

5. MAXIMISING THE EFFECT OF THE FINANCIAL INVESTMENT

5.1 Introduction

Notwithstanding the risk mitigation measures suggested in Chapter 4, peace building remains high-risk by default and even higher risk prior to the end of hostilities, as is the case in Pakistan. Building on the previous section on risk management, this chapter first suggests additional and necessary measures to increase value-for-money by maximising the impact of peace building spend on conditions in FATA and KP, and concludes with the anticipated costing of the PCNA.

5.2 Alignment

The PCNA has been a technical exercise to develop peace-building recommendations for the Government of Pakistan. Its purpose, approach and delivery is entirely in line with the spirit of the Paris Declaration on Aid Effectiveness (2005)⁸⁷ where donors committed to actively support national government leadership and control of integrated development strategies.

As such, the government's peace building strategic framework should become the overarching instrument to frame all humanitarian, recovery and development assistance in KP and FATA. This includes transformation of activities that are not primarily peace building by nature into contributions to peace building by adopting a new conflict-sensitive lens (for flood recovery efforts for example). So once fully endorsed, it is recommended that the Government present the PCNA concept to all stakeholders, within government as well as to external parties (donors, NGOs etc) as the government policy and demonstrate commitment for alignment of all relevant existing and relevant strategies, frameworks and programmes to ensure coherent, coordinated and effective use of all funding to the region.

A programme of consultative events would help to ensure a positive interpretation of this development by all stakeholders, as a means to achieve shared peace and development objectives in the region. These consultations should focus on tailoring the short and medium term goals and programmes of government agencies/departments to the PCNA vision, followed by due alignment of detailed operational, manpower and training plans. Similarly, in the case of donors present in Pakistan, this would/may result in shifts in sectoral focus, and in calibrating funding streams and country-level assistance frameworks. Seeking to achieve a truly coherent multi-agency peace building and development effect in KP and FATA might even inspire modification of global apportionment of funds. Similarly, at local level, CSOs should be encouraged to reframe their strategies and activities to contribute to

⁸⁷<http://www.oecd.org/dataoecd/30/63/43911948.pdf>

this swell of focused delivery.

In the same vein, as PCNA recommended interventions are developed, the detailed design and mapping of interventions (to ascertain where which type of intervention will have greatest peace building benefit) needs to link in very clearly with existing processes and programmes, such as with the government's Annual Development Program and Public Sector Development Program, and the bilateral, donor, IFI,⁸⁸ NGO and multilateral efforts (including the DNA, PHRP and One UN Program amongst others).

There are therefore two types of alignment to pursue:

- a. Aligning existing and planned interventions around the new peace building strategy;
- b. Maximising the peace building effect of all recommended interventions by developing them specifically to benefit from synergies with existing programmes.

The humanitarian interventions underway under the PHRP will continue, and multiply to meet the needs of the current natural disaster. Integration of a peace-building lens, and conflict-sensitivity in particular, in their design and implementation should be encouraged if not already included.

5.3 Estimated cost implications

The responsibility for peace building rests with Government. The commissioning of a PCNA is not a resource triggering exercise. Particularly so in the case of Pakistan where a donor conference had already taken place (in Tokyo) and a trust fund set up (see below). All parties, not least Government, are fully aware that political reforms are part of the required response to the crisis facing the country at present: the PCNA was an opportunity to explore the drivers of that crisis in more detail and to make concrete recommendations as to how these might be addressed.

The costing of the PCNA is therefore not included as a pledging proposal. It is an informed estimate of the cost of the peace building recommendations proposed in the PCNA. Although donors are interested in the recommendations, they are particularly interested in the total product: an efficient and effective government-led overarching strategy to optimise all assistance to the region. For them, the PCNA is also evidence of the Government's level of commitment to the transformations necessary to bring peace to this region.

A donor conference in the sense of a pledging exercise is therefore not proposed. Instead, it is anticipated that a mix of government budget re-allocations and new

⁸⁸ International Financial Institution

funding will meet the financial requirement. That said in addition to the consultative workshops proposed above, the PCNA recommendations will also need official presentation to the international community. This would also give the international stakeholders the opportunity to communicate their views in supporting Government efforts.

So to sum up, peace building recommendations have been grouped under four Strategic Objectives that together will deliver the PCNA vision. Particular attention has been given to ensuring that they deliver dividends that are crisis-sensitive, cognisant of gender sensitivities and challenges in this region and delivering much needed improvement to women, and are informed by realistic capacity assessments and deliver improvement in this area also. The Strategic Objectives will be achieved through interventions across nine sectors.

The cost of delivering the recommended PCNA interventions is estimated at US\$ 2.759 billion (or 1.6% of national GDP). This is a considerable amount when compared with the combined development programmes of KP and FATA. The expenditure for the first phase (first 30 months) of the programme is of US\$ 2.25 billion; this is only marginally lower than the combined development programmes of KP and FATA for the same period (estimated at about US\$2-2.5 billion⁸⁹). Given the constrained financial resources of the federal and provincial governments, realistically, assistance will be required to meet these needs. Table 4 provides the breakdown of the necessary investments.

Table 8: Aggregate investment in each area of intervention

	US\$ Million	Percent
Governance	75	2.7
Rule of Law	70	2.5
Agriculture and Natural Resources	635	23.0
Non-Farm Economic Development	160	5.8
Education	17	0.6
Infrastructure	952	34.5
Health	34	1.2
Social Protection	786	28.5
Strategic Communications	31	1.1
Total	2,759	100.0

[Note: This table reclassifies US\$ 350 million allocated for provision of free electricity for FATA consumers from infrastructure to social protection.]

Improved governance was identified by PCNA consultations as a major requirement to reduce citizens' dissatisfaction and disengagement with the state institutions in KP and FATA. A series of measures to build the capacity of the governance

⁸⁹ The 2010/11 development budgets of KPKK (PKR 60 billion) and FATA (PKR 8.6 billion) total US\$ 800 million (or 16% of the estimated GDP of KPKK and FATA).

institutions have been identified for which US\$75 million has been allocated; these are designed to restore trust and confidence in state institutions.

To counter the ineffectiveness of formal justice, discriminatory legislation, collective punishment, inability of law enforcement agencies to ensure security and to crush the illicit economy – a critical dimension of the crisis, interventions costing an estimated US\$ 70 million are called for under the Rule of Law component.

These two areas are seminal to overcome the crisis and build a strong constituency of support for peaceful evolutionary improvement and development in these regions. At a cost of \$145 million this represents less than 6% of the total cost of the PCNA. Government must prioritise resource mobilisation from within and if necessary without of its budget to meet this requirement. Without investing in these areas, other recommendations lose most if not all of their peace building value.

Investments in infrastructure and in the agriculture sector will provide the basis for substantially higher and sustained economic growth in the area, which through backward and forward linkages would generate other economic activities. As agriculture is the main source of income for a large segment of local population, improving the productive capacity of the agriculture sector would help considerably in enhancing local livelihood opportunities. Quick revival of agriculture is a high priority: about 23% of the financial resources estimated under the PCNA for revitalisation are earmarked for agricultural development, with the aim of migrating the current subsistence agricultural into commercial agriculture.

The area lacked adequate infrastructure even before the advent of this crisis. By limiting economic activity and contributing to the relative isolation of these areas, this has perpetuated poverty and backwardness. The crisis has made it more difficult to develop local infrastructure and led to destruction or damage of existing structures, further exacerbating the infrastructural shortages. Reflecting the high cost of infrastructure programmes, more than 35% of the cost of the PCNA is attributable to rehabilitation, reconstruction and development of the local infrastructure. Large investments in electricity, roads, water supply and sanitation, along with development of required institutions to maintain and sustain this infrastructure, will give a big boost to the local economy, promoting employment and generating income for the local population.

The area also has very high levels of poverty. This has been exacerbated by the crisis, in turn further increasing public anger and contributing to violence. Investment in infrastructure and agriculture will take time to jump-start the local economy; hence poverty needs to be tackled through strengthening and financing of social safety nets in these areas. Unconditional cash transfers or generating income through public works schemes would not only provide income for economically vulnerable households but, by enhancing aggregate demand, these incomes will provide a growth impetus for the local economy. Assistance to small businesses and

entrepreneurs for employment growth is also needed. Lack of any sustainable source of income makes it difficult for the population, especially FATA, to pay for utilities. Given this, a key short-term measure advocated by the PCNA is to provide free electricity to the local population. Free electricity would not only serve as a “transfer payment” having a direct impact on reducing poverty, but also as an input to help promote economic activity. Considering the size of the displaced population, this programme will need careful management however so that it is not perceived as only delivering benefit to the fortunate people with houses. 29% of PCNA costs are allocated to improving social safety nets.

Finally, as a healthy and educated population is the most effective mode of transiting out of poverty, significant investments are planned in the education (US\$ 17 million) and health (US\$34 million) sectors. It is critical that this state provision of basic services meet public needs and expectations, especially of crisis-affected, excluded and vulnerable groups.

It should be abundantly clear that the value of the different elements in the strategy does not reflect their relative importance. On the contrary, the cost of reform is very manageable and these are desperately needed to bring peace to this region.

5.4 Financial Governance

It is foreseen that a dedicated entity, such as the apex steering committee proposed in Chapter 4 oversee the programmatic and financial linkages between the various platforms and frameworks committing development assistance to this region, and PCNA-related funding allocations. Very robust systems of checks and balances will need to be put in place to mitigate fiduciary risk and to satisfy government, donor and public demands for transparency. This entity should have links to the established MDTF for KP, FATA and parts of Balochistan. An independent oversight and audit entity must also be set up.

The MDTF

The Multi Donor Trust Fund is a coordinated financing mechanism administered by the World Bank for the Government of Pakistan to channel reconstruction, development and peace building funding to FATA, KP and Balochistan. The fund was officially launched in early August 2010; nine donors have so far pledged to commit funding. The Trust Fund will support a comprehensive reconstruction and development strategy designed to restore infrastructure, services and livelihoods while addressing governance and other challenges that contribute to crisis. The strategic priorities of the MDTF will be informed by federal and provincial development plans, DNA and PCNA recommendations. As such, the MDTF plays a very important role in improving coherence, efficiency, transparency and value for money.

The MDTF is also an important tool for PCNA resource mobilisation, although it is not anticipated that it will be the only avenue for external funding.

