



GOVERNMENT OF KHYBER PAKHTUNKHWA

COMMUNITY-DRIVEN LOCAL DEVELOPMENT



A GOVERNANCE FRAMEWORK



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MESSAGE FROM
THE FINANCE
MINISTER

Approval of the Policy on Community Driven Local Development (CDLD) is a milestone in the history of Khyber Pakhtunkhwa. Good governance is a system of collective behaviour that: operates in a transparent manner; is responsive and accountable to its members and clients; and manages collective affairs in such a way that it enhances development opportunities for all, improves efficiency and equity in using common resources, and resolves potential conflicts among various stakeholders.

The Policy will help the government identify needs of the citizens through participative bottom up planning and improve the quality of life of the citizens by engaging them in activities that directly benefit them. This will bring the state closer to and make it more responsive to the citizens.

I am thankful to the officials of the Finance Department for introducing an innovative approach to public financial management and to the European Union Delegation for providing much needed technical support to make it happen.

Engineer Humayun Khan
Finance Minister, Government of Khyber Pakhtunkhwa

FOREWORD BY THE SECRETARY FINANCE

The Government of Khyber Pakhtunkhwa (GoKP) is responding to unprecedented levels of destruction and disruption caused by militancy and civil unrest resulting from the Afghan war and the 2010 monsoon floods. All this resulted in severe loss of infrastructure and the virtual wiping out of the entire economy. The military offensive in spring 2009 to re-establish a functioning State further led to the displacement of some 2.3 million people. Whilst GoKP re-established administrative control over all seven districts of the Malakand Division, the socio-economic situation of approximately 6.3 million inhabitants remains precarious and fragile.

GoKP is seeking to consolidate and stabilize the current transition process with post-crisis measures that aim to overcome the trust deficit with its citizens. Building on a successful provincial budgetary reform programme, GoKP has decided to roll-out its innovative results-based approach to a district focused budget management, governance and community driven development in Malakand Division; later it will be expanded to other districts. The approach entails implementation of a community centric development strategy that will restore and improve frontline public services, as well as create livelihood opportunities in the area.

Over a period of more than ten years, communities in KP at the local level have been organizing themselves into development focused entities and interest groups positioning for various development interventions to further the local social and economic services infrastructure. The government on its part has been more than encouraging in supporting this trend. The Citizens Community Boards under the now defunct Local Government Ordinance, 2001 laid the foundation for institutionalized citizen's involvement in public service delivery, and this window was accessed by many welfare and public service oriented citizens' organizations. In a similar vein, the Government of Khyber Pakhtunkhwa made significant allocations to Parent Teacher Councils to meet the basic requirements in educational institutions.

Execution of local projects through Project Committees in the Tameer-e-Khyber Pakhtunkhwa Programme is yet another example where community organizations are involved in local development. Development partners have also supported these public sector initiatives and have encouraged their partners to work with local communities in executing their work. Various government departments and development entities are now routinely making use of such participatory approaches by working with communities. All major development and rehabilitation efforts by the government and international community in the recent past have been designed around the concepts of mobilization, participation and ownership on the part of local communities. These interventions have generated a palpable momentum of communities organizing for collective action to ensure efficient and effective public services that respond to local needs.

This Framework sets out the key policy parameters and a broad roadmap that will guide the operationalization of the Khyber Pakhtunkhwa CDLD Policy. In view of the nature and peculiar approval requirements, the Framework is divided into two sections. The first section contains the CDLD Policy, which has been approved by the Chief Minister, and the second part relates to the practical guidelines that will guide the process of implementation of the Policy. Part 2 broadly follows the logical implementation steps of the CDLD policy, and inevitably several activities will be taken both sequentially as well as in parallel. These guidelines will be communicated to all stakeholders in greater detail through a series of notifications to be issued by the Finance Department.

In the end I would like to express my gratitude to all stakeholders, within the public sector, development community and civil society, who contributed to the development of this framework and in particular to the EU delegation whose support was critical in bringing to fruition this landmark initiative

Sahibzada Saeed Ahmed
Secretary Finance, Government of Khyber Pakhtunkhwa

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LIST OF ABBREVIATIONS

ADLG	Assistant Director Local Government
AGPR	Accountant General Pakistan Revenues
CCBs	Citizen's Community Boards
CDLD	Community-Driven Local Development
COs	Community Organizations
DAO	District Accounts Office
DC	Deputy Commissioner
DDC	District Development Committee
DFID	Department For International Development
E&SED	Elementary and Secondary Education Department
FTO	Federal Treasury Office
GER	Gross Enrolment Rate
HMCs	Health Management Committies
LGRDD	Local Government and Rural Development Department
LSOs	Local Support Organizations
MDGs	Millennium Development Goals
NGOs	Non-Governmental Organizations
OBB	Output Based Budgeting
P&D	Planning and Development
PCRC	Policy Coordination and Review Committee
PHED	Public Health Engineering Department
SBP	State Bank of Pakistan
UC	Union Council
VOs	Village Organizations

PART I - THE POLICY ON COMMUNITY DRIVEN LOCAL DEVELOPMENT

1.1 Preamble

The GoKP is responding to unprecedented levels of destruction and disruption caused by militancy and civil unrest resulting from the Afghan war and the 2010 monsoon floods. The insurgency spill-over, initially limited to the Federal Administered Tribal Areas along the Afghan border, expanded into Khyber Pakhtunkhwa province by the end of 2007, severely affecting the northern mountainous and predominantly rural areas. The military offensive in spring 2009 to re-establish a functioning state led to the displacement of millions of people, and resulted in severe loss of infrastructure. Large parts of the province were further devastated by flash floods in August 2010, which virtually wiped out entire local economies. While the GoKP has re-established administrative control, the socio-economic situation remains precarious and fragile. There has been limited involvement on the part of local communities in local development in recent years. The contract between the state and its citizens is weak.

The GoKP is seeking to consolidate and stabilise the post-crisis recovery phase through remedial steps that will overcome the trust deficit with its citizens. One critical way it is seeking to accomplish this is the involvement of local communities in development management and public service delivery improvements. In addition to lending credibility to the process through transparency, this is intended to help rebuild the trust of the citizens in state institutions and indirectly help curb militancy in the area. A key instrument in getting to grips with the issue of improving the coverage and quality of service delivery is strengthening public financial management and linking service delivery plans with budgetary allocations. Therefore, building on a successful provincial budgetary reform programme, the GoKP has decided to roll out its innovative results-based approach to district budget management, with the union council (UC) as the unit for development and service delivery planning, ensuring the involvement of communities not just at the budget planning stage but also in execution of small development works and service delivery mandates. The approach is likely to restore and improve the quality of front-line public service delivery, as well as create livelihood opportunities.

This Policy not only demonstrates the government's commitment to achieving its development objectives but also provides guidance to the relevant provincial departments, local governments, non-governmental organisations (NGOs), community-based organisations (CBOs), development partners and other actors working in the field on local service delivery improvements.

The Policy complements, and will be implemented in conjunction with, the Output-Based Budgeting (OBB) initiative and other related policies of the governments of Pakistan and Khyber Pakhtunkhwa that aim to improve local service delivery and the quality of life of the people of Khyber Pakhtunkhwa. The implementation of the policy will be piloted in the six districts of Malakand Division (Swat, Shangla, Malakand, Lower Dir, Upper Dir and Chitral) and will, over time, be extended to the other districts of the province. In addition, the policy is expected to provide an institutional basis for the service delivery improvement initiatives under the forthcoming Sub-National Governance Programme, a programme supported by the UK's Department for International Development (DFID) and focused on an additional six districts in the province.

1.1.1 Present situation in Khyber Pakhtunkhwa

During recent years, there has been minimal support for community involvement in local development initiatives using public funds. There has, however, been local community infrastructure development initiatives funded directly by donors, international NGOs and/or financed through projects with external financial support. Inadequate, poorly maintained and dilapidated infrastructure, as well as serious flaws in the delivery of services, can be witnessed throughout the province, more so in the rural UCs than in urban areas. In the last decade (2002/03 to 2012/13), the District Annual Development Plans have only amounted to 3.9 % of the Provincial Annual Development Plan¹, grossing to an average of approximately Rs. 54.52 million per district per year. In general, the lion's share of the entire district annual budget (95–97%) goes on recurrent expenses and only 2–5% is allocated to local development. The unsatisfactory progress on some basic Millennium Development Goal (MDG) indicators, hereinafter quoted, calls for serious efforts by policymakers to take immediate steps for the improvement of service delivery. According to the 2010/11 Pakistan Social and Living Standards Measurement Survey, the gross enrolment rate (GER) in primary education in Khyber Pakhtunkhwa is 89% as compared to the 92% for Pakistan. This places Khyber Pakhtunkhwa in second place, below only Punjab at 98%; however, the net enrolment rate, which is generally considered a more accurate measure of education prevalence than the GER, is only 51%. Despite the increased budgetary allocation to education, the literacy rate in Khyber Pakhtunkhwa is only 50%, which is well below that of Pakistan at 58%. Adult literacy is another major issue for the province, with only 46% of adults being literate compared to 55% in Pakistan.

Improvements in immunisation rates in Khyber Pakhtunkhwa need considerable efforts to be brought closer to the MDG target of over 90% of children fully immunised by 2015. Currently, this value stands at 77%. The private sector currently provides more health services than the public sector. The mortality rate for children under five years of age in Khyber Pakhtunkhwa is about 100 per thousand². This is mostly because of the poor rates of antenatal and postnatal care, which reach only 46.5% and 13% of the population respectively. There is a great need to increase access to health facilities in Khyber Pakhtunkhwa as currently the average distance to the nearest health facility is 9.4 km. This access situation is approximately three times worse in rural areas than in urban areas. A point of comparison is the average distance to the nearest education facility, which is only 3.4 km.

The availability of clean drinking water and a sanitary environment are basic prerequisites for improved health of the people. There is a significant gap in the availability of drinking water in urban and rural areas, with only 71% of the population in rural areas having access to an improved source of drinking water compared to 92% in urban areas.

The militancy and years of insurgency and conflict since 2006/07, followed by catastrophic floods in the province, have caused a huge loss in the already meagre infrastructure and thus a major rehabilitation and rebuilding effort is needed. The GoKP, in its quest for improved public service delivery, unveiled its Integrated Public Financial Management Reform Strategy during 2011/12, the first

¹Source: Planning and Development Department, GoKP

²Multiple Indicators Cluster Survey 2008

ever in Pakistan. This strategy builds on the objectives of the financial management reforms approved by the province and takes into account the findings of the Public Expenditure Financial Accountability Assessment and the Fiduciary Risk Assessment. During the fiscal year 2011/12, the provincial government, with the assistance of DFID, extended OBB to the district level with the introduction of District Conditional Grants through involvement of local communities.

It is in this context that the province has embarked on a policy to involve ordinary citizens in its efforts to improve these front-line public services and in the process tap into their boundless potential. This CDLD Policy is premised on the belief that, given the right policy environment and access to resources and information, ordinary citizens have the potential to prioritise their needs, and to find and implement appropriate and sustainable solutions.

1.2 Goal and objectives

Goal:

The overall goal of the Khyber Pakhtunkhwa CDLD Policy is to achieve a sustainable improvement in the coverage and quality of front-line public service delivery through the active involvement of local communities.

Objectives:

The Policy has been developed to achieve the following three objectives:

- 1) Put in place a fiscal and regulatory framework for CDLD where local communities are in charge of executing local development/service delivery initiatives;
- 2) Build the capacity of the relevant public sector entities and functionaries at the district level to operationalise CDLD; and
- 3) Provide an enabling environment for CBOs to access public funds earmarked for CDLD initiatives.

1.2.1 Salient features of the policy

The salient features of the policy under its three key objectives are as follows.

1.2.1.1 Regulatory framework for the CDLD Policy

Key features of the regulatory framework that will guide the implementation of the CDLD Policy include:

- i. Earmarking of funds, on the basis of approved criteria, in annual budgets using an OBB approach, for execution of local public service delivery initiatives through CBOs;
- ii. Laying down of the eligibility criteria for CBOs that can have access to such earmarked public funds;
- iii. Laying down of the criteria to be used by the districts for competitive selection of proposals submitted by CBOs for execution of public service delivery initiatives;

- iv. Laying down of procedures for financing of such community-led development projects; and
- v. Laying down of the monitoring and evaluation (M&E) protocols, including provision for third-party audit and third-party validations of community-executed initiatives.

1.2.1. 2 Capacity of the public sector to operationalise the CDLD Policy

Key steps in this regard will include:

- i. Empowering concerned district offices, officials and forums with the necessary authority for efficient decision making under the CDLD framework; and
- ii. Providing relevant district offices with the needed resources and training to operationalise the CDLD framework.

1.2.1.3 Enabling environment for the CBOs to access public funds for CDLD initiatives

Key features of this component will include:

- i. Supporting communities, at the UC, sub-UC and supra-UC levels, to organise, register under the appropriate law, articulate their demands, plan and develop investment proposals for service delivery, bid for public sector funds under this policy, and to build capacity to execute and maintain the infrastructure/services; and
- ii. Making changes as necessary in the relevant regulations/procedures to facilitate community-based action for front-line service delivery.

1.3 Policy principles and guidelines

The Policy shall be guided by the following principles:

Community involvement in decision making and execution of development initiatives:

Local development initiatives will be carried out through community involvement and participation in all phases of the development cycle, making sure that conflicts of interest are identified and mitigating measures put in place.

Transparency, accountability and responsiveness: To be ensured in managing local development in such a way that development opportunities are enhanced for all, efficiency and equity in using common resources is improved, and potential conflicts among stakeholders, including among the line departments and communities, are resolved.

Subsidiarity: All decisions related to local development are made at the lowest competent level, starting from the community/village and the UC level. The same principle will be observed, consistent with the rules, for decision making within public sector entities.

Inclusiveness: The dominant elite's potentially positive role in the community will be mobilised, while at the same time preventing unacceptable levels of elite dominance and undue resource and benefits' capture.

1.4 M&E

The Finance Department, with the assistance of concerned line departments and agencies, will develop an M&E Framework that will provide a robust mechanism for integrated monitoring, learning and reporting of the CDLD Policy's implementation in Khyber Pakhtunkhwa. The M&E Framework will measure progress in achieving policy goals and allow corrective adjustments where implementation appears to be off-track and/or there are changes in community demands. This M&E mechanism will monitor what worked and did not work well, and will identify how to overcome any identified constraints. In addition, it will identify CDLD best practices and allow recommendations on scaling up to be made.

The M&E Framework will: a) cover provincial service delivery under departmental OBB and will monitor related key performance indicators and annual targets set by line departments; and b) cover projects implemented under the CDLD Policy, including intra-UC projects and inter-UC projects. It should be noted that many of the inter-UC projects will be relatively large-scale initiatives and implemented in collaboration with the line departments.

An independent third-party consulting firm will be hired by the government for continual validation of the projects carried out under CDLD grants, in order to ensure that the money has actually been spent on approved investments/activities. The evaluation of the CDLD interventions will be carried out using the following internationally recognised criteria: i) relevance and appropriateness; ii) connectedness and partnering with similar initiatives; iii) coverage and outreach to the target group; iv) time and cost efficiencies; v) effectiveness in terms of the quality of results achieved; vi) operational coordination to ensure maximum impact; and vii) sustainability and wider effects on communities and institutions.

The M&E Framework will be embedded in the government systems with the office of the Deputy Commissioner (DC) as the linchpin; it will be closely linked with the office of the Director General M&E in the Planning & Development (P&D) Department and in the Commissioner Office. In addition to the quarterly and annual reporting, this mechanism will ensure a regular flow of information, especially using the secretaries of the UCs and other specially assigned staff.

1.5 Audit

Continuous financial and performance audit of the overall intervention and related systems and processes shall be conducted by an auditing firm chosen from the list of approved Category A audit firms maintained by the State Bank of Pakistan (SBP). This

audit, commissioned by the Finance Department, will exempt the CDLD interventions from audit by the Auditor General of Pakistan.

1.6 Timeline

The government shall develop the CDLD framework and mainstream its implementation through the budget for FY 2013/14.

1.7 Policy review and redress of anomalies

The Finance Department of the GoKP will review the CDLD Policy after two/three years and course-correct in the light of experiences and feedback from provincial departments, local governments, CBOs, and other stakeholders.

Difficulties and issues arising out of the implementation of the provisions of this policy will be resolved by the Finance Department.

PART II - INDICATIVE IMPLEMENTATION ROADMAP

The following arrangements serve as guidance for the implementation of the approved CDLD Policy. This guidance is not in derogation of either the authority or the responsibility of the Finance Department, which shall in due course notify each of these institutional mechanisms in line with the spirit of the approved CDLD Policy.

2.1 Institutional framework

The following key institutional arrangements will need to be in place for the operationalisation of the CDLD Policy and the Finance Department of the GoKP will notify these arrangements in accordance with the Policy.

2.1.1 Policy Coordination and Review Committee (PCRC)

The PCRC will be responsible for overall guidance on the operationalisation of the CDLD Policy and for reviewing the progress of its implementation, as well as for making recommendations on the refinement of policy parameters. The Committee will consist of the following members:

- a) Secretary Finance, GoKP (Chairman)
- b) Secretary Planning and Development
- c) Secretary Local Government and Rural Development Department (LGRDD)
- d) Secretary Social Welfare
- e) Secretary Education
- f) Secretary Health
- g) Secretary Public Health and Engineering Department (PHED)
- h) Director General LGRDD
- i) Commissioner Malakand Division
- j) Two members from civil society

In addition, the Committee may co-opt a development partner as a member depending on the nature of the business concerned.

The PCRC will meet at least four times or more per year and be in quorum if at least four secretaries/nominees not below the rank of Deputy Secretary are present. The Committee shall have the following terms of reference:

- i. Advise on the scope of the CDLD Policy in terms of eligible sectors and define eligible investments within the identified sectors;
- ii. Advise on the size of the budget allocation for financing CDLD activities, including any anticipated funding from development partners;
- iii. Help explore the possibility of improving the overall fiscal space for expanding CDLD activities into additional districts;

- iv. Advise on the fund-sharing formula among the districts. In the case of funds received/to be received as part of financing agreement with development partners, this will involve taking into account the commitments made under such agreement or agreements (which are expected to usually be with respect to the geographic and/or sector focus);
- v. Periodically review the CDLD governance and institutional arrangements, including the eligibility and proposal evaluation criteria, and advise on improvements for efficient and effective attainment of the CDLD Policy's objectives;
- vi. Explore the possibilities and institutional mechanisms for integrating CDLD service delivery through the local councils created under the Local Government Act 2012;
- vii. Review the financial and non-financial progress of CDLD initiatives, and assess the impact of the CDLD Policy;
- viii. Receive, review and recommend action on continuous audit and third-party validation reports, also ensuring that the concerned authorities take appropriate actions based on the recommendations.

2.1.2 CDLD Coordination Unit

The OBB Coordination Unit in the Finance Department shall also act as the CDLD Coordination Unit; it will provide a secretariat to the PCRC and monitor and coordinate the CDLD Policy's implementation. The Unit will meet on a fortnightly basis, calling in relevant DCs and departmental representatives for discussions as appropriate. The composition of the CDLD Coordination Unit is as follows:

- a. Additional Secretary Finance (Budget)
- b. Deputy Secretary (Budget-IV)
- c. Deputy Secretary (Local Councils Finance Commission)
- d. Deputy Director (Financial Management Information Unit)
- e. Two Monitoring/Budget Officers
- f. Representatives, not below the rank of deputy secretaries/section chief, from the P&D Department, Elementary and Secondary Education Department (E&SED), Health Department, LGRDD and PHED

The terms of reference for the CDLD Coordination Unit with respect to the CDLD Policy will be to:

- i. Coordinate with the relevant departments and field administrations for the smooth implementation of the CDLD Policy;

- ii. Prepare an agenda, working papers and concept notes for discussion in the PCRC;
- iii. Ensure that CDLD planning and monitoring is embedded as part of the OBB reforms;
- iv. Maintain a database on the CDLD Policy, CDLD best practices, CDLD initiatives, and financial and non-financial progress;
- v. Provide technical guidance to line departments, field administrations, and civil society organisations;
- vi. Prepare terms of reference and process recruitment of firms for the third-party audit and third-party validation;
- vii. Provide information on the CDLD Policy to departments, civil society and development partners; and
- viii. Randomly review the release of funds against the list of proposals approved by the District Development Committees (DDCs), so as to ensure their consistency with overall policy objectives on CDLD.

2.1.3 DDCs

At the district level, there will be a DDC, headed by the DC, which shall be responsible for the implementation of the CDLD Policy within the district. The DDC quorum will require the presence of at least five members, and additionally one officer (either the Assistant Director Local Government (ADLG) or the DO F&P) must also be present. The DDC will meet once every month or more frequently if required, and shall consist of the following members:

- a. DC (Chairman)
- b. ADLG (Secretary)
- c. District Officer Finance and Planning
- d. District Officers of Education and Health
- e. Assistant Director Social Welfare
- f. Executive Engineer Communication and Works Department
- g. Executive Engineer PHED
- h. Chief Officers of the District Council and Municipal Committee(s)
- i. Two members of civil society organisations

The DDC's terms of reference will include the following:

- i. Holding at least one district pre-budget consultation;
- ii. Approving the district development plans, which must at a minimum cover the sectors included in the CDLD Policy;
- iii. Reviewing and approving (or rejecting) the concepts submitted by CBOs for further development into fully developed and costed proposals;
- iv. While the funds shall not be earmarked for each of the UCs and will be available on a competitive basis, ensure a general equity in financing projects among the UCs over the medium term;
- v. Reviewing and approving (or returning for improvement or rejecting) the fully developed and costed proposals submitted by the CBOs that have been technically evaluated by the district office of the concerned line department; and
- vi. Reviewing the progress of the approved CDLD initiatives and taking remedial measures if and when warranted.

In addition, the office of the DC, assisted by the ADLG, shall take all necessary measures for ensuring implementation of the CDLD Policy in letter and spirit. In this regard, and among other tasks, it will take the following steps:

- i. Invite project concepts in prescribed formats from CBOs in approved sectors and themes for consideration for funding under the CDLD Policy;
- ii. Inform CBOs about the decision of the DDC on the submitted project concepts, and advise successful CBOs to submit detailed project proposals with budgets along with any other instructions issued by the DDC;
- iii. Submit all project proposals duly approved by the DDC to the CDLD Coordination Unit in the Finance Department for a random review as per the parameters of the CDLD Policy;
- iv. Enter into a contractual agreement using a prescribed format with the CBOs whose detailed project proposals have been approved by the DDC, clearly indicating the funds to be advanced, and clearly marking the milestones which will trigger the release of the balance of funds in one or more installments as appropriate;
- v. Release the advance tranche to the bank account of successful CBOs upon signing of the contract, and then make subsequent releases upon the CBO successfully reaching the milestones as agreed in the contract;

- vi. Widely disseminate information on the CDLD Policy and related concepts among stakeholders to achieve a common understanding of the approaches to and expected results of the policy;
- vii. Involve all stakeholders in and ensure support from the departments to CBOs, where needed, in designing, planning and executing the projects;
- viii. Provide feedback to the Finance Department and other provincial departments on the status of implementation of sector plans as they relate to CDLD initiatives;
- ix. Actively coordinate with the civil society organisations engaged in CDLD activities;
- x. Ensure smooth implementation of the CDLD framework and remove bottlenecks as and when they arise; and
- xi. Monitor implementation of the programme, including through the district offices of the line departments and the secretaries of UCs.

The diagram on the next page shows the sequence of activities in the implementation of CDLD.

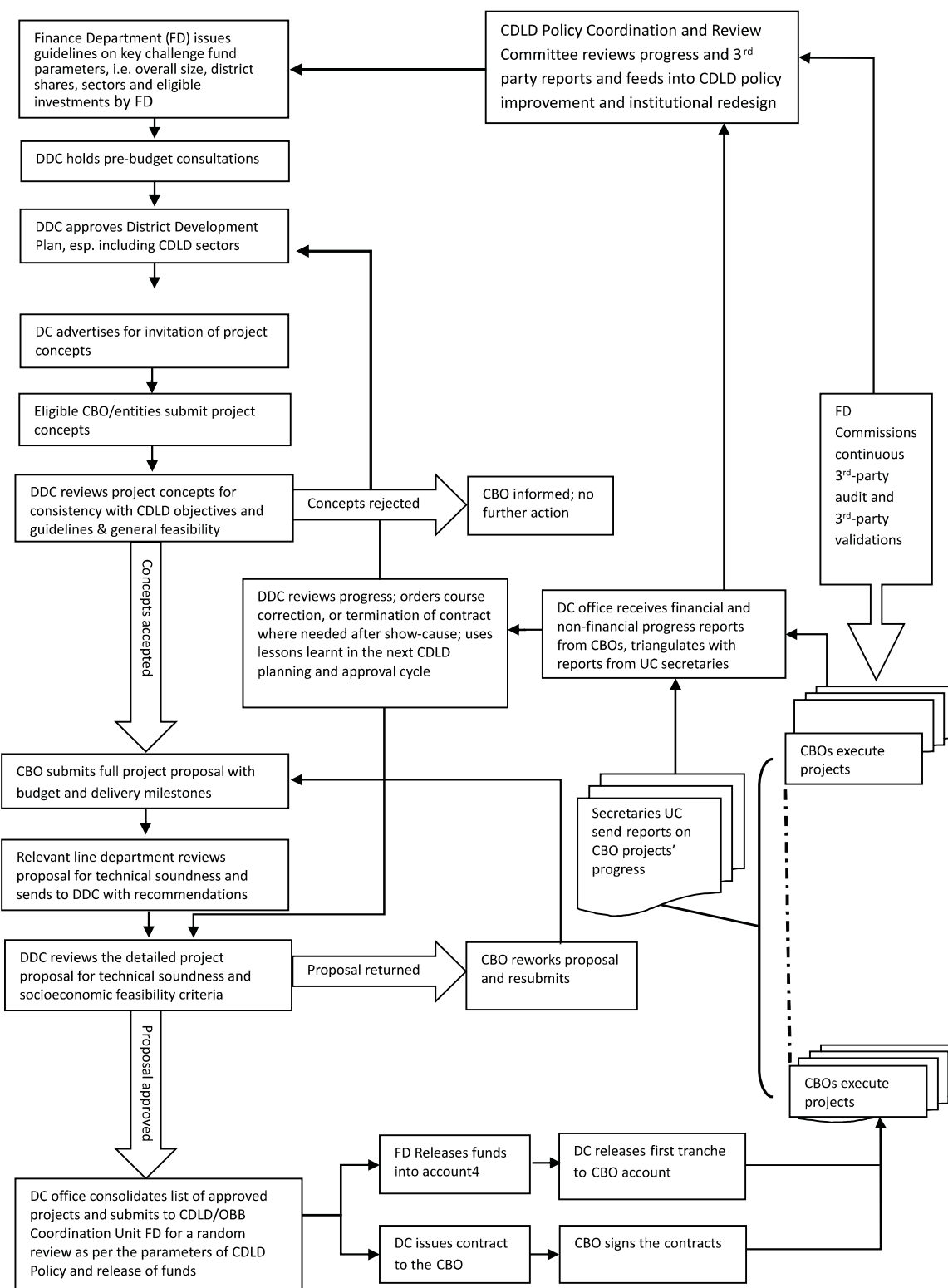


Figure 1. Sequence of activities in implementation of CDLD

2.2 Eligibility criteria for participating CBOs

The Finance Department will issue notifications clarifying the exact eligibility criteria for organisations that can participate in the CDLD activities funded under this policy. However, the following types of organisations will be covered, provided these also meet the criteria given in the next paragraphs: Community Organisations (COs), Village Organisations (VOs), Local Support Organisations (LSOs), CCBs, Farmers Cooperatives, Parent Teacher Councils, Health Management Committees (HMCs), and all other organisations which consist of the local/beneficiary communities and are membership based. The territorial unit of reference for such organisations will be the UC, and it is expected that these will represent all three tiers of organisation – i) sub-UC level; ii) UC level; and iii) supra-UC level – for dealing with community issues representative of their respective level.

The minimum eligibility criteria shall require that the organisation:

- i. Is membership based, registered under local laws or with a local authority and has successfully participated in a social mobilisation programme;
- ii. Maintains its books of accounts showing all incomes, expenses, assets and liabilities, and undergoes a recognised annual audit through at least a Category B audit firm as defined by the SBP;
- iii. Has a bank account, a demonstrated ability to manage project accounts, and has preferably received training in project/project account management;
- iv. Has established all relevant project management committees and a transparent discussion/reporting system and prepares accurate minutes of all meetings;
- v. Commits that all construction projects will also be overseen by the management committees;
- vi. Agrees to develop project plans that are consistent with OBB;
- vii. Agrees to all audit requirements; and
- viii. Is willing to bid for funds on a competitive basis.

2.3 Selection of investment proposals

A major feature of the CDLD Policy will be the budgetary allocation of funds for the districts using Account IV, which will be managed at the district level by the DDC headed by the DC³. Once the Policy is implemented, the CDLD Fund will be in a position to award grants to CBOs on a competitive basis to help them fund small-scale viable

³Many development projects deliver technical advice but not the necessary financial support that will help the beneficiary to apply the advice offered. The creation of institutionalised grants under CDLD Policy will help: (a) beneficiaries to know there is a potential source of finance with which to help them fund viable small-scale investments; and (b) donors to recognise that the CDLD Policy is not just a paper exercise that is devoid of financial support. Experience of grants for CDLD-related activities does exist currently in Pakistan, e.g. in relation to DFID-supported activities under Khyber Pakhtunkhwa Provincial Reform Programme.

socio-economic investments in the short term. Projects to be financed under the Policy are likely to be pilot activities with the potential to be of district-wide importance. The generic eligibility and assessment criteria for the Concept Notes stage are summarised below:

	Applicant (CBO)	Concept
Eligibility	<ul style="list-style-type: none"> ■ Has a legal form as announced in the eligibility criteria ■ Is a going concern registered and licenced to provide the product or services outlined in the concept ■ Has appropriate reach in the UCs where the work is to be done ■ Meets any additional criteria set by the DDC 	<ul style="list-style-type: none"> ■ Addresses the priorities announced in the DDC advertisement ■ Is innovative ■ Can be completed within one year ■ Does not contravene legal and regulatory requirements (including environmental requirements) ■ Meets any additional criteria set by the government
Assessment	<ul style="list-style-type: none"> ■ Has the management capacity to implement the investment project successfully (after any necessary training) ■ Is a solvent entity ■ Has the capacity (or will develop the capacity) to implement the project successfully 	<ul style="list-style-type: none"> ■ Will lead to a product or service that is relevant, accessible and affordable to the target beneficiaries ■ Will produce direct tangible benefits to the target beneficiaries, as well as indirect benefits to the district generally

A standard full grant application, among others, will include:

- i. Applicant details;
- ii. Description of the applicant's relevant experience;
- iii. A detailed description of the proposed grant-funded project;
- iv. Financial information, including project budget and work plan with main tasks and expected milestones;
- v. Key performance targets;
- vi. Future sustainability strategy; and
- vii. Key project risks.

2.4 Proposal processing under CDLD

A one-window operation will be established in the office of the DC. Once proposals are received, the ADLG will certify that the organisation meets the minimum eligibility criteria. The decision will be taken within three days of receipt of the proposal.

The designated person/s in the ADLG office will review the submitted application with respect to its completeness. All applications will be given a unique number and entered into a database. The database will be maintained in the ADLG office. In this regard, technical assistance may also be provided. This review will consist of ensuring the completeness of the information required in the form and provision of all required support documents. In order to reduce the time and effort involved in processing, it is important that all information required from the applicant is collected at the applicant review stage. Following the review, completed application forms will be entered into the database. Any organisation submitting an incomplete application will be requested to provide the missing information. This request may be made through face-to-face interaction at the time of reviewing the forms or through a telephone message. The applicant should also be informed formally using a letter sent to the provided address and requesting them to provide the missing information within 30 days. If the missing information is provided within 30 days of the dispatch of the letter, the application is considered complete and is entered into the database. However, if the office does not receive the missing information within 30 days, the application is rejected. If the applicant comes back after 30 days with the required information, the application will be treated as a new application and thus as the last application in the queue.

2.4.1 Evaluation of proposals

The proposals will be grouped in sectors and forwarded for technical evaluation to the relevant district officials. Proposals related to health will be evaluated by the District Officer Health, for primary education by the District Officer E&SED, water supply and sanitation works by the Executive Engineer PHED and so on. The technical adequacy and financial soundness of the proposals will be assessed through the application of a transparent process. The District Officer or concerned district official will focus on some essential components of the proposals. The evaluation criteria and procedures for the assessment of proposals shall be communicated using a detailed notification. It will be ensured that technical evaluation of the proposal does not take more than 15 days to be completed.

2.4.2 Review and approval by the DDC

All evaluated proposals with rankings will be discussed by the DDC and those considered as fitting into the prioritised scheme and within budget will be considered for implementation. The DDC will meet at least once every month, although it may be convened earlier if a minimum of ten cases are available for review by the DDC.

The ADLG as secretary of the Committee will present the cases that have been evaluated by the respective district officers for a final decision. All relevant information will be provided to the members of the Committee at least four days in advance of the meeting. All applicants that are rejected will be provided with a reason and the concerned CBO will be informed of the decision along with the

reason for rejection by the ADLG. Unsuccessful CBOs will be able to seek redress through an appeal to the Commissioner but this route will be available only if the basis of appeal is the non-observance of the prescribed procedure or the non-consideration of material facts related to their application by the DDC. Applicants who provide deliberately incorrect information or misrepresent facts will be debarred from consideration in future.

Organisations selected for CDLD funding will be provided with complete information on the relevant rules, including performance milestones, flow of funds, monitoring, and audit and third-party validation requirements. For this purpose, a help desk will be established in the office of the ADLG. A formal contract stipulating all these parameters will be signed between the selected CBO and the DC.

2.5 Policy financing and the fund flow and accounting treatment

Financing: The GoKP will finance the CDLD Policy through regular budgetary allocations which will be progressively increased over time, and any donor funds shall be added to the same budget line item. In appropriate cases, further markers shall be placed in the accounting system to enable tracking of funds from particular sources.

Fund flow and accounting: The following fund flow and accounting procedures are premised on the principles of transparency, predictability, timeliness, integration with regular budget and financial reporting processes, and are intended to support the overall efficiency and effectiveness of initiatives under the policy.

Each year, based on the government allocation for CDLD initiatives and the estimated receipts of foreign assistance for the purpose, the Finance Department will prepare a budget for the following year; the allocation for the CDLD initiatives is to be a one-line allocation. After approval of the budget by the provincial assembly, the Additional Secretary Provincial Finance Commission will process the allocation of funds to each district on the basis of a pre-determined formula.

The following description covers the funds transfer procedure in the case of foreign assistance to CDLD initiatives:

Government of Pakistan Federal Consolidated Fund (Federal Account – I)

1. Upon receipt of funds from foreign assistance, the SBP Karachi will credit it to the Federal Account – I.

The Accounting Entry in the books of SBP Karachi shall be:

Debit	Cash
Credit	Federal Account – I

2. The SBP Karachi will issue credit intimation to the Federal Treasury Office (FTO)/Accountant General Pakistan Revenues (AGPR)

The Accounting Entry in the books of AGPR shall be:

Debit	(F01101) Balance with SBP – Non-Food Account
Credit	(C03601) Foreign Grants – Development Grants from Foreign Governments

3. Release of grant received by Ministry of Finance/Economic Affairs Division to the GoKP and concurrent maintenance of the records of disbursements.
4. The Ministry of Finance/Economic Affairs Division will issue a formal sanction/advice to the SBP Karachi for transfer of funds from Federal Account – I to Provincial Account – I, under intimation to FTO, AGPR and Finance Department of the GoKP.
5. The SBP Karachi will accordingly credit the grant money to Provincial Account – I per contra debit to Federal Account – I and will issue debit intimation to FTO/AGPR and credit intimation to AG Khyber Pakhtunkhwa.

The Accounting Entry in the books of SBP Karachi shall be:

Debit	Federal Account – I
Credit	Provincial Account – I

6. Upon receipt of the debit intimation from SBP Karachi the O/o AGPR will charge the amount to its respective head of account as per the budget against the fund centre/cost centre created for the purpose.

The Accounting Entry in the books of AGPR shall be:

Debit	(014101) – To provinces (xxxxxx) – Fund centre/Cost centre (A05202) – To provincial governments
Credit	(F01101) Balance with SBP – Non-Food Account

GoKP Provincial Consolidated Fund (Provincial Account – I)

7. Upon receipt of the credit intimation from the SBP duly intimated to Finance Department, the AG Khyber Pakhtunkhwa will affect the transaction in its books of accounts.

The Accounting Entry in the books of AG Khyber Pakhtunkhwa shall be:

Debit	(F01101) Balance with SBP – Non-Food Account
Credit	(C03601) Foreign Grants – Development Grants from Foreign Governments

8. The GoKP Finance Department will earmark funds received from foreign assistance and its own allocation in its annual budget. These funds shall be budgeted under the Grant of Finance Department having the following classification as per the Chart of Accounts:

Entity Element:	N0602 – Finance Department, GoKP Secretary Office
Functional Classification:	014110 – Others (Grants)
Object Classification:	A05270 – Grants Domestic, To Others
Fund Element:	NC21... – KP Consolidated Fund, Met from revenue, Voted Current Expenditure

9. The Finance Department shall notify the AG Khyber Pakhtunkhwa to direct the District Accounts Offices (DAOs) regarding the inclusion of the

description to the object head A05270 against the remarks column/field in SAP R/3 as "**Grants for Community-Driven Local Development Domestic or Foreign**". All entries made to this object head must invariably include this description as a mandatory field, to allow for the segregation and reporting of funds allocated for this initiative.

10. The GoKP Finance Department will issue advice to the SBP for transferring the funds from Provincial Account – I to District Account IV (or any other such account maintained with the SBP). In cases where the funds are operated from Provincial Account – I, provisions contained in Para 11 and 15 below will not apply.
11. The SBP will accordingly issue the debit intimation to the AG Khyber Pakhtunkhwa and credit intimation to DCs and DAOs.

The Accounting Entry in the books of SBP shall be:

Debit	Provincial Account – I
Credit	District Account – IV/Relevant Account

12. At this stage, the Finance Department will issue the necessary sanction to the DCs of respective districts for the release of funds as "**Grants for Community-Driven Local Development**" under intimation to the O/o AG Khyber Pakhtunkhwa. This sanction will show the breakdown of the release from grants received from foreign assistance and the government's own share.
13. The issuance of the sanction referred to in Para-12 above shall be subject to the condition that a consolidated lists of proposals, consistent with the overall objectives of the CDLD Policy, and duly approved by the DDCs, are received by the Finance Department.

The Accounting Entry in the books of AG Khyber Pakhtunkhwa shall be:

Debit	(014110) – Others (Grants)
	(xxxxxx) – Fund centre/Cost centre (Block Allocation)
	(A05270) – Grants Domestic, To Others
Credit	(F01101) Balance with SBP – Non-Food Account

14. The Finance Department and AG KP shall be responsible for creating fund centres/cost centres in the SAP R/3 system, for which the DCs shall be the Drawing & Disbursing Officers. The nomenclature of the fund centres/cost centres shall include "**Grants for Community-Driven Local Development**" to facilitate the generation of budget execution reports for the initiative.

District Account IV/Relevant Account

15. Upon receipt of credit intimation from the SBP, the respective DAO/AG will update its books of accounts with the following Accounting Entry:

Debit	(F01101) Balance with SBP – Non-Food Account
Credit	(C03612) Special Grants from Provinces (Conditional)

16. The subject funds shall be sanctioned/released by the respective DCs directly to the bank accounts of the successful CBOs, by drawing simple receipt bills through the DAOs.
17. The DAOs upon making payment against the budgetary allocation to CBOs through direct credit to their bank accounts will pass the following entry in their books of accounts:

Debit	(014110) – Others (Grants) (xxxxxx) – Fund centre/Cost centre (A05270) – Grants Domestic, To Others
Credit	(F01101) Balance with SBP – Non-Food Account

Timelines for fund transfer/release:

1. Release/Sanction of Funds by Finance Department to DCs	Within five working days of the receipt of consolidated list of proposals duly approved by DDCs
2. Release/Sanction of Funds by DCs	Within three working days of the receipt of Sanction/Release from Finance Department
3. Transfer of funds through Direct Credit to the bank accounts of CBOs by DAOs	Within seven working days of the receipt of simple receipt bills from the DCs

Release of funds:

Release of 1st tranche upon approval of the proposals	50% of the total cost of proposal
Release of 2nd tranche upon full completion or near to completion of the schemes	50% of the total cost of proposal

2.6 Grant execution and grievance redress

The grant money will be used in accordance with the terms of the contract signed between the DC and the CBO. Some organisations may require technical guidance and in such cases they are to engage with the relevant line department for any technical back guidance, which the department will make available.

COs receiving finances out of the CDLD Fund shall maintain proper accounts of receipts and expenditures for the third-party audit to be commissioned by the Finance Department.

Grievance redress system: The Commissioner of the Division shall establish an effective mechanism for receipt, processing and disposal of complaints related to any aspect of the management of the CDLD grants. He/she shall notify and widely publicise a detailed

grievance redress procedure, with contact details of the officials (name, designation, phone/mobile number, email and postal address, etc.) to be contacted. All complaints received shall be given a unique number, registered in the database and promptly acted on, and a periodic progress on redress will be reviewed by the Commissioner, with a quarterly return to be submitted to the PCRC.

2.7 M&E

The Finance Department, with the assistance of concerned line departments and agencies, will develop an M&E Framework that will provide a robust mechanism for integrated monitoring, learning and reporting of the CDLD Policy's implementation in Khyber Pakhtunkhwa. The M&E Framework will measure progress in achieving policy goals and allow corrective adjustments where implementation appears to be off-track and/or there are changes in community demands. This M&E mechanism will monitor what worked and did not work well and will identify how to overcome any identified constraints. In addition, it will identify CDLD best practices and make recommendations on scaling up.

The M&E Framework will cover: a) the provincial service delivery under departmental OBB and will monitor related key performance indicators and annual targets set by line departments; and b) projects implemented under the CDLD Policy, including the intra-UC projects and inter-UC projects. As noted in Part 1, many of the inter-UC projects will be relatively large-scale initiatives and implemented in collaboration with the line departments.

An independent third-party consulting firm will be hired by government for continual validation of the projects carried out under CDLD grants, to ensure that the money has actually been spent on approved investments/activities. The evaluation of the CDLD interventions will be carried out using the following internationally recognised criteria: i) relevance and appropriateness; ii) connectedness and partnering with similar initiatives; iii) coverage and outreach to the target group; iv) time and cost efficiencies; v) effectiveness in terms of the quality of results achieved; vi) operational coordination to ensure maximum impact; and vii) sustainability and wider effects on communities and institutions.

Keeping in view the priority themes of the M&E Framework, quarterly and annual M&E reports will be prepared by the participating departments and organisations. All such M&E reports for the priority sectors and districts will be compiled and disseminated at the level of the Finance Department's CDLD Coordination Unit. All monitoring data/information reported under the M&E Framework will be gender disaggregated in order to assess how the CDLD Policy is affecting both sexes.

The strategic monitoring of the CDLD Policy implementation will be carried out annually by the Finance Department OBB/CDLD Coordination Unit with the help of participating government departments, divisional monitoring teams working under commissioners, and selected CBOs. For this purpose, provincial OBB service delivery and area-based indicators will be employed for the priority sectors.

Intervention-level reporting on the CDLD Policy implementation – through government departments and other partner entities – will be compiled on a quarterly basis by the CDLD/OBB Coordination Unit. The DDC, headed by the DC, will submit quarterly district

reports to the CDLD/OBB Coordination Unit. The ADLG will maintain updated lists of all inter- and intra-UC projects funded under the CDLD challenge grant, and will support the DDC in reporting to the Finance Department. The Secretary UC will be responsible for submitting monthly and quarterly progress reports to the ADLG on all intra-UC level projects executed by the CBOs under the CDLD Policy. The Secretary UC will also actively engage with community beneficiaries and provide their feedback through quarterly reports using a simple format agreed at the time of the awarding of the contract. The progress reports prepared at the provincial, district and UC tiers will be continuously validated and also evaluated, on a sample basis, by independent third-parties hired by the Finance Department. The validation and evaluation results will be summarised in the relevant quarterly and each annual M&E reports, which will be shared with all stakeholders.

2.7.1 Compliance and course correction

The following institutional mechanisms will be operationalised by the GoKP for continuous review, learning and course correction of the CDLD Policy implementation in Khyber Pakhtunkhwa:

- a) **UC Level** – The Secretary UC will monitor and report on the progress of CDLD projects being implemented by the CBOs (for intra-UC-level projects) on a monthly and quarterly basis. He/she will be entitled to seek clarifications from the relevant CBOs, if needed. He/she may also be used to validate – partly or in full – the projects' progress on behalf of the Divisional Monitoring Team. In appropriate cases, the Secretary UC may recommend an enquiry into the execution of a CDLD scheme, which will be reviewed and decided upon by the DC. In the case of an adverse report, the DC may stop further release of funds to the concerned CBO and inform the CDLD/OBB Coordination Unit; he/she will also institute other appropriate remedial/corrective action. However, care shall be taken to ensure that frivolous reporting is not used to interrupt a particular CBO's work; the Secretary UC, in all such adverse recommendations, must personally verify the facts before reporting the matter to the DC.
- b) **District Level** – DDC meetings will review the progress of all CDLD projects, focusing on the Inter-UC projects on a quarterly basis, and in case of any issues/serious performance lapse will assign a District Officer to determine the cause and recommend any necessary remedial action. The DC, in serious cases, will constitute an inquiry committee, which may include members of the divisional monitoring team, relevant district department and representatives of civil society who are not directly affected by the project in question. The DDC will have similar authority to stop the release of funds to the concerned executants' CBO on poor performance, for false reporting or for persistently failing to incorporate the M&E recommendations in order to improve project results/outputs. Any such action shall be intimated to the CDLD/OBB Coordination Unit. The DC at any time may request the services of the Divisional Monitoring Office for progress review and validation of outputs/results claimed by beneficiary CBOs.

- c) **Provincial/Policy Level** – At this level, OBB service delivery indicators/targets and area-based indicators will be reviewed annually by the CDLD/OBB Coordination Unit. A sample of the OBB target achievements and progress claimed under area-based indicators will be validated in districts and UCs with the help of the divisional monitoring team and independent third-party audit/validation teams. The M&E reports compiled by the CDLD/OBB Coordination Unit will be reviewed and approved by the PCRC, headed by the Secretary Finance.

The quarterly and annual M&E reports produced under the District M&E Framework (Malakand) will be shared with the Policy Dialogue and Review Committee, which is the strategic overview forum for government and donors to review CDLD Policy implementation in Khyber Pakhtunkhwa.

2.8 Audit arrangements

The Auditor General of Pakistan is mandated to audit the accounts of grants or loans given to other authorities or bodies. Article 11 of Function and Powers of the Auditor General of Pakistan states that:

“Sub-section 1. Where any grant or loan is given for any specific purpose from the Consolidated Fund of Federal Government or of any Province or of any district to any authority or body, not being a foreign State or international organisation, the Auditor General may scrutinise the accounts by which the sanctioning authority satisfies itself as to the fulfillment of the conditions subject to which such grants or loans were given and for this purpose have the right of access, after giving reasonable previous notice, to the books and accounts of that authority or body: **Provided that the President, the Governor of a Province or the authority of a district, as the case may be, is of the opinion that it is not necessary to do so in the public interest.**”

Sub-section 2. While exercising the powers conferred on him by sub-section (1), the Auditor General shall not have right of access to the books and accounts of any authority or body if the law, by or under which such authority or body has been established, provides for the audit or the accounts of such authority or body by an agency other than the Auditor General.”

It is not cost effective for the Auditor General or the district authorities to conduct audits of small-scale projects, which are widely spread and in remote locations. Moreover, small-scale, membership-based organisations do not have the capacity to respond to the audit paras and defend them at the level of the Public Accounts Committees of the Provincial Assembly. Therefore, it is imperative that the CDLD Policy, which is approved by the government, must explicitly state that private sector auditors will be hired to audit the accounts of CBOs executing projects under the CDLD Policy.

Records of CDLD transactions will be maintained at three levels:

- a. The DAO shall have a complete record of disbursements made to the organisations;

- b. A database of eligible organisations, submission of proposals, and details of schemes under the CDLD Policy will be maintained in the office of the ADLG; and
- c. CBOs will maintain proper project management and financial accounts.

The CDLD/OBB Coordination Unit will process the hiring of the private sector auditor for continuous financial and performance audit through a transparent and competitive bidding process. As referred to in Part 1, only Category A auditing firms as approved by the SBP are eligible to apply.

2.9 Summary of key responsibilities

Level	Organisation	Responsibilities
Provincial	PCRC	<ul style="list-style-type: none"> ■ Oversight of policy and implementation issues
	Finance Department CDLD/OBB Coordination Unit	<ul style="list-style-type: none"> ■ Facilitating PCRC in prioritising district allocations based on district/sector development plans and available financial resources, reviewed in conjunction with line departments ■ Coordination of audit function: <ul style="list-style-type: none"> ▪ Continuous financial and performance audit ▪ Third-party evaluation ■ Monitoring and oversight functions
District	DDC	<ul style="list-style-type: none"> ■ Prepare/consolidate district development plans, identifying sector priorities ■ Set timetable for competitive call for proposals ■ Distribute community proposals to relevant sector DOs for technical evaluation ■ Validate recommendations by sector DOs on a "No objection" basis ■ Send a list of approved community projects to CDLD/OBB Coordination Unit, for random review as per the parameters of the CDLD Policy and release of funds
	Sector DOs	<ul style="list-style-type: none"> ■ Evaluate community proposals for technical quality and compliance with the district sector OBB plan, rank if necessary, and make recommendations to the DDC
	Assistant Director LGRDD	<ul style="list-style-type: none"> ■ Coordinate data collection on UC-based needs assessment ■ Provide secretariat support to DDC ■ Maintain CDLD database

Level	Organisation	Responsibilities
Union Council	UC (Secretary)	<ul style="list-style-type: none"> ■ Take note of all intra-UC community proposals ■ Take note of all inter-UC community proposals ■ Provide statistical information on the UC
Local support organisation	LSO	<ul style="list-style-type: none"> ■ Attend social mobilisation courses ■ Meet all grant conditions ■ Prepare community proposals (inter-UC) ■ Submit community proposals to DDC
Village organisation	VO (male and/or female)	<ul style="list-style-type: none"> ■ Attend social mobilisation courses ■ Meet all grant conditions ■ Prepare community proposals (intra-UC) ■ Submit community proposals to DDC
Community organisation	CO (male and/or female), Parent Teacher Councils (PTCs), Health Management Committees (HMCs)	<ul style="list-style-type: none"> ■ Attend social mobilisation courses ■ Meet all grant conditionality ■ Prepare community proposals (intra-UC) ■ Submit community proposals to DDC



The overall goal of the Khyber Pakhtunkhwa Community Driven Local Development Policy is to achieve a sustainable improvement in the coverage and quality of front-line public service delivery through the active involvement of local communities. The overarching objectives of this Policy are, to put in place a fiscal and regulatory framework for Community Driven Local Development, where local communities are in charge of executing local development/service delivery initiatives; Build the capacity of the relevant public sector entities and functionaries at the district level to operationalise Community Driven Local Development; and Provide an enabling environment for community based organisations to access public funds earmarked for Community Driven Local Development initiatives.

FINANCE DEPARTMENT
Government of Khyber Pakhtunkhwa

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