be certainly advantageous to the periodic and well-knit support from the regional level. The full time expert can diagnose issues more comprehensively, identify opportunities of reform in time and plan and sustain actions in support of reforms on a sustained basis. The expert based in Islamabad could engage in an ongoing dialogue with PSC and PAC, important stakeholders like PRSP and key provincial departments like finance, minerals, PHE and tourism in Peshawar. The advocacy and communication initiatives of the project will receive a much needed boost from this arrangement through their enhanced interaction with available expertise. The arrangement of linking regional experts with project management and implementation may involve some complexity in devising work plans, accountabilities and management arrangement. It will only add value if the details are worked out appropriately keeping in view that the project will be in need of this critical support even when it will not be making a request well in advance. The arrangement will need to build into itself a role for the regional experts where they can take the initiative on their own.

The option of having a full term expert in the Islamabad office may have two downsides in the form of allocating more resources for fielding a full time expert and the time it may require to carry out the search for the appropriate expert. The earlier project experience indicates that the latter may not be an easy proposition. Even if this arrangement is to be considered, it would be advisable to begin with an immediate term arrangement as proposed in the preceding paragraph and then follow it up with the full term Islamabad based expert to avoid further delays in implementation. The costs could be weighed against the long term gains like laying out plans for a phase-II and better probability of success of ongoing activities. It will however be also based on IUCN's long term commitment to EFR in Pakistan.

Extension for 6 to 9 months. The project implementation has gained pace since the current project coordinator has taken over. Despite his best efforts implementation has still to reach important milestones including successful conclusion of the studies and institutional preparation of local government for the demonstration project in drinking water supply. If the project were closed according to its original timeframe it will not achieve much beyond completion of studies. The demonstration project may need to be abandoned. On the other hand the slow pace of implementation creates concerns about the possibility of better progress in the future. In the current state it is not clear if an additional 6 to 9 months will result in achieving project objectives successfully. Important milestones must be reached fairly quickly for implementation to reach a

satisfactory completion after extension. Therefore, the mission suggests a resolution in the form of considering an extension if critical steps in implementation and important organizational arrangements to support project management were reached in 60 days. These would be: (a) Completion of studies bringing out a robust discussion of EFR issues and options in drinking water and sanitation, solid waste management, Q&M and ecotourism; (b) Evaluation of the possibility of bringing in CU as a partner institution and concluding of partnership agreement with them; (c) Substantial progress on handing over of water supply scheme to Nawanshehr UA for operation and maintenance and revenue collection; (d) reconstitution of PSC to add local members; (e) establishment of an appropriately staffed and functional local project office in Abbottabad; and (f) Conclusion of IUCN's organizational arrangement for linking regional expertise with project management in the form of a shared responsibility plan of action.

Second phase. The mission reviewed the prospects of a second phase of the EFR Project. If the current project achieves substantial progress in implementing EFR in Abbottabad, a second phase should be considered. For this purpose toward the end of the project, assuming that the critical arrangements identified above are met and extension is granted for project completion, the following indicators of successful implementation should be considered: (a) Handover of water supply scheme to Nawanshehr for its operation and maintenance and revenue collection; (b) Functionality of PAC and PSC; (c) Working of EFR roundtable(s); (d) Successful implementation of IUCN's organizational arrangement for linking regional expertise with project management and their effect on the quality of research and development of EFR options in the local contexts; (e) linkages with other agencies; (f) communication of lessons of EFR implementation in Abbottabad; and (g) readiness of government agencies and leadership for undertaking EFR work in Q&M, drinking water and sanitation and solid waste management and ecotourism.

Annex I Mid-Term Review EFR Project TORs

1 Background:

Environmental fiscal reforms (EFR) refers to fiscal measures that rationalise the tax structure[2] with a view to improving the environment by reducing natural resource degradation and pollution. A carefully designed and implemented EFR can also contribute to poverty reduction by improving poor people's access to environmental services, freeing up finances for pro-poor investments and addressing environmental problems that affect the poor. For example subsidy reforms and taxes that change the prices of natural resources (e.g. water, forests, and fisheries) or of products with high environmental externalities (e.g. fuel and electricity) would help in raising the sustainable growth rate and the incomes of the poor. The context for EFR is at the interface between fiscal issues, decentralisation, poverty and environmental challenges facing the country.

The purpose of the three years (May 2006 – April 2009) project is to strengthen the devolution process in Pakistan by using appropriate fiscal instruments for the benefit of environment (changing behaviour) and at the same time reduce poverty. This would not primarily imply considering imposing new taxes, but to conduct research on the feasibility of various EFR instruments in the context of Abbottabad district, and test their implementation through pilot projects.

The overall **goal** of the EFR project:

Poverty reduced through environment fiscal reforms that generate revenue and improve the environment.

The specific **objective** of the project is:

to identify institutional, legal and policy arrangements for effective and sustained fiscal decentralization and promote district level implementation and build capacity and support among government and civil society for EFR options that reduce poverty and improve the environment.

Expected Results

Result 1: Institutional, legal and policy arrangements that promote EFR options identified and adopted in select districts.

Result 2: Innovative approaches to overcoming the challenges to EFR pilot tested and assessed in select districts.

[2] This includes taxes on natural resource extraction, removal of environmentally damaging product subsidies, introduction of relevant product taxes and user charges, and reforms to other taxes and pollution charges.

Result 3: Selected representatives from government and civil society have enhanced skills and knowledge, which enable them to participate more effectively in the development and implementation of EFR.

Result 4: Awareness of, and commitment to, EFR processes and options increased and sustained through coalition building process.

Result 5: The lessons learned from the project's experiences are effectively captured, analyzed and disseminated at the local, national and global levels.

The MTR is being undertaken to assess the validity of the approach chosen, identify the project achievements so far, the constraints and measures taken to address these and develop recommendations a) for the remaining period of the project and b) for the future of EFR processes in Pakistan.

2 Objectives of the Mid-Term Review:

1. To assess the validity of the project design, institutional set-up, strategy and approaches in terms of effectiveness and sustainability.
2. To assess the overall progress of the project against its objectives (especially in relation to policy/ systems change) in terms of results, outcomes and efficiency.
3. To formulate recommendations and assess options for the remaining period of the project and beyond.

3 Specific questions and issues:

The review mission will address the following set of issues and questions:

3.1 Overall Progress

1. How far has the project contributed to addressing the political and institutional challenges for implementing EFR.
2. In view of the recent elections, and views on the future of the LGO/ fiscal Devolution Plan/ fiscal reforms, what implications are forseen for the objectives of the project. At this point, what are the new opportunities/ constraints affecting EFR work in general and this project in particular.
3. To what extent has the project capitalised on the structures/ round tables established by IUCN at the Abbottabad district, and at the provincial levels during the PSNP time period, to facilitate the EFR work. How has the Abbottabad Integrated Development Vision, prepared under the PSNP, facilitated the EFR work in the district?
4. To what extent has the Project facilitated the government departments as well as communities on the understanding of the EFR concept
5. Based on the Pre-feasibility work undertaken in May 2005 by SDC, what has been the value addition of the studies undertaken in EFR through the project?

6. How effective has the project been in developing EFRs ownership at the three tiers of the government – federal, provincial and district (Abbottabad)
7. Was the project effective to access additional financial resources to finance EFR interventions at the district?
8. How effective has the project been in establishing linkages with other development organisations?
9. Assess the project efforts for harmonising with other donors (WB, Dfid, etc), the private sector for synergies with the project.
10. How successful has the project been in involving women, and addressing specific concerns of women in EFR
11. What challenges were faced by the project during its implementation and how did the project cope with these challenges? How relevant were the risks identified in the EFR SDC Credit Proposal, what was their impact on progress, and how did the project address them?
12. What have been the consequences of discontinuity because of staff changes at IUCN and PIDE, and what is the potential for achieving objectives within the remaining time frame of the project.

3.2 Project Structure and PCM

1. How relevant is the project monitoring system to collect information on progress, etc and how is this used to steer the project?
2. How relevant are the Yearly Plan of Operations (YPOs) and how have these been developed (e.g. level of participation)? What has been the relevance of the project activities to its objectives? What has been the relevance of project's budgetary allocations to its progress in the field?

4 Procedures and Methodology/ Scope:

The MTR team will be composed of two persons having expertise in natural resource governance, Government of Pakistan's Devolution Plan (particularly Fiscal Reforms), preferably with some understanding of Abbottabad district and its socio-political and environmental context. Preferably one of the 2 consultants should be a woman.

The mission will have its inception briefing with SDC and IUCN, followed by a series of discussions in the project, and comprehensive field visits and meetings. The mission will be provided with necessary reading material. However, documents that are considered to be relevant during the mission and not provided at inception can be demanded directly from the project.

The consultants will visit IUCN Islamabad and Peshawar offices, local government and actors in Abbottabad and representatives of the Federal government, particularly those members that form the PSC and PAC (Project Advisory Committee).

5 Reporting:

The external team has to manage a debriefing meeting with IUCN and SDC where findings, options and recommendations will be presented and discussed. A 3-pages aide memoir will form the basis of the debriefing.

Eight days after the debriefing, the consultants are expected to submit ten copies of a 20-pages report along with a soft copy. The report should necessarily consist of an executive summary, analyses of the achievements and findings, a thorough analysis of the future recommendations. In addition, the annexes should include the compulsory OECD/DAC summary.

6 Timings and Duration:

The mission will be carried out in the second half of December, 2008. Total duration of the mission will not exceed 10 days. This will include briefing and debriefing sessions, field visits to different sites and meetings at various levels in the project. The break-up will be as follows:

Reading documents	2 day
Team building, briefing, planning	1 day
Meetings, field visits, interview, etc.	4 days
Wrap-up meeting with SCO-P	1 day
Report writing	2 days
Total	**10 days**

7 Documents to be consulted for the review

- Credit Proposal of the project
- Project Document
- Project Proposal on Building Coalitions for Change to Implement Pro-Poor Environmental Fiscal Reforms, May 2005
- EFR Internal Review Report dated April 2008
- YPOs and progress reports
- Other strategic documents of the project (will be provided during the mission)
- SDC Pakistan's Cooperation Strategy 2006-2010
- All the studies completed by PIDE.

Annex III List of persons met

List of Participants of meeting conducted by EFR MTR team in Islamabad on

December 15, 2008 at SDC Office at 10am

1.	Pius Rohner	Country Director / Counselor
2.	Mohammad Arshad Gill	National Program Officer

At IUCN Islamabad Office at 11am

1.	Mahmood Cheema	Program Manager EFR
2.	Hamid Sarfaraz	Head of Office
3.	Nighat Sattar	IUCN Country Director

List of Participants of meeting conducted by EFR MTR team in Islamabad on December 16, 2008 at PIDE at 11am

1.	Dr. Usman Mustafa	Chief of Training / Project Evaluation Division
2.	Iftikhar Ahmad	Staff Analyst

At SDPI at 2 pm

1.	Dr AQ Suleri	Executive Director
2.	Mehnaz Ajmal	Research Associate

List of Participants of meeting conducted by EFR MTR team in Islamabad on December 17, 2008 at Planning Commission at 10.30am

1.	Malik Akram	Member Planning Commission (Infrastructure)
2.	Dr. Raja Aurangzeb Khan	Chief / Project Director / EAS

At Finance Division 12 noon

1.	Amjad Malik	Deputy Secretary, Ministry of Finance

List of Participants of meeting conducted by EFR MTR team in Abbottabad on December 19, 2008

Meeting in the office of TMO Abbottabad 10.30am

1.	Mr. Arbab Khan	TMO Abbottabad
2.	Mr. Naeem Khan	Superintendent
3.	Mr. Sardar Iqbal	Planning Officer and In charge Water Supply
4.	Mr. M. Masood	In charge Sanitary workers

5.	Mr. Fazal-e-Razik	Inspector Mining
6.	Mr. Abdul Waheed Khan	Nazim U/C Nawansher
7.	Mr. Afsar Mir	Naib Nazim U/C Nawainsher

Meeting in the office of Sungi Development Foundation at 11.45am

1.	Mr. Omer Javed	Regional Coordinator Sungi Development Foundation
2.	Mr. Zubair Ahmed	Head Admin and Finance Regional Office Abbottabad SRSP

Meeting in COMSATS University Abbottabad at 12.45pm

1.	Dr. Iftikhar A. Raja	Chairman Environmental Sciences Department
2.	Dr. Amjad Hassan	Assistant Prof. Environmental Sciences Dept.
3.	Dr. Amir Haider Malik	Professor Environmental Sciences Department
4.	Dr. Maroof Shah	Professor Environmental Sciences Department
5.	Dr. Mustafa Shafqat	Professor Environmental Sciences Department
6.	Dr. Bahadur Nawab	Head of Development Studies Department
7.	Dr. Arshad Pervaiz	General Manager Academics and Administration
8.	Mr. Munir Ahmed	News Media Representative
9.	Mr. Amjad	SDPI Representative

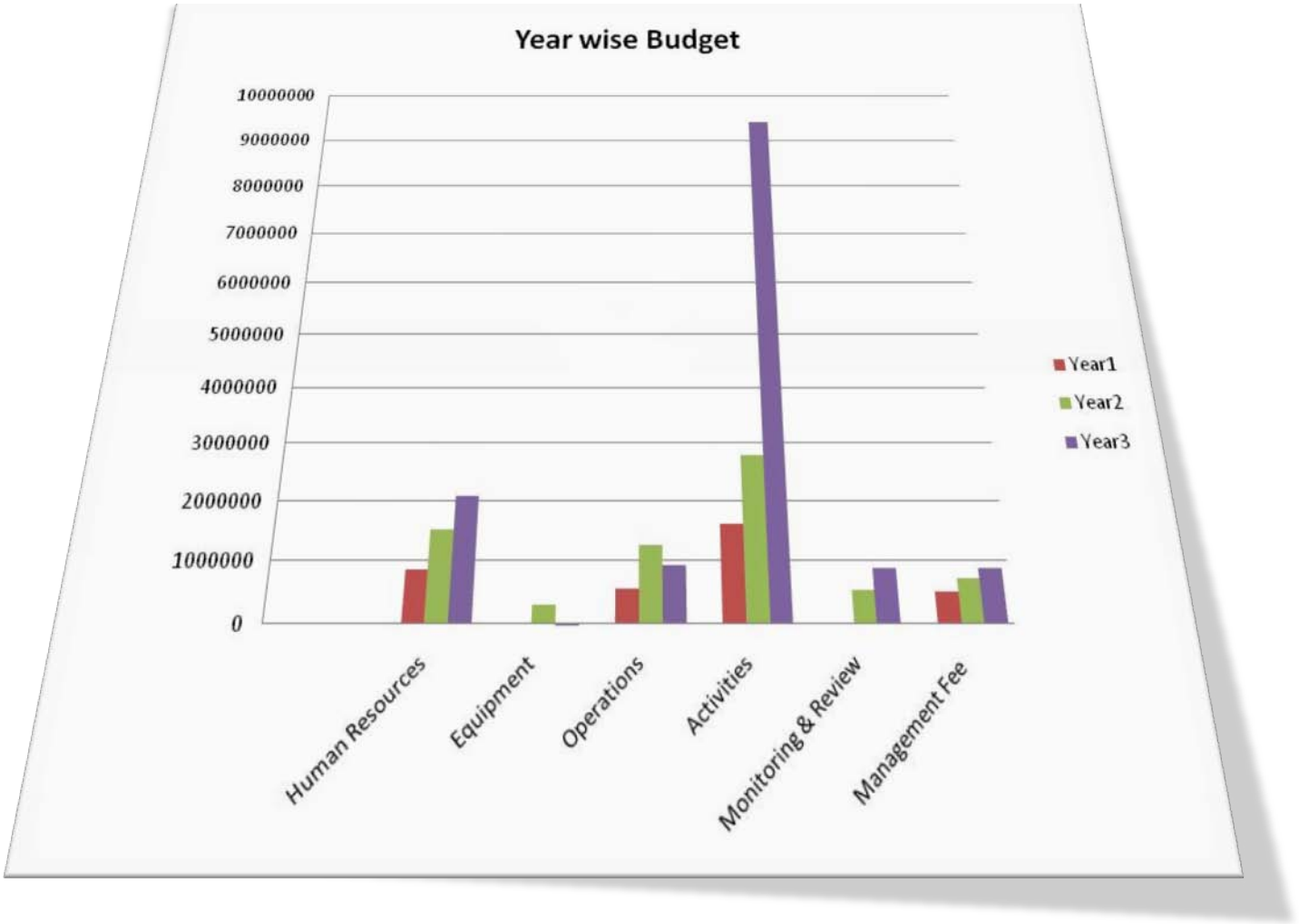
Meeting with the Nawainsher Town Committee and Local Community at 3.15pm

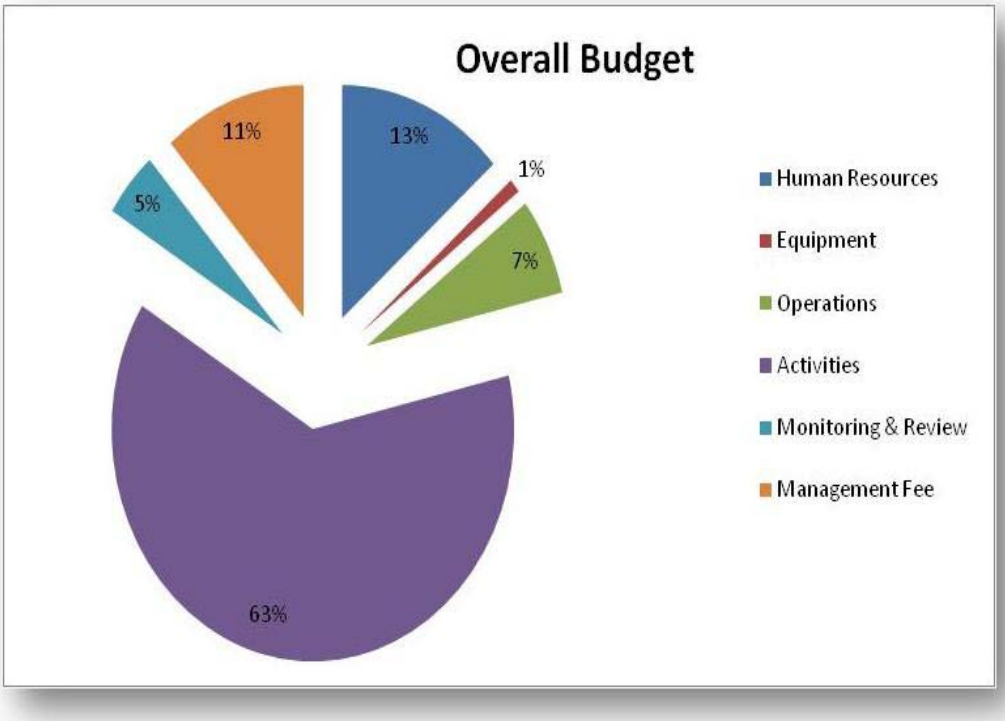
Almost 50 people participated in the meeting from different walk of life and from different Mohallahs of the town including the following.

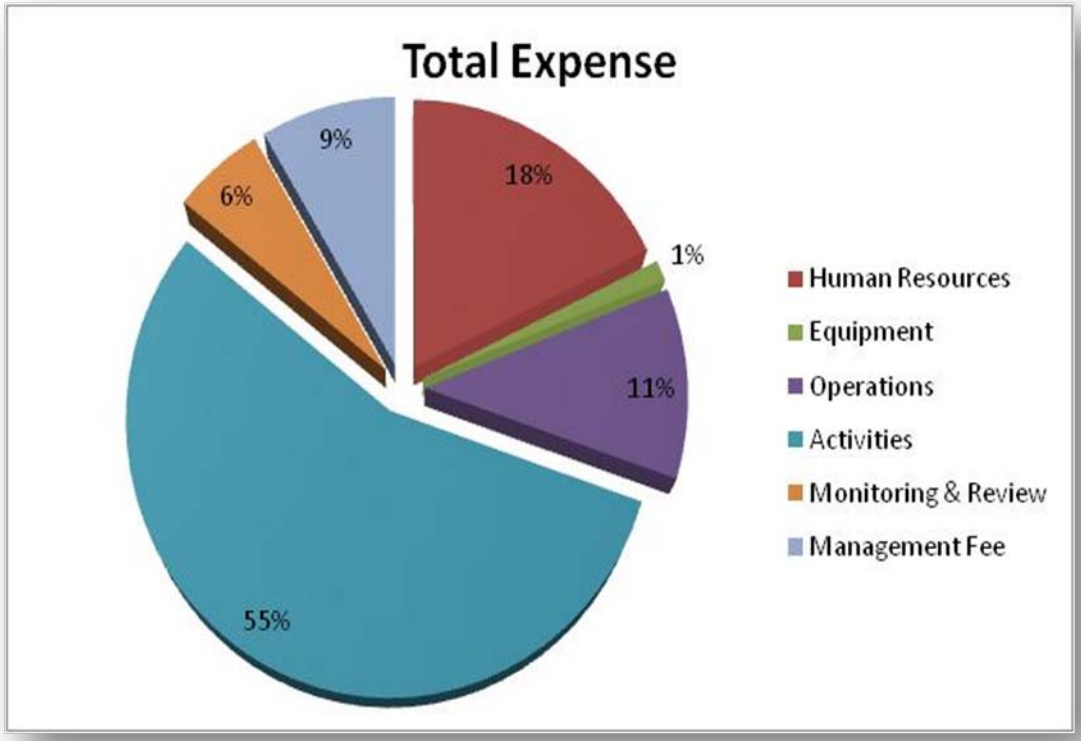
1.	Mr. Waheed Khan	Nazim U/C Nawansher
2.	Mr. Afsar Mir	Naib Nazim U/C Nawainsher
3.	Mr. Sadaqat Khan	General Councilor
4.	Mr. Zar Gul Khan	Kissan Councilor
5.	Mr. Sher Afzal Khan	General Councilor
6.	Mr. Waqar Khan	Kissan Councilor
7.	Mr. Faridoon Khan	General Councilor
8.	Syed Nazir Hussain	Pump Operator
9.	Gul Munir Khan	Sanitary Inspector
10.	Sher Afzal	Councilor U/C Nawansher
11.	Sadaqat Khan	Councilor U/C Nawansher
12.	Nazir Hussain Shah	Technical supervisor
13.	Khan Gul	Sanitary Inspector
14.	Shamroz Khan	Councilor U/C Nawansher
15.	Dr. M. Ayaz	Nawansher
16.	Noman Khan	Ex. Principal Govt. High Schools

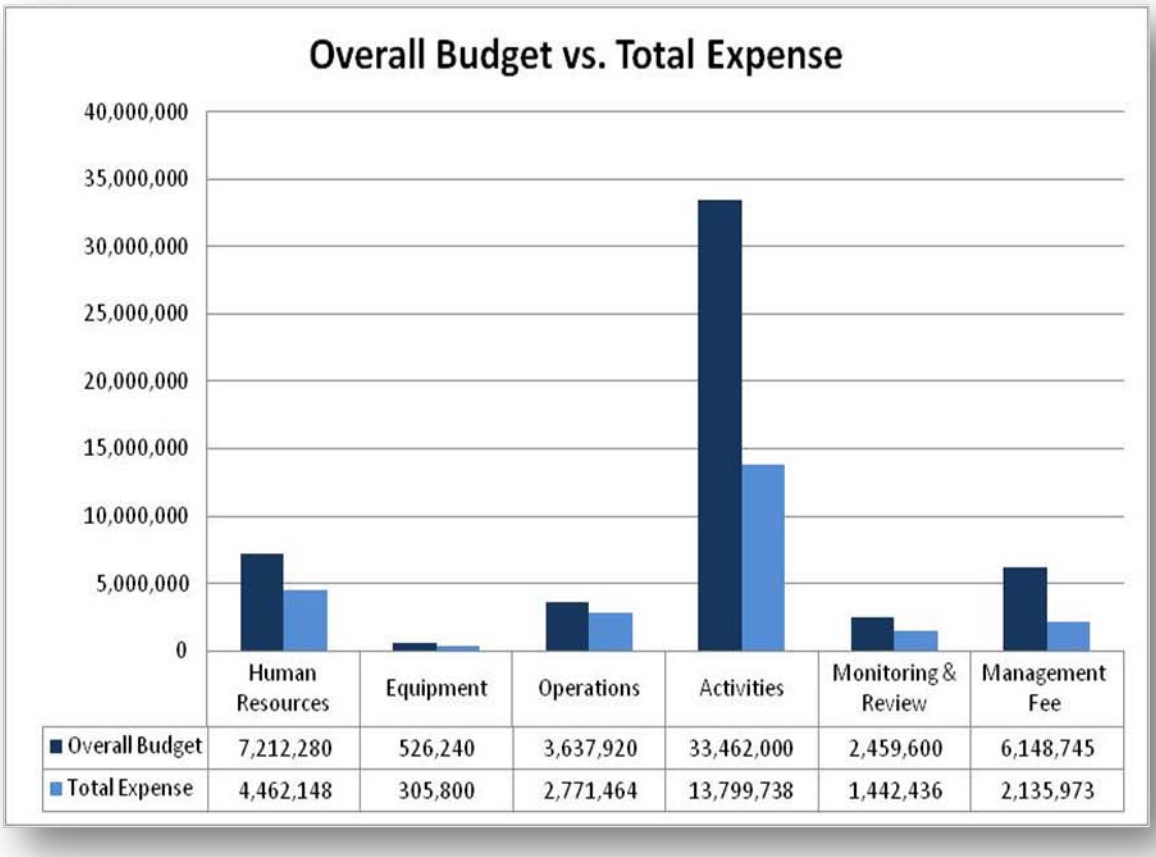
Annex IIII Financial Utilization

Budget Line	Overall Budget	Year1	Year2	Year3	Total Expense
Human Resources	7,212,280	864,955	1,516,515	2,080,678	**4,462,148**
Equipment	526,240	-	303,800	2,000	**305,800**
Operations	3,637,920	564,507	1,273,702	933,255	**2,771,464**
Activities	33,462,000	1,616,126	2,788,164	9,395,449	**13,799,738**
Monitoring & Review	2,459,600	27,789	532,437	882,210	**1,442,436**
Management Fee	6,148,745	517,402	715,979	902,591	**2,135,973**
Total	**53,446,785**	**3,590,778**	**7,130,598**	**14,196,183**	**24,917,559**




Overall Budget
13%
1%
7%
63%
5%
11%
Human Resources
Equipment
Operations
Activities
Monitoring & Review
Management Fee


Total Expense
18%
1%
11%
55%
6%
9%
Human Resources
Equipment
Operations
Activities
Monitoring & Review
Management Fee



	Human Resources	Equipment	Operations	Activities	Monitoring & Review	Management Fee
Overall Budget	7,212,280	526,240	3,637,920	33,462,000	2,459,600	6,148,745
Total Expense	4,462,148	305,800	2,771,464	13,799,738	1,442,436	2,135,973

Annex IV Progress on individual targets

❖ The bullet is used for the new/expected/completed target date. Please compare the MTR Team comments column for reference

Code	Expected Results		Quarters				Remarks by IUCN	MTR TEAM Comments
	Main Activities/Sub Activities		Q1	Q2	Q3	Q4		
A	Human Resources							
	Project Coordinator		X	X	X	X		Three project coordinators were changed in the period of 3 years.
	Research Advisors		X	X	X	X	Four Action Research Studies (Fiscal Decentralization, Revenue & Expenditure, EFR Options in Drinking Water Sector and EFR Options in Waste Management Sector) will be done by PIDE. The other two Action Research Studies (EFR Options in the Eco-Tourism Sector and EFR Options in the Mining/Quarrying Sector) will be done by SDPI.	
	Project Secretary		X	X	X	X		
B	Equipment							
	Computers			X				
	Printers, Scanner, UPS, etc.			X				
	Furniture and Fixtures			X				
C	Operations							
	Communications (telephone, courier, internet, etc.)		X	X	X	X		
	Consumables (supplies, stationery, photocopies, etc.)		X	X	X	X		
	Domestic Travel		X	X	X	X		
D	Program Components							
D-1	Action Research and Awareness Raising Component							
	Technical, Institutional, Legal, Policy and Political Economy Assessments of Pro-Poor EFR Options							
1.1	Preliminary collation of research on district revenues and expenditures, environmental and poverty issues and its links to EFR initiative for presentation at the district level							
	1.1.1	Finalization of the District Revenues and Expenditure Study by PIDE in light of IUCN comments	X			❖		The planned date for the completion of study was in the first quarter of 2008. The revised date now is in December 2008.

Code	Expected Results		Quarters				Remarks by IUCN	MTR TEAM Comments
	Main Activities/Sub Activities		Q1	Q2	Q3	Q4		
1.2	Preliminary collation of research on fiscal decentralisation issues, constraints and opportunities and its links to EFR initiative for presentation at the district level							
	1.2.1	Finalization of the Fiscal Decentralization Study by PIDE in light of IUCN comments	X			❖		The study has been finalised in December 2008
1.3	To undertake EFR Options Study in the Drinking Water Sector in Abbottabad			X				Final Draft is completed in December 2008.
1.4	To undertake EFR Options Study in the Waste Management Sector in Abbottabad			X				This activity is still not completed. The new planned date is in December 2008.
1.5	To undertake EFR Options Study in the Eco-Tourism Sector in Abbottabad				X			Zero draft is completed.
1.6	To undertake EFR Options Study in the Mining and Quarrying Management Sector in Abbottabad				X			Planned date for finalization is December 2008.
D-2	Piloting Select EFR Options Component							
	Design and Implementation of Pr-Poor EFR Pilot Projects						Coordination and communication facilitated through national-provincial-district linkages	
	Innovative approaches to overcoming the challenges to EFR pilot tested and assessed in the select district.							
2.1	To hold consultative meetings on agreement and design of select EFR options, to be piloted at the district level, based on key insights gained from assessment studies							
	2.1.1	To hold two district level meetings/ workshops to agree on the design of select EFR options, for pilot testing at the district level, based on key insights gained from assessment studies.		X	X			Two consultative meetings have been conducted
2.2	To undertake consultative seminars, workshops, etc. to raise awareness and generate support for EFR							
	2.2.1	To hold three consultative workshops, one each at district level, provincial level and national level to raise awareness about and generate support for EFR		X	X	X		Three consultative workshops have been conducted.
D-3	Capacity Building Component							
	Capacity Building of Local Administration, Partners and Policy Makers							
	Selected representatives from government and civil society have enhanced skills and knowledge, which enable them to participate more effectively in the development and implementation of EFR.				X	X	GoP and donors are committed to the devolution, fiscal decentralization and poverty reduction reform processes.	

Code	Expected Results		Quarters				Remarks by IUCN	MTR TEAM Comments
	Main Activities/Sub Activities		Q1	Q2	Q3	Q4		
3.1	To build capacity of key government stakeholders on framing enabling conditions for EFR					X		
3.2	To build capacity of local administration on creation of systems of tax base measurements, assessment techniques and collection methodologies				X			
3.3	To build capacity of local partners to facilitate dialogue and a common understanding of EFR objectives between local communities and administrations					X		
D-4	Coalition Building on Pro-Poor EFR for Institutional, Legal and Policy Framework							
	Awareness of, and commitment to, EFR processes and options increased and sustained.						The process of coalition building around EFR harnesses interest, support and action by key players.	
4.1	To disseminate and discuss the assessments on enabling conditions opportunities and constraints, Willingness To Pay and EFR options at district level							
	4.1.1	To hold two Project Steering Committee (PSC) meetings at the district level	X	❖	X			One PSC meeting held in May 2008
4.2	To identify key institutional, legal and policy arrangements that promote EFR							
	4.2.1	To hold two Provincial level Workshops		X		X		No provincial level workshop held in the year 2008
4.3	To build partners and coalitions for the adoption of EFR options at the district level and also engaging National and Provincial stakeholders and partners on fiscal decentralisation							
	4.3.1	To hold two Project Advisory Committee (PAC) Meetings		X		X		
	4.3.2	To hold two National level Workshops on EFR Project		X		X		No national level workshops on EFR held in 2008. IUCN is waiting for the studies to be finished.
D-5	Lessons Learnt Dissemination Component							
	The lessons learned from the project's experiences are effectively captured, analysed and disseminated at the local, national and global levels.							
5.1	To develop communication and advocacy material for wider dissemination and advocacy for EFR							
	5.1.1	To develop and disseminate Fact Sheets on EFR Action Research Studies		X	X	X		2 Fact sheets have been disseminated.

Code	Expected Results		Quarters				Remarks by IUCN	MTR TEAM Comments
	Main Activities/Sub Activities		Q1	Q2	Q3	Q4		
	5.1.2	To develop and disseminate Policy Briefs on EFR Action Research Studies		X	X	X		No policy briefs on EFR Action Research Studies have been disseminated.
	5.1.3	To develop and disseminate Research Study Reports of EFR Action Research Studies		X	X	X		
E		Monitoring and Review						
		Audit and Reviews		X		X		
		Internal Monitoring	X	X	X	X		Internal monitoring done.
		Total Expenditure						
F		Management Fee	X	X	X	X		
		Grand Total						

Annex V DAC Summary

Evaluation Abstract

DONOR	**SDC**
REPORT TITLE	Mid-term Evaluation Report
SUBJECT NUMBER	
GEOGRAPHIC AREA	Pakistan, District Abbottabad
SECTOR	Environment, public finance, poverty reduction
LANGUAGE	EN
DATE	2008-12-22
COLLATION	20pp; 5 annexes
EVALUATION TYPE	3 possibilities: and/or • Timing: mid-term • Subject of evaluation: project • Type: efficiency and effectiveness
STATUS	C
AUTHORS	Musharraf Rasool Cyan Qasim Zaman Khan

SUBJECT DESCRIPTION:

activity. If there is more than one paragraph these should be separated by a blank line.

The SDC is financing a Rs.53.4 million Environmental fiscal reforms Project (EFR Project), being implemented by IUCN and partner institutions since May 2006. The project has been conceived for adopting fiscal measures that rationalize the tax structures with a view to improving the environment by reducing natural resource degradation and pollution. It recognizes that a carefully

designed and implemented EFR can also contribute to poverty reduction by improving poor people's access to environmental services, freeing up finances for pro-poor investments and addressing environmental problems that affect the poor. For example subsidy reforms and taxes that change the prices of natural resources (e.g. water, forests, and fisheries) or of products with high environmental externalities (e.g. fuel and electricity) would help in raising the sustainable growth rate and the incomes of the poor. The context for EFR is at the interface between fiscal issues, decentralization, poverty and environmental challenges facing the country.

EVALUATION METHODOLOGY:

The MTR has been undertaken from December 15 to 22, 2008 to assess the validity of the approach chosen, identify the project achievements so far, the constraints and measures taken to address these and develop recommendations (a) for the remaining period of the project and (b) for the future of EFR processes in Pakistan.

Objectives of the Mid-Term Review:

4. To assess the validity of the project design, institutional set-up, strategy and approaches in terms of effectiveness and sustainability.
5. To assess the overall progress of the project against its objectives (especially in relation to policy/ systems change) in terms of results, outcomes and efficiency.
6. To formulate recommendations and assess options for the remaining period of the project and beyond.

The mission had its inception briefing with SDC and IUCN on December 15, 2008 followed by a series of discussions in the project, and comprehensive field visits and meetings. The mission was provided with necessary reading material. In addition, the project management provided additional documents requested by the mission members. The mission visited IUCN office in Islamabad, met with various government and non-government agencies concerned with EFR in Pakistan and reviewed the progress of the pilot demonstration project in Nawanshehr, Abbottabad. It participated in a community meeting and discussed various aspects of the demonstration project, specially those relevant to adoption of EFR.

MAJOR FINDINGS:

Validity of Project Design

Committees and decision making. Two committees have important roles to play: Project Advisory Committee (PAC) and Project Steering Committee (PSC). The PAC met once since the start of the project on 2nd April 2008. PSC comprises of district government officials and members drawn from the local civil society. Important omissions are TMA and UA representatives. Since the demonstration project is located in Nawanshehr and most of the activities are likely to gravitate toward this jurisdiction, inclusion of the UA Nazim will serve the purpose of adding an important voice to discussions in this forum. The decisions that might be required for implementation of EFR in these sectors do not closely match the responsibilities of the official members of the PSC. PSC has met only 2 times (26/02/07 & 02/05/08) but has now decided to hold quarterly meetings.

Nexus with policy making. EFR has a strong linkage with policy making. The provincial government has recently increased the water rate from Rs.60 per unit to Rs.100 per unit. The studies under the project, once completed, could feed into such decisions, laying out the extent of the difference between the marginal cost of supplying a unit of water and the water rate in force.

Secondly, the pilot project could demonstrate effectively with local evidence the manner and details in which water rates could be changed to be closer to the marginal cost of supply. At present this is not taking place due to delay in completion of studies and the related effect on the pilots.

Partner institutions. PIDE has not delivered well on studies. SDPI has been brought on board since December 2007. Contrary to the expectation of the design precepts, the project has not benefited from the research based inputs of the partner institution in this case. The delay in studies, the unclear focus on EFR in the narrative and difficulty in getting engaged all seem to have contributed.

Presence in the project area. The local IUCN office set up under ACS has been wound up. Currently, a consultant works for the project. IUCN has attempted to maintain local networks by periodic interaction. Introduction of EFR requires sound research and technical solution suited to local situation. But it would be difficult to argue that all these activities could be best accomplished without an appropriately staffed local office.

IUCN as implementing agency. IUCN has local and regional networks of experts. The mission noted that IUCN has mobilized two EFR experts from its regional networks in support of the project. The mission notes the following lessons for implementation: (a) IUCN has the potential of mobilizing experts for engagement with the project; (b) when the experts' work is planned to integrate with locally ongoing activities it supports progress toward development of locally suitable EFR options; (c) a distant role of experts is not very beneficial for project success and trouble shooting can only partially benefit activities and outcomes; (d) the role of the experts if clearly defined and planned at the beginning of a planning period as an integral input into the activities will optimally contribute to EFR; and (e) IUCN experts' may share joint responsibility with local staff for technical contribution to development of EFR options.

Progress against objectives

Financial utilization. Against the project allocation of Rs.53.45 million, the total utilization at the end of November 2008 was Rs.24.92 million, with only 5 of the 36 months of project time remaining. Studies and other project activities have not gone at the planned pace.

Studies. Six studies are being conducted under the project as attempt at benchmarking and identifying EFR issues and options. Two studies are charting out devolution related issues and issues relating to local expenditure and revenue in Abbottabad. Four studies are benchmarking for issues and options for EFR in sectors namely drinking water, solid waste management, ecotourism and quarrying and mining. The progress on the studies has been slow. The studies have also not fully addressed the issues as envisaged at the outset. IUCN regional staff, PAC and other reviewers have provided useful comments at different stages to bring the studies at par with the expectations. But the studies do not fully provide a substantial ground of analysis for considering EFR issues and options.

Demonstration project. A demonstration project has been identified in Nawanshehr. It envisages reform of water tariff, provision of water to households currently not getting piped water and upgrading of water supply system. The project is not based on a completed study of the sector as envisaged in the project design. But it benefits from the drafts and ongoing work on the study. At this stage the EFR option in the project is not fully developed. Discussions with the community

have indicated strong ownership of the developmental component of the pilot project where the support for the reform of tariff component is yet to be fully built.

Political and institutional issues. The following were identified: (a) Policy making in government does not use research unless it is compelling and convincing. (b) Decentralization is being reviewed but it seems any changes will not materially affect the sectors in which EFR will be attempted under the project. (c) The research of the partner institutions in general is not linked with local issues and communities, with some notable exceptions. (d) UA Nawanshehr does not have operation and maintenance and revenue collection responsibility for water supply scheme. (e) There is no strong evidence of IUCN's institutional mechanisms and processes in operation in Abbottabad. (f) EFR ownership is varied, with the provincial government and PRSP expressing noteworthy support for it.

LESSONS LEARNED:

Project Advisory Committee (PAC). The purpose will be better served if the committee meetings were held more regularly, six monthly as in the committee TORs, and time could be allocated to in-depth discussions. In addition to presentations on studies, as done in the April 2008 meeting, introduction of experiences from other places should be made in the policy discussions. Together with this the PAC membership should be strengthened by co-opting or inviting experts to the meetings. The experts will be able to bring fruitful discussions into the committee deliberations channeling them in turn into technical advice to project management. For an effective PAC, the management will need to have a regular communication with the committee members. The mission agrees with the committee decision to hold future meetings in Abbottabad or Peshawar in addition to Islamabad. There is a need for follow up of the committee decisions regarding improvement of study reports, expediting work and periodic assessment of progress by the management.

Project Steering Committee (PSC). Regular meetings and linking it up with the proposed EFR Roundtable will gather more support from the district level decision makers and strengthen project implementation. It is not clear if the project management is conceiving the PSC to graduate into a roundtable or create the latter as an additional forum. But two options should be considered: (a) **Option I.** The PSC membership should be modified to include TO Infrastructure and Services (or Planning Officer In charge Water Supply) and TO Finance. The former is responsible for water and sanitation and solid waste management. The latter manages tax and fee collection in the TMA. In addition to these two officials, Nazim UA and other union councilors should be brought on to the PSC. (b) **Option II**. PSC should be reconstituted to match it closely to the TMA responsibilities. In this case the chair would be brought to TMA level and include more members from among the union councilors. It should be noted that in either case the membership will not address issues related to Q&M and ecotourism, if any of the sectors is one of the two selected for further work. Again two options should be considered. In the first case, representatives from the Directorate of Mining and Sarhad Tourism Corporation should be included in the membership. In the second case, a separate PSC could be constituted for the sector which is finally selected for a demonstration project.

Given the time that may be required for a major reconstitution of the PSC, the best way forward will be to add members to the present committee.

For the EFR Roundtable the comparative advantages of creating a roundtable in addition to the PSC or building a roundtable around the PSC membership should be considered. Roundtable will

be a mechanism for introducing options into the local policy discussions. It will also serve the need for bringing stakeholders on the table, affording them an opportunity for resolving competing points of view resulting in a consensus on EFR options. The PSC is clearly not sufficient for meeting these objectives. But members of the PSC sitting on the roundtable will be able to present their institutional views and even move their positions toward resolution. Roundtable around each EFR could also be considered. In this case they will be less formal organizations but serve the purpose of building discussion and moving toward consensus.

Local office in Abbottabad. Local presence is a necessary condition for strengthening project activities in the district. For this purpose a project office with sufficient resources and a project manager should be located close enough to the site of activities. An office in Abbottabad will primarily work with the local leadership and civil servants to find opportunities for getting decisions in favor of EFR. Located in the city, the interaction with important stakeholders will be regular. It will also help win a higher level of confidence from the local stakeholders. In addition to these benefits the office will be able to carry out networking with the members of the community and other organizations working in the area.

Studies, how to conclude them. The six studies will serve as the bedrock of future discussions on EFR. The mission reviewed the progress and quality of studies. It is not in its purview to make a detailed assessment of the research. But as an activity on which other activities stand we would like to add a brief comment and suggest a way forward. Further work on the fiscal decentralization study may or may not serve any important purpose at this stage. But the expenditure and revenue study is important for informing EFR options. Unless it is able to clearly identify issues in local finance germane to EFR it will only inform the readers about the state of finances in Abbottabad. Therefore, analysis leading to issues and options, or at least issues, for EFR could be very beneficial. The four sector studies similarly do an institutional and sector analysis. They could also lead to identification of specific issues for EFR, providing inputs into the policy dialogue generated by the project. The project management may consider specifically asking for these components in the studies if the agreed TORs permit. As an alternative, brief analytic notes should be requested from the IUCN experts, building on the sector analyses, to bring out the issues and options for EFR work in the project area.

Demonstration project. The community ownership of the demonstration project's idea is strong. There is willingness to discuss tariff revision with some provisos and conditions. The important among them being the return of the water supply management to Nawanshehr local government, with the right to collect water rate and retain the funds for local planning and expenditure. IUCN and project management should pursue the case with Secretary Local Government for return of the water supply management to the local area and simultaneously build support for a tariff reform. The mission discussions with union councilors and community elders indicated that there was readiness to discuss tariff revision to ensure that it is set at marginal cost pricing with possibly scheduler rates and a possible cross subsidy. For this purpose, computation of costs of water supply and possible tariff options should be worked out and presented to the UC and community elders. If the TORs of the study on drinking water permit then the scope should be refocused to provide such details. The discussions should be strategized in a series of seminars in Nawanshehr where the concept is presented gradually linking it to the strong sense of self-help and ownership of Nawanshehr assets.

Choice of Sectors. The four sectors identified through local consultations hold promise for EFR in Abbottabad. Drinking water supply has support in Nawanshehr. The local leadership's keenness in working on solid waste disposal should also be noticed. At the same time Q&M

indicates that it could be a useful demonstration for EFR options, given that it elicits high concern in local communities that environment is being degraded and workers are not getting a salubrious working environment.

Partner institution. The project management should explore the possibility of bringing in CU as a partner institution. The department has dedicated faculty and a vibrant research program. The faculty is also attempting to link their research to local issues and concerns. CU's geographical proximity will allow it regular and easy access to the demonstration projects and other areas of the district. The role of PIDE should be reevaluated in light of the studies and how much they meet the objectives of the TORs. SDPI has expertise in industrial pollution and may be helpful if further work is carried out on Q&M.

Linkages. The project should take up work on forging linkages with the provincial reform program supported by the World Bank. EFR initiatives can be broadcast through the agency of this program. In addition to this, PRSP secretariat offers an opportunity of bringing EFR to the national level and weaving it into implementation of other programs focusing on revenue mobilization, environmental protection or poverty reduction. At the same time, IUCN should continue to work closely with local NGOs in Abbottabad.

Role of IUCN. EFR implementation is not easy is a common refrain, the mission noted. It is true. But it is not a sufficient explanation for the current status of the project. Another way of looking at the difficulty in EFR implementation is that when all opportunities are utilized, EFR implementation may still run against difficulties periodically which will need political or management support. Without sufficient activities the quantum of the difficulty or the exact impediments cannot be identified. Therefore, at this stage IUCN's role is of critical importance for the success of the EFR Project. IUCN could play its role in the following ways: (a) Provide senior management support to the project, when required by instituting periodic technical reviews and provision of stop gap management if there is again a discontinuity in the office of the project coordinator. (b) Make specific plans for linking its regional technical resources with project management. It may include call dawn arrangements where project management can seek technical support in capitalizing on opportunities, review of documents and research, development of locally applicable EFR options. This should include a level of shared responsibility as much as permitted by IUCN's organizational norms. (c) Create panels of experts to assist project bodies and management in the study and application of EFR options. (d) Make arrangements for providing institutional lessons from SPCS and ACS implementation to the project.

Extension for 6 to 9 months. The project implementation has gained pace since the current project coordinator has taken over. Despite his best efforts implementation has still to reach important milestones including successful conclusion of the studies and institutional preparation of local government for the demonstration project in drinking water supply. If the project were closed according to its original timeframe it will not achieve much beyond completion of studies. The demonstration project may need to be abandoned. On the other hand the slow pace of implementation creates concerns about the possibility of better progress in the future. In the current state it is not clear if an additional 6 to 9 months will result in achieving project objectives successfully. Important milestones must be reached fairly quickly for implementation to reach a satisfactory completion after extension. Therefore, the mission suggests a resolution in the form of considering an extension if critical steps in implementation and important organizational arrangements to support project management were reached in 60 days. These would be: (a) Completion of studies bringing out a robust discussion of EFR issues and options in drinking

water and sanitation, solid waste management, Q&M and ecotourism; (b) Evaluation of the possibility of bringing in CU as a partner institution and concluding of partnership agreement with them; (c) Substantial progress on handing over of water supply scheme to Nawanshehr UA for operation and maintenance and revenue collection; (d) reconstitution of PSC to add local members; (e) establishment of an appropriately staffed and functional local project office in Abbottabad; and (f) Conclusion of IUCN's organizational arrangement for linking regional expertise with project management in the form of a shared responsibility plan of action.

Second phase. The mission reviewed the prospects of a second phase of the EFR Project. If the current project achieves substantial progress in implementing EFR in Abbottabad, a second phase should be considered. For this purpose toward the end of the project, assuming that the critical arrangements identified above are met and extension is granted for project completion, the following indicators of successful implementation should be considered: (a) Handover of water supply scheme to Nawanshehr for its operation and maintenance and revenue collection; (b) Functionality of PAC and PSC; (c) Working of EFR roundtable(s); (d) Successful implementation of IUCN's organizational arrangement for linking regional expertise with project management and their effect on the quality of research and development of EFR options in the local contexts; (e) linkages with other agencies; (f) communication of lessons of EFR implementation in Abbottabad; and (g) readiness of government agencies and leadership for undertaking EFR work in Q&M, drinking water and sanitation and solid waste management and ecotourism.