

Report no. 34942

PAKISTAN COUNTRY ASSISTANCE EVALUATION

February 17, 2006

*Country Evaluation and Regional Relations
Independent Evaluation Group*



Document of the World Bank

ABBREVIATIONS AND ACRONYMS

AAA	Analytic and Advisory Activities
ADB	Asian Development Bank
AIDS	Acquired Immunodeficiency Syndrome
AJK	Azad Jammu Kashmir
BSAL	Bank Structural Adjustment Loan
BSRPP	Banking Sector Restructuring and Privatization Project
BSTAL	Banking Sector Technical Assistance Loan
CAS	Country Assistance Strategy
CAS PR	Country Assistance Strategy Progress Report
CFAA	Country Financial Accountability Assessment
CIP	Community Infrastructure Project
CPAR	Country Procurement Assessment Review
CPPR	Country Portfolio Performance Review
DAG	Department of the Auditor General of Pakistan
DFI	Development Finance Institution
DFID	Department for International Development
EAD	Economic Affairs Department
ECO	Expanded Co-Financing
ESW	Economic and Sector Work
ESAF	Enhanced Structural Adjustment Facility
FDI	Foreign Direct Investment
FIL	Financial Intermediation Loan
FSAL	Financial Sector Adjustment Loan
FSDI	Financial Sector Deepening and Intermediation Project
GDP	Gross Domestic Product
GNI	Gross National Income
HDI	Human Development Index
HDR	Human Development Report
HIV	Human Immunodeficiency Virus
IBRD	International Bank for Reconstruction and Development
ICR	Implementation Completion Report
ICRG	International Country Risk Guide
IDA	International Development Association
IEG	Independent Evaluation Group
IFC	International Finance Corporation
IPP	Independent Power Producer
JBIC	Japan Bank for International Cooperation (formerly Japanese Overseas Economic and Cooperation Fund (OECF))
KESC	Karachi Electric Supply Company
kwh	Kilowatt hour
LIL	Learning and Innovation Loan
mcf	Thousand cubic feet
MDG	Millennium Development Goal
MW	Megawatt
NBP	National Bank of Pakistan
NCB	Nationalized Commercial Bank
NDP	National Drainage Project
NGO	Non-Governmental Organization

Director-General, Independent Evaluation Group	:	Mr. Vinod Thomas
Director, Independent Evaluation Group, World Bank	:	Mr. Ajay Chhibber
Senior Manager, Country Evaluation and Regional Relations	:	Mr. R. Kyle Peters
Task Manager, Country Evaluation and Regional Relations	:	Ms. Lily L. Chu

Cont'd

NPL	Non-performing Loan
NRM	Natural Resource Management
NWFP	Northwest Frontier Province
OED	Operations Evaluation Department*
OECE	Overseas Economic and Cooperation Fund (now known as Japanese Bank of International Cooperation (JBIC))
OEG	Operations Evaluation Group (now known as IEG-IFC)
OEU	Operations Evaluation Unit (now known as IEG-MIGA)
PER	Public Expenditure Review
PIA	Pakistan International Airlines
PIFRA	Pakistan Improvement of Financial Reporting and Auditing Project
PIHS	Pakistan Integrated Household Survey
PPAF	Pakistan Poverty Alleviation Fund
PPAR	Project Performance Assessment Report
PRHS	Pakistan Rural Household Survey
PRSP	Poverty Reduction Strategy Paper
PSD	Private Sector Development
PSEDP	Private Sector Energy Development Project
PTLC	Pakistan Telecommunications Corporation, Ltd.
QAE	Quality at Entry
QAG	Quality Assurance Group
QOS	Quality of Supervision
ROA	Return on Assets
ROE	Return on Equity
RVP	Regional Vice Presidency
SAC	Structural Adjustment Credit
SAL	Structural Adjustment Loan
SAP	Social Action Program
SAR	South Asia Region
SBA	Stand-By Agreement
SBP	State Bank of Pakistan
SOE	State Owned Enterprise
TA	Technical Assistance
TCF	Trillion cubic feet
UNDP	United Nations Development Programme
USAID	United States Agency for International Development
WAPDA	Water and Power Development Authority
WBI	World Bank Institute

* OED has changed its official name to Independent Evaluation Group (IEG). The new designation "IEG" will be inserted in all IEG's publications, review forms, databases, and web sites.

CONTENTS

Preface.....	i
Pakistan CAE Ratings, FY94-03	iii
SUMMARY	v
1. Introduction and Country Background.....	1
Historical and Political Context	1
The Situation in the Early 1990s.....	3
2. The Bank’s Program.....	3
The Bank’s Strategy.....	3
Portfolio Management	6
Analytical and Advisory Activities (AAA)	7
Bank Partnerships	8
3. Macroeconomic Stabilization.....	8
The Bank’s Strategy.....	9
Macroeconomic Outcomes	10
Assessing the Bank’s Contribution.....	11
4. Poverty Reduction and Social Sector Development.....	12
The Bank’s Strategy.....	12
Poverty Reduction and Social Sector Outcomes	14
Assessing the Bank’s Contribution.....	16
Lessons and Recommendations	17
5. Sustainable Growth	18
The Bank’s Strategy.....	18
Energy and Infrastructure	19
Finance.....	24
Agriculture and Natural Resource Management (NRM).....	27
Assessing the Bank’s contribution.....	30
Trade, Privatization, and Investment	31
Summary	32
6. Governance.....	32

The Bank's Strategy and Program	33
Governance Outcomes	34
Assessing the Bank's Contribution	35
Lessons and Recommendations	37
7. Conclusions, Lessons and Recommendations	37
Overall Assessment.....	37
Lessons.....	39
Recommendations.....	42
Boxes	
Box 1.1: Rebasings of National Accounts Statistics	2
Box 5.1: The Independent Power Projects	20
Figures	
Figure 5.1: M2 and credit in Pakistan (% of GDP)	25
Figure 5.2: Pakistan: Gross fixed capital formation (% of GDP) 1993/94-2003/04	32
Tables	
Table 2.1: World Bank Lending to Pakistan (Sector Allocation).....	4
Table 2.2: IBRD/IDA Commitments FY94-03 (US\$ milions)	5
Table 2.3: IEG Project Evaluation Ratings Approved FY94-03	7
Table 2.4: Annual Budget Allocations (% of Total)	7
Table 3.1: Structural Adjustment Operations in Pakistan FY04-03	9
Table 3.2: Selected Macroeconomic Indicators	10
Table 3.3: Remittances (US\$ millions)	11
Table 4.1: Social sector projects, FY94-03	13
Table 4.2: Selected Social Indicators, 1993-2002	15
Table 4.3: Government Allocations and Expenditures on SAP (Percent of GDP).....	15
Table 5.1: Infrastructure operations FY94-03	19
Table 5.2: Financial Sector Operations in Pakistan FY94-03	24
Table 5.3: Selected Banking Sector Statistics	26
Table 5.4: Agriculture and Natural Resource Management Operations in Pakistan FY04-03.....	28
Table 6.1: WBI Governance Indicators Percentile Rank: Control of Corruption	33
Annexes	
Annex 1: Structural Adjustment Loans and Credits	43
Annex 2: Statistical Tables	46
Annex 3: List of People Met	69
Annex 4: Guide to IEG's Country Evaluation Rating Methodology	76
Annex 5: Management Action Record	80
Annex 6: Comments from the Government	81
Annex 7: IEG Response	87
Annex 8: Chairman's Summary	91
Bibliography	95

Preface

This report examines World Bank assistance to Pakistan during the period 1994-2003. It analyzes the objectives and content of the Bank's assistance program during this period, the outcomes in terms of economic and social development in Pakistan, and the contributions of the Bank and other development partners to development outcomes. The report is based on a review of project files, economic and sector reports, implementation completion reports (ICRs), Project Performance Assessment Reports (PPARs) and other IEG evaluations, Quality Assurance Group (QAG) ratings of quality at entry for Pakistan projects and economic and sector reports, and interviews with Bank staff. The Country Assistance Evaluation (CAE) also incorporates work on background papers in macro-economic management, financial sector, rural and environment, infrastructure, and poverty and social sectors. The CAE team visited Pakistan in December 2003 and April 2004 for discussions with Pakistani officials, representatives of other development partners, the private sector, academia, NGOs, and staff of the World Bank field office. A list of people met is provided in Annex 3. Their cooperation and assistance is gratefully acknowledged.

Comments from the Bank's Regional Management have been incorporated in the report. The report was also sent to the Pakistan authorities whose comments are reflected in the report and attached in Annex 6. IEG's response to the Government's comments is attached as Annex 7. A discussion of the CODE Subcommittee was held on November 28, 2005, and a summary of this discussion is attached as Annex 8.

This evaluation was prepared by Lily Chu (IEGCR), the Task Manager. Background papers, as inputs to the CAE, were prepared by Adil Kanaan, Geoffrey Fox, James Brown, Richard D. Stern, Manuel Hinds (consultants), and the Center for Global Development (Nancy Birdsall, Milan Vishnav, and Adeel Malik). Peer reviewers were Rene Vandendries (IEGCR), Mustapha Nabli (MNSD), and Professor Ayesha Jalal (Tufts University). Brenda Manuel (consultant) provided input on portfolio management and data analysis. Gulmira Karaguishiyeva (consultant) provided research and data support. Roziah Baba provided administrative support.

Pakistan CAE Ratings, FY94-03

Country Assistance Program Objectives	Outcomes of Bank Assistance Program Objectives	Ratings for Bank Assistance Program Outcomes
Macro	Macroeconomic Stability. Deterioration or stagnation in most indicators has been followed by improvement in some areas, including restructuring debt, rebuilding reserves, and controlling inflation. Fiscal deficits have been reduced but remain high, tax mobilization remains flat, and expenditure reform has not yet had a major impact (paras. 3.6-3.7).	Moderately Satisfactory
Social	Poverty Reduction and Social Sector Development. Poverty has increased (para 4.7) and the urban-rural poverty gap has widened (para. 4.8). Some social indicators (childhood immunization, fertility, female primary enrollment, literacy) have improved, but still lag comparator countries (para. 4.7).	Unsatisfactory
Growth	Sustainable Growth	Moderately Satisfactory
Infrastructure	<i>Infrastructure.</i> Increased power generating capacity, but sector finances have worsened, restructuring has been slow, and allegations of corruption harmed perceptions of the investment climate (para. 5.7). Some policy reforms have been initiated, especially in the oil and gas sectors and highways, although some distortions remain (paras. 5.8- 5.10).	Moderately Unsatisfactory
Finance	<i>Finance.</i> Banking sector has been strengthened, and capital markets have grown, although credit to the private sector has not changed substantially (paras. 5.26-5.27).	Satisfactory
Agriculture/NRM	<i>Agriculture/Natural Resource Management.</i> Agriculture production has increased, but yields remains low and water use is inefficient. Rural poverty has not improved, as land inequality has increased, and access to other key inputs such as water and credit remains unequal (paras. 5.38-5.40).	Unsatisfactory
Trade, Privatization, and Investment	<i>Trade, Privatization, and Investment.</i> Tariffs have decreased substantially, and have been simplified (para. 5.45). Privatization is proceeding, but uneven pace has led to the continued drain of Government resources to support SOEs (para. 5.46). Gross capital formation decreased through much of the review period, and has just begun to rebound. Foreign Direct Investment remains low at 1 percent of GDP (para. 5.47).	Moderately Satisfactory
Governance	Control of corruption has improved, but still affects the lives of many Pakistanis (paras. 6.7-6.11). Governance issues still impede fiscal reforms (paras. 6.12- 6.13).	Unsatisfactory
Overall		Moderately Unsatisfactory

SUMMARY

1. After outpacing its South Asian neighbors in GDP growth over the first four decades of its existence, in the 1990s Pakistan began to trail them, and also lagged on a number of key social indicators. Political instability, compounded by exogenous factors such as a cotton virus, floods, and economic sanctions, contributed to a deteriorating economic situation. Since 1999, a stable government, consistent reform policies, and greater international support have helped the country move back on to a better economic track; macroeconomic indicators have improved, although social indicators still lag.
2. This evaluation covers the period FY94-FY03. The World Bank is an important source of funding for Pakistan, with IBRD and IDA loans representing approximately 28 percent of outstanding external debt in 2004. Historically, the Bank had supported traditional sectors such as energy, infrastructure and agriculture; the review period saw a shift to a greater emphasis on public sector reform and the social sectors. Four overriding themes consistently appeared in the country assistance strategies during the period of this review: (i) macroeconomic stability; (ii) poverty reduction and social sector development; (iii) sustainable growth; and (iv) governance. Each was highly relevant to the development needs of the country.
3. Throughout the review period, the Bank provided substantial support, primarily through adjustment loans and AAA, for a broad-based macroeconomic reform agenda. The most critical area of Bank focus was on public finance, in particular on tax mobilization and public expenditure management, which were also to be underpinned by a broad range of longer term structural reforms.
4. At the end of 1999, a new Government began a consistent reform program, which attracted international support. After September 11, 2001, Pakistan also was the recipient of increased aid flows, debt rescheduling, and increased remittances. All these factors have combined to improve the country's fiscal situation. Reserves are at now at over six months of imports. Public debt has fallen but remains high at 69 percent of GDP (according to the Government's rebased numbers). Inflation (CPI) fell from 10 percent in 1993 to an estimated annual rate of 4 percent in 2003/04, but is estimated to have increased to over 7 percent in 2004/05. The budget deficit has also improved moving from 6-8 percent of GDP (excluding grants) in 1990s to 4 percent in 2004/05. The Bank's advice and lending have contributed to the current positive fiscal outlook, helped avoid default on the public debt, and had a positive impact on some of the longer term structural reforms (such as financial sector reform and trade, discussed below under *growth*), but other areas of Bank focus, including tax mobilization and improved efficiency in expenditure management, have been slow to have effect. Outcomes in this area were moderately satisfactory.
5. The Bank's second major area of focus was *poverty reduction and social sector development* through focusing on the expansion and quality improvement of social services. Although some of the Bank's programs did appear to help assist the Government to make progress in a number of areas (school enrollment, literacy, immunization, fertility, and child mortality), the country still lags its neighbors and countries of similar income levels, and the Bank recognizes that much needs to be done if Millenium Development Goals (MDGs) are to be achieved. In addition, although poverty may have declined since 2000, it remains above the

poverty level at the beginning of the period under review. While the programs were constrained by the intense fiscal problems faced by the governments during this period (with high deficits and soaring debt, successive governments were hard pressed to fund social programs), they also were weakened by a lack of a clear strategy to address the roots of poverty, and poor program implementation. Outcomes in these important areas were unsatisfactory.

6. *Growth* was the third major objective of the Bank's program. The overall strategy was to support a shift from public sector ownership and management to the private sector. Specific areas of focus included the financial sector, infrastructure, rural development and natural resource management, trade, privatization, and improving the environment for private sector investment. Although Pakistan's GDP *growth* has picked up in the last three years, outcomes were mixed: (i) banking sector reform has been proceeding well; (ii) agricultural production has improved, but rural poverty has not decreased, as unequal access to land, water, credit and other inputs remain unaddressed. In addition, despite Bank support for large irrigation and drainage programs, insufficient attention to natural resource management has meant that water-logging, soil salinity, and inefficient water use may limit agriculture growth in the future; (iii) the Bank's support of trade reform has shown good results as tariffs have decreased and been simplified; (iv) good progress also has been made in privatization, particularly in banking, but the uneven pace in other areas has led to a continued drain of Government resources to support some major state-owned enterprises; and (v) investment has started to rebound, but gross capital formation and foreign direct investment have not changed appreciably since the beginning of the review period.

7. Infrastructure support was also a key component of the strategy to support growth. The capacity of the power sector was increased, albeit at a price which was likely higher than could have been obtained if contracting and reforms had been handled better. The contracting process for power production also raised allegations of corruption and caused renegotiation of contracts with several private companies, which damaged the country's investment climate reputation. Recent reforms have begun in oil and gas, highways, and telecom. However, fixed infrastructure still remains inadequate to support the growth needs of the country, and fundamental financial problems remain in the power sector, the primary focus of the Bank's infrastructure work. Overall, outcomes for the Bank's program in these areas designed to support growth were moderately satisfactory.

8. The fourth major area of Bank focus was improving governance. However, the Bank had difficulty defining a clear strategy. In early Bank strategy documents, governance was raised as a problem but there were no actions or projects planned. Over time, a more concrete approach began to develop, as projects and AAA focusing on administrative governance and strengthening institutions emerged. Outcome indicators were not clearly defined. However, in areas where the Bank has focused, such as tightening of fiscal discipline or improvement in the delivery of basic services, there were no appreciable improvements, resulting in unsatisfactory outcomes.

9. In sum, the outcomes of Bank support for macroeconomic management and growth have achieved success in some areas, especially in the last few years. However, outcomes of Bank assistance were unsatisfactory in poverty reduction and social sector development, governance, agriculture and natural resource management, fixed infrastructure, and revenue mobilization and

expenditure management. Therefore, overall outcomes of the Bank's assistance program are rated moderately unsatisfactory.

10. World Bank project performance has been uneven. The Bank portfolio improved greatly after a portfolio clean-up in 1999. Bank documents show that problems of commitment and institutional capacity appeared consistently as major impediments to project implementation and sustainability; yet, project design did not do enough to take these ongoing problems into account.

11. The Bank's analytical work was generally of good quality. However, its relevance and timeliness could be improved through strategic work in areas such as rural development, the social sectors, and power. In addition, in the early part of the review period, insufficient resources were spent on ESW. The Bank is now devoting more resources to analytical and strategic work, which should improve project performance and overall outcomes.

12. Going forward, the Bank would need to focus on the following priorities (as discussed further in Chapter 7): (i) continuation of its strong support of analytical work, augmented by translating the analysis into implementable and prioritized actions and programs, and taking into account political economy constraints. Priorities are in poverty, rural development, and governance; (ii) greater focus on building sustainable institutional capacity; (iii) narrowing the scope of projects, and scaling them to fit the capacity of the implementing agencies; (iv) improving partnerships.

Vinod Thomas
Director-General
Independent Evaluation Group

1. Introduction and Country Background

1.1 Pakistan has a population of about 148 million, and, based on new Government estimates, GNI per capita was estimated at US\$638 in 2003/04. After outpacing its South Asian neighbors in GDP growth over the first four decades of its existence, Pakistan began to trail them, and has not fared as well on a number of key social indicators. Pakistan achieved growth rates of over 6 percent in the 1980s, but the growth rate declined to about 4 percent per year during the 1990s, representing average per capita GDP growth of only 1.4 percent. Export growth fell from over 10 percent per year in the 1970s and 1980s, to under 3 percent per year in the 1990s. The economic situation has improved in the last few years. GDP growth rebounded to 5.1 percent in 2002/03, and 6.4 percent in 2003/04. Total government debt has fallen from a high of 108 percent of GDP in 2000/01 to 84 percent in 2003/04, government deficits (excluding grants) have declined from 8.9 percent in 1993 to 4 percent in 2003/04, and gross reserves increased from less than one week of imports in 1998 to more than six months of imports in 2003/04.

1.2 This evaluation covers the Bank program during FY94-FY03, which represents a difficult period in the economic path of Pakistan. This report will review the Bank's strategy during this period. In particular, it addresses the following questions: (i) did the Bank correctly assess the problems Pakistan faced; (ii) was the Bank's strategy appropriate for meeting Pakistan's development needs; (iii) how effective was Bank assistance in implementing those strategies; (iv) what were the outcomes of the assistance; (v) to what extent did contributions to outcomes involve the Bank, other development partners, the Government, as well as exogenous forces?

1.3 The review is structured as follows: this section will provide the country context in which the Bank strategy was designed. Section 2 will discuss the overall Bank program. Sections 3–6 will each discuss one of the major country assistance strategy (CAS) themes (Macroeconomic Stability, Poverty Reduction and Social Sector Development, Sustainable Growth, and Governance). Each of the thematic sections will: (i) assess the relevance of the objective; (ii) summarize the Bank strategy assistance related to the objective; (iii) summarize outcomes, as well as achievement of some of the project specific objectives; (iv) assess the Bank contribution to those outcomes; and (v) draw lessons from those findings.¹ Section 7 will present overall assessments, lessons and recommendations.

Historical and Political Context

1.4 The history of modern Pakistan has strongly affected its economic growth path. Due to regional tensions, military expenditures in Pakistan have consistently absorbed a

¹ Each of the country assistance strategy (CAS) themes is intrinsically related to the other themes. For example, the fiscal situation affected the Government's ability to invest in the social sectors or in gross capital formation; governance problems led to low revenue mobilization, poor use of funds in the social sectors and real sectors; slowing growth deepened the government's fiscal problems. However, in the interests of brevity and structural clarity, certain issues, which could be addressed in multiple parts of the paper, have only been addressed in one area.

significant proportion of the budget (about one-quarter to one-third of total revenue; see Annex Table 3). Combined with interest expense which amounted to another 30-45 percent of revenue, there remained very little fiscal space for basic government expenditures, or development expenditures.

Box 1.1: Rebasing of National Accounts Statistics

In the spring of 2004, the Federal Bureau of Statistics completed a revision of Pakistan's national accounts statistics. The objective was to bring Pakistan's national accounts closer in line with the 1993 UN Systems of National Accounts. As part of the exercise, the base year was moved from 1980/81 to 1999/2000. The new statistics capture better the changes that have occurred in the Pakistani economy in the past 20 years, as several areas of economic activity had been either seriously underestimated or not captured at all.

The rebasing exercise resulted in GDP estimates for 1999/2000 and following years that were almost 20 percent higher compared to the old base estimates. This, however, leaves the fundamental policy assessment largely unchanged. Per capita income, while somewhat higher, remains low. The debt-to-GDP ratio is lower, but is still relatively high. Revenue collection and social spending now appear even lower in relation to the new GDP, underscoring the need for continued policy efforts.

For the purposes of this evaluation, the previous statistics are generally used (rebased numbers will be noted when used), as the analysis and decisions made by the Bank during the review period were based on the previous statistics, and rebased numbers are not available for the full period.

Pakistan: Effects of the Re-Basing of national Accounts

	2002/03		2003/04 estimated		2004/05 projected	
	Old	New	Old	New	Old	New
(In percent of GDP; unless indicated otherwise)						
Consolidated Public Finances						
Revenue (including grants)	20.8	17.3	18.5	15.1	18.3	14.7
Expenditure	22.4	18.7	20.7	16.9	21.2	17.0
Budget balance (including grants)	-1.7	-1.4	-2.2	-1.8	-2.9	-2.3
Budget balance (excluding grants)	-4.5	-3.7	-2.9	-2.4	-4.0	-3.2
Total government debt	89.2	74.3	84.2	68.7	79.1	63.6
External sector						
Current account (including official transfers)	6.1	5.1	2.4	2.0	-0.9	-0.7
Current account (excluding official transfers)	4.6	3.8	1.7	1.4	-1.3	-1.1
GDP at market prices (billions of Pakistani rupees)	4,018	4,821	4,455	5,458	4,960	6,164
GDP at market prices (billions of US\$)	68.8	82.6	77.5	94.9	84.1	104.5
Per capita GDP (in US\$)	471	566	521	638	555	690

Source: IMF Staff Report for the 2004 Article IV, November 16, 2004. Additional text by World Bank staff.

1.5 In addition, Pakistan's international relations, particularly with the West and primarily the United States, have had a very large impact on its aid flows, which in turn have affected its macroeconomic performance. During the Afghan/Soviet war in the

1980s, Pakistan received large inflows of concessional aid. However, aid declined after the war ended and later, when Pakistan conducted nuclear tests in 1998, aid was cut sharply and sanctions were imposed that influenced the programs of multilateral institutions, including the Bank. Following the events of September 11, 2001, Pakistan's cooperation with the West, especially with the U.S., led to large amounts of aid from the U.S. and other bilateral donors.

1.6 Pakistan's economic situation has also been affected by the complexities of domestic politics and weak management in fiscal expenditures. Major factors included periods of domestic political instability, with shifts in government,² accompanied by reversals in major, system-wide economic policies by the different governments; widespread corruption; weak and uneven human resources development; law and order and other stability issues; and persistently low levels of domestic savings.

The Situation in the Early 1990s

1.7 Despite the relatively high growth rates leading up to the 1990s, poverty was still widespread, and social indicators were poor (see Annex Table 2). Pakistan's population growth rate of over 3 percent per year increased pressure on the environment and on investment needs for future growth. Due to the low savings rate and productivity (poor quality of human resources), growth relied heavily on both domestic and foreign borrowing. Budget deficits of about 6 percent of GDP and dependence on foreign aid were the norm. As long as domestic and international interest rates were relatively low, the servicing of this debt was manageable; but as these rates increased, the economy became hostage to a tenacious debt and financing gap spiral and plunged into foreign exchange crises in 1993 and again in 1997/98.

2. The Bank's Program

2.1 Pakistan became a member of the World Bank in 1950, and began borrowing from the IBRD in 1952, and from IDA in 1962 when IDA was formed. As of June 30, 2003, the Bank had made total commitments to Pakistan of US\$18.2 billion for 203 projects, which makes it one of the Bank's ten largest borrowers. From FY94 to FY03, commitments amounted to US\$4.7 billion for 35 projects. The Bank is a major source of funding for Pakistan, with IBRD and IDA loans representing approximately 28 percent of outstanding debt in 2004, and between 1993 through 2003, the Bank represented about 22 percent of total donor aid and multilateral loan flows (see Annex Table 11).

The Bank's Strategy

2.2 Bank Programs during the last decade were guided by country assistance strategies in FY92, FY94, FY95, and FY02 as well as country assistance strategy progress reports in FY97, FY99, and FY01. While there was some variance among the documents, the dominant and consistent themes were: (i) Macroeconomic Stabilization;

² Annex Table 4 lists the major government changes from 1978-present.

(ii) Poverty Reduction and Social Sector Development; (iii) Sustainable Growth; and (iv) Governance. In the early years of the review period, the Bank also identified Environment as a major area where assistance was needed, including water management, natural resource conservation, and developing solutions to urban pollution problems. However, the focus on environmental work faded over the course of the review period. Given the problems facing Pakistan, each of the four primary themes was relevant and will be discussed in more detail in later sections. Environment, which is also a highly relevant theme, was gradually subsumed into the overall growth agenda.

2.3 These themes were reflected in a shift in the lending portfolio from agriculture, energy and infrastructure prior to the 1990s toward programs which would bring direct benefits to the poor (see Table 2.1). In addition, public sector management and structural adjustment showed large increases, with adjustment loans in the last three fiscal years accounting for 70 percent of the lending. Lending also shifted from a blend of 70/30 IBRD/IDA in the early 1990s to 100 percent IDA in FY01-03, as most of Pakistan's creditworthiness indicators were too low for IBRD lending.

Table 2.1: World Bank Lending to Pakistan (Sectoral Allocation)

Major Sector	FY52-93		FY94-03	
	Total Commitments (US\$ million)	As a % of Total Commitment	Total Commitments ¹ (US\$ million)	As a % of Total Commitment
Agriculture and Natural Resources	2,461	18%	429	9%
Energy & Infrastructure	5,091	38%	915	19%
Finance	1,698	13%	793	17%
Social	1,724	13%	907	19%
Industry and Trade	926	7%	---	---
Public Sector	1,041	8%	1,664	35%
Other	412	3%		
Overall Result	13,534	100%	4,712	100%

Source: Business Warehouse. Loans categorized by primary sector.

¹ Excludes guarantees and grants.

2.4 In general, lending scenarios were optimistic. The 1992 strategy projected a strong performance by Pakistan in carrying out a reform program that would promote private sector activity and efficiency while improving government fiscal performance. The 1994 strategy did not change appreciably; while it acknowledged that the 1993 crisis reflected a weak fiscal situation, it expected a rebound in performance.

2.5 At the time of the 1995 strategy, the IMF program had gone off track. The strategy stated that given the "intense public jockeying between the current and former ruling parties, lower GDP, and higher inflation", the Government had "chosen to slow the pace of reform." However, the strategy argued that since the Government had not "backtracked," an abrupt decline in lending was not appropriate. Despite the weak reform environment, the strategy outlined four lending scenarios ranging from the low case of US\$200 million in annual IDA commitments to a high case of up to US\$1 billion, with likely lending scenarios in the US\$500 to US\$750 million range. Actual commitments began to fall off in late FY96 and FY97, reflecting Pakistan's poor performance. The 1997 strategy noted that "due to the weak policy performance and deteriorating

indicators” (most notably the macro and credit worthiness indicators), lending was expected to be in the “low-base case” of about US\$300-US\$400 million per year.

Table 2.2: IBRD/IDA Commitments FY94-03 (US\$ millions)

	FY94	FY95	FY96	FY97	FY98	FY99	FY00	FY01	FY02	FY03
Planned Scenario	Base	Base	Base	Base	Low Base	High Base	High Base	High Base	High Base	Base
Expected Lending	600-700	600-700	500-750	500-750	300-400	890	805	765	750	400
Actual Commitments										
IBRD	380	466	385	-	250	350	-	-	-	-
IDA	362	240	75	85	558	90	-	374	800	297
Total	742	706	460	85	808	440	-	374	800	297
% adjustment lending	34%	0%	0%	0%	31%	68%	-	93%	63%	69%

Source: Business Warehouse, country assistance strategy documents - planned scenarios reflect most recent preceding country assistance strategy or progress report.

2.6 Following Pakistan’s nuclear tests in May 1998, economic sanctions were placed on the country; new bilateral and multilateral lending for non-basic human needs was suspended;³ and investment flows as well as aid decreased sharply, leading to a severe foreign exchange crisis. The 1998 strategy progress report acknowledged large estimated financing gaps, and relied on assumptions of financing support from multilaterals, as well as rescheduling of bilateral debt and commercial debt, but proposed that the volume of Bank commitments be linked to: (i) the strength of Pakistan’s reform effort; (ii) the maintenance of macroeconomic stability; (iii) progress in the social sectors; and (iv) improvements in the country’s creditworthiness. The 1998 strategy progress report argued that the new Government (elected March 1997) was truly committed to reform although the new Prime Minister had not sustained reforms during his previous administrations, and macro performance under his current government was mixed. Despite the past history of failing to follow-through with reforms, weak macro environment, severely deteriorating creditworthiness, and minimal progress in the social sector, the Bank deemed Pakistan to be in the “high-base case” scenario, qualifying it for about US\$750 million in annual lending.

2.7 An immediate crisis was averted. However, by spring 1999, “there were concerns that the government’s commitment to the reform program was faltering. In particular, resource mobilization and governance improvements remained weak.”⁴ In September 1999, the IMF formally suspended the Enhanced Structural Adjustment Facility (ESAF) program. In 1998/99, total debt to GDP was 92 percent; by 2000/01, it had increased to 108 percent.⁵

³ World Bank disbursements for existing projects continued. Also, the definition of “non-basic human need” was not clearly stated, which allowed a number of loans to proceed.

⁴ World Bank. 2001. *Pakistan: Country Assistance Strategy Progress Report* (Report no. 22219-PAK).

⁵ IMF estimates.

2.8 The Musharraf Government took power in October 1999. It inherited a very vulnerable macroeconomic situation, and, given the weak reform performance by previous governments, difficult relationships with lenders and donors. With the deteriorated economic situation, Bank lending dropped to zero in FY00. However, in November 2000, the Government reached a new Stand-by Arrangement with the IMF, and negotiated another Paris Debt Restructuring (US\$1.8 billion) in January 2001. The Bank restarted lending in FY01.

2.9 The Bank Country Assistance Strategy Progress Report (CAS PR) in May 2001 and the 2002 Country Assistance Strategy (CAS) had many of the same themes as previous CASs (fiscal improvement, governance, removing distortions that impede growth, improving service delivery). However, the 2002 CAS, perhaps because it was the first full CAS in seven years, made more use of lessons from past experiences to influence the program. The Bank would focus more on policy dialogue with the Government, and on the need for better implementation capacity, not just at the federal, but at the provincial and district levels.

Portfolio Management

2.10 The Region initiated Country Portfolio Performance Reviews (CPPRs) in FY90 to manage the portfolio and monitor its performance. In spite of efforts to improve project performance, problem projects increased from 7 percent of the portfolio in FY94 to 34 percent in FY98. In FY98, Pakistan was ranked as one of the 25 worst performers Bank-wide with more than 50 percent of projects and commitments “at risk.”

2.11 In December 1997, the Bank, together with the federal and provincial governments, initiated an “aggressive portfolio improvement strategy” and a new portfolio and risk management process based on “outcomes, ownership and good governance.” Quarterly national portfolio review meetings and periodic provincial portfolio reviews were established and continue to be held. Problem projects are further reviewed at monthly portfolio meetings. Portfolio management functions were increasingly decentralized when the Country Management Team, including the Country Director, was moved to the field in 1997.

2.12 Two portfolio improvement plans were developed in FY99 and FY00. As a result of the portfolio improvement reviews, the number of projects in the portfolio declined from 44 in FY93 to 13 in FY03. Two actions, in particular, resulted in the closing of 32 projects and in few entrants to the portfolio, namely: (i) a “no-extension” policy outside of *force majeure*; and (ii) enhanced selectivity and “quality at entry” criteria.⁶ At the end of FY03, projects at risk were 8 percent of the portfolio, compared to 18 and 15 percent for the region and Bank-wide, respectively.

⁶ The Bank dropped from the portfolio or pipeline all operations which were not driven by “strong” client ownership and/or those which did not have clearly defined development impact/outcomes.

Portfolio Performance

2.13 Of 24 closed projects approved from FY94 to FY03 (for a total value of US\$3.4 billion in commitments), IEG rated 84 percent of commitments satisfactory for outcome, slightly above South Asia's rating of 83 percent, and 80 percent Bank-wide.⁷ Sixty-eight percent of the Pakistan projects were judged as likely to be sustainable, and 8 percent were rated as having substantial institutional development impact, both significantly below regional and Bank-wide averages. Supervision, implementation completion reports, and CPPRS have also frequently raised issues of lack of commitment and weak institutional capacity. Additional attention should have been given to assessing the incentives for the counterparts, and designing projects that take into account the weak institutional capacity, as well as providing assistance to improve that capacity. Other systemic issues included governance, financial management, procurement, project management and counterpart financing.

Table 2.3: IEG Project Evaluation Ratings Approved FY94-03

	Satisfactory Outcome %	Likely Sustainability %	Substantial Inst. Dev. Impact %
Pakistan	84	68	8
South Asia	83	81	38
Bank-wide	80	79	48

Source: Business Warehouse

2.14 During the CAE period, QAG reviewed three Pakistan projects for Quality at Entry (QAE) and rated all three as satisfactory. QAG's review of 22 projects for Quality of Supervision (QOS) judged the supervision of 56 percent of those projects as satisfactory compared to 80 percent for both South Asia and the Bank as a whole. It is, however, difficult to derive conclusions about Pakistan's portfolio based solely on QAG assessments because the sample of projects rated for QAE was quite small and the most recent QOS were three projects reviewed in FY00.

Analytical and Advisory Activities (AAA)

2.15 As the Bank reduced its portfolio, resources were freed up for AAA. Table 2.4 shows the shift; in FY94, only 17.7 percent of Bank resources were used for AAA; by FY03, 34.3 percent was allocated for AAA.

Table 2.4: Annual Budget Allocations (% of Total)

	FY94	FY95	FY96	FY97	FY98	FY99	FY00	FY01	FY02	FY03
Supervision	39.5	38.2	43.4	52.2	50.6	56.7	60.8	36.6	27.7	36.4
Lending	42.9	40.3	37.3	29.8	31.2	29.8	13.6	16.4	40.4	29.3
Preparation										
AAA	17.7	21.5	19.3	18.0	18.2	13.5	25.6	47.0	31.9	34.3
Total	100	100	100	100	100	100	100	100	100	100

Source: Business Warehouse

⁷ Subsequent to the initial release of this report to the Bank's Executive Directors, audits on seven loans in the portfolio were carried out. Three adjustment loans, accounting for US\$700 million in commitments, were downgraded from satisfactory to unsatisfactory. As a result, the percentage of commitments which were rated as satisfactory during the exit period covered by the CAE was 67 percent, or substantially below Bank or regional averages. See Annex 1 for a more detailed discussion of adjustment loans.

2.16 QAG reviewed 12 of 31 AAA tasks completed in the FY01-03 period. Two tasks were rated highly satisfactory, nine were satisfactory, and one was unsatisfactory. IEG concurs with the positive assessment of recent AAA. However, in the early years of the review period, although the quality of AAA was good, its coverage and relevance were weak. As discussed below in sector specific chapters, there were notable gaps in AAA, including a lack of strategic work in rural development, the social sectors, power, and governance. Sometimes, as with infrastructure, much of the needed work was done in the context of lending preparation and supervision.

2.17 *Candor of ESW.* One issue that has been raised by both Bank staff working on Pakistan and others outside the Bank, including academics and journalists, is the trade-off between partnership with the Government and the objectivity and candor of Bank's analytic work. In reviewing and discussing ESW with Government officials, the Bank needs to weigh the trade-offs involved between openness and candor on the one hand, and client partnership on the other.

Bank Partnerships

2.18 Donor agencies and many NGOs respect the World Bank, and felt that the World Bank played an important leadership role. There was also praise for a number of individual task managers or individual projects. The Bank has worked hard to develop complementary programs with other donors (e.g., focusing its provincial work on Sindh and NWFP, while ADB focuses on Punjab and Baluchistan). However, a number of donors felt that the respect was not always reciprocated, and the Bank was not always easy to work with. Among issues raised were failure to consult with other donors before making key decisions; lack of continuity of Bank staff interacting with the donors; intermittent participation of senior staff at donor meetings; and poor information flow to donors and NGOs. In addition, the Bank is perceived by many donors, NGOs, and members of civil society to be a poor communicator of its policy directions and recommendations and that it does not adequately involve stakeholders outside government in program/project design, monitoring and evaluation. For example, several NGOs commented that they were presented with a *fait accompli*, rather than involved in substantive discussions. Some NGOs have instructed their staff not to attend Bank workshops, since the NGOs would be listed as participants, whether or not they felt their views had been adequately considered.

3. Macroeconomic Stabilization

3.1 Throughout the review period, macroeconomic stability was a key issue. In 1993/94, debt outstanding was approximately 93 percent of GDP, debt service represented more than 23 percent of exports, fiscal deficits (excluding grants) had reached over 6 percent of GDP, and gross official reserves had declined to about two weeks worth of imports. GDP growth had slowed to 1.8 percent in 1993 (or -0.8 percent GDP per capita growth) due in part to massive floods in 1992 and a cotton virus. However, after these crises, during the rest of the decade average growth stayed under 4

percent. Pakistan seemed to be entering a vicious cycle, as increasing debt service and budget deficits limited the government's ability to maintain infrastructure, invest in new capital formation or social development, all of which were needed to move back onto a higher growth track.

The Bank's Strategy

3.2 The Bank's country strategies reflected the country's strong need for fiscal and structural reform. The Bank consistently pressed for tax reform, especially widening the tax base and eliminating exemptions, and adequate cost recovery for public services. The cost recovery components were meshed with a push toward greater private sector participation in the delivery of services (both through privatization and through inviting private investment in new projects), especially in the energy and infrastructure area. Public administration, expenditure management, and financial sector were also priority areas for reforms.

3.3 During the early 1990s, the Bank's main instrument for fiscal reform and structural adjustment was through dialogue and AAA. The Bank had been preparing an adjustment loan since 1990, but did not proceed because of a weak macroeconomic framework. On September 23, 1993, to take advantage of the reforms supported by an interim Government, a Public Sector Adjustment Loan/Credit (PSAL/C; US\$250 million)⁸ was approved.⁹ Macro performance continued to decline, however, and the Bank refrained from economy-wide adjustment operations for several years,¹⁰ returning to ESW and working with the IMF as the main instruments for support in this area (see Annex Table 5 for list of IMF programs).

3.4 In the aftermath of Pakistan's nuclear tests, a severe foreign exchange crisis developed in 1998/99. Despite the poor macro-reform progress, the Bank approved a US\$350 million adjustment loan as part of a comprehensive financing program with the IMF, ADB, and the Paris Club. Although the immediate crisis was averted, reforms were not sustained, and by September 1999, the IMF formally suspended the Enhanced Structural Adjustment Facility (ESAF) program.

Table 3.1: Structural Adjustment Operations in Pakistan FY94-03

Project Name	FY	Project Cost (in US\$ million)
Public Sector Adjustment Loan (PSAL)	1994	250
Bank Structural Adjustment Loan (BSAL)	1997	250
Structural Adjustment Loan (SAL)	1999	350
Structural Adjustment Credit (SAC)	2001	350
Second Structural Adjustment Credit (SAC II)	2002	500
Sindh Structural Adjustment Credit (Sindh SAC)	2003	100
Northwest Frontier Province Structural Adjustment Credit (NWFP SAC)	2003	90

Note: The BSAL is discussed in Section 5.

⁸ The Japanese Overseas Economic Cooperation Fund (OECF) co-financed \$150 million. The IMF later put in a ESAF/EFF for \$1.4 billion.

⁹ This loan had a problematic gestation; five previous appraisal missions had been aborted before the loan was finally appraised and negotiated in 1993. The loan was originally conceived as a low conditionality emergency loan to help Pakistan with the effects of the Gulf crisis. When the crisis ended, the Bank felt it could no longer move ahead with a low conditionality loan, which caused lingering problems with the Government.

¹⁰ The Banking Sector Adjustment Loan (BSAL) did, however, go forward in FY97.

3.5 About a year after the Musharraf Government took power, the Government reached a new Stand-by Arrangement with the IMF (November 2000), and negotiated another Paris Debt Restructuring in January 2001. The Bank restarted lending in 2001.

Macroeconomic Outcomes

3.6 Table 3.2 shows deterioration in macroeconomic indicators at the beginning of the review period. However, since FY00, the Government has been making steady progress on a number of key issues, including controlling inflation, rebuilding reserves, and restructuring debt. The combination of improved finances, a good reform agenda, and international support allowed Pakistan to access the private bond markets with a US\$500 million five-year Eurobond, at a rate of 6.75 percent or only 370 bps above the U.S. treasuries. The bond was rated B by Standard & Poor's and B2 by Moody's.

Table 3.2: Selected Macroeconomic Indicators (% of GDP, except where noted)

	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99	1999/ 2000	2000/ 01(a)	2001/ 02(a)	2002/ 03(a)	2003/ 04(a)
Total revenue and grants	17.2	17.0	17.5	16.1	15.8	16.3	16.6	17.3	19.5	20.8	18.3
Tax revenue	13.3	13.8	15.0	13.4	13.0	13.3	12.8	12.9	13.2	13.8	13.5
Non-tax revenue	4.0	3.2	2.5	2.7	2.8	3.0	3.7	3.3	4.0	4.1	4.0
Grants	-	-	-	-	-	-	0.1	1.2	2.3	2.8	0.7
Expenditures	23.5	23.7	25.3	22.9	23.5	22.4	22.9	21.4	22.8	22.4	21.6
Budget Balance	-6.3	-6.7	-7.8	-6.8	-7.7	-6.1	-6.3	-4.1	-3.0	-1.7	-3.3
Budget balance (excluding grants)	-6.3	-6.7	-7.8	-6.8	-7.7	-6.1	-6.4	-5.2	-5.2	-4.5	-4.0
Exports	12.7	13.0	13.1	12.9	13.5	12.9	13.3	15.2	15.4	15.2	15.7
Imports	16.6	16.8	18.9	17.9	16.5	16.5	15.6	17.4	15.9	16.5	16.6
Current Account (excluding official transfers)	-3.8	-4.5	-7.6	-6.1	-3.1	-4.1	-3.4	-3.3	0.2	4.6	2.1
Total Public Debt	93.2	86.8	86.3	87.5	89.4	91.9	91.6	108.0	96.7	89.2	84.1
o/w External Public Debt	49.3	45.4	42.7	43.9	43.4	46.0	45.7	55.4	48.3	42.0	39.4
Total Reserves (mos. of imports)	2.7	2.2	1.7	1.1	1.0	1.7	0.9	1.7	3.7	6.5	6.0
Inflation (CPI, annual %)	10.0	12.4	12.3	10.4	11.4	6.2	4.1	4.4	2.5	3.1	4.1
Reer exchange rate index (end of year)	97.6	91.4	87.9	94.5	84.4	85.5	85.2	85.3	84.1	79.4	76.1

Source: IMF Country Reports for Pakistan (various years); Global Development Finance. (a) Provisional Actual. The Government has noted that the statistics from the Economic Survey of Pakistan indicate that reserves are at 11 and 12 months of imports for 2002/03 and 2003/04 respectively; the 6.5 and 6.0 months cited above are from the IMF PGRF Ninth Review.

3.7 However, reforms are still fragile. Although fiscal deficits have been reduced, excluding grants they remain at 4 percent of GDP. Tax revenue mobilization has stayed

flat, and although expenditures as a percent of GDP have fallen slightly, expenditure reforms have not yet had a major impact. Public enterprises still drain the budget.¹¹

Assessing the Bank's Contribution

3.8 The Bank's overall advice (increase privatization, simplify tax structures, increase tax bases, streamline Government administration) was sound, consistent, and remained valid over the course of the review period; over the years these messages contributed to the eventual reforms. AAA, particularly in the last few years, has been of good quality, and has influenced Government policy. The environment in which policy advice was delivered, however, changed considerably during the period under review. During the 1990s, the instability of governments and the resulting changes in economic policy made it difficult to implement any serious reform program. In the last five years, stability of the government and its current policies have allowed a number of reforms to take root.

3.9 Pakistan's economic management was also affected by exogenous factors. The cotton virus and floods in the early 1990s and the economic sanctions in 1998 had major negative effects on outcomes. In contrast, after September 11, 2001, the country benefited from significant direct donor support (the US alone contributed US\$600 million), the external financing package supported by the IMF for US\$1.25 billion over FY02-04, and US\$3.5 billion in debt relief from the Paris Club. Remittances also increased (Table 3.3) sharply.¹² Debt service pressures were also eased by the drop in international interest rates.

3.10 There were, however, weaknesses in the Bank's performance. The PSAL/C and the SAL were approved despite a history of poor reform. In both cases, the approval of the adjustment loan and overall lending levels signaled that the country was considered to be at the high end of the base case. While the PSAL/C was strongly supported by an interim Prime Minister, the knowledge that his likely successor would be one of two candidates, each of whom had previously served as Prime Minister with a weak reform performance should have given pause to those familiar with Pakistan. Lending levels in FY94-95 were at the high end of base case levels, which was inconsistent with policy performance. In the case of the SAL, the accompanying 1998 strategy progress report made it clear that none of the major conditions for moving to high base case had been

Table 3.3: Remittances (US\$ millions)

2000-01	1,086
2001-02	2,389
2002-03	4,237
2003-04	3,872

Source: State Bank of Pakistan

¹¹ The Government notes that Pakistan Steel, PIA and Pakistan Railways have been profitable for the last 2-3 years and therefore disagrees that public enterprises are a drain on the budget (see Annex 6). However, KESC and WAPDA still require infusions accounting for about 1 percent of GDP. In addition, although IEG notes that Pakistan Steel, PIA, and Pakistan Railways are recording profits, PIA and Pakistan Railways still depend on the Pakistani Government for financial support. Data from Pakistan Railways show that from 1994/95 to 2003/04, subsidies increased from 1.6 billion rupees to 6.6 billion rupees, and capital transfers from the government increased from 1.8 billion rupees to 4.6 billion rupees. While PIA has not received any subsidies, it has received cancellation of interest of 2.6 billion rupees and 5.3 billion rupees to replace aircraft, in exchange for equity, increasing the Government's ownership of PIA from 57.7 percent in 2001 to 75.9 percent in 2002.

¹² The sustainability of these flows is uncertain. Initially, it appeared that the increase in remittances might be temporary, as Pakistanis were concerned that their funds abroad might be frozen or seized. Other explanations include (i) as international money-laundering rules were tightened, more people chose to send money back through the formal financial sector; and (ii) the improved economic reform environment is attracting more capital. If the latter explanations are the driving forces, the recent increased remittance levels may continue.

satisfied. The PSAL and the SAL were also poorly designed and had little sustainable impact on structural reform, although they did help the country avoid default¹³ (see Annex 1 for discussion on these adjustment loans). PSAL, SAC, and SAC II lacked prioritization and selectivity, as their coverage was quite broad, possibly in order to justify the large commitment amounts. Some prior actions were listed in both SAC I and II, some were continuations of ongoing programs, and some were being supported by other Bank loans.

3.11 Most of the progress in the adjustment loans was in the areas directly under control of the federal government, including civil service reform, public accounting and auditing, trade reform, and budget allocations.¹⁴ Reforms in areas such as power, gas pricing, i.e., where the implementation fell under agencies or ministries not receiving funding from the loan, have not proceeded as well. In a country as large and complex as Pakistan, it may be more appropriate to address sector reforms with more focused adjustment loans, rather than through economy-wide loans. The Bank has started to do this to some extent, making some provincial level one-tranche adjustment loans. While the provincial loans are still somewhat broad, the one-tranche loans allowed the Bank to limit follow-up lending if the provincial government did not follow-through with continued actions.

4. Poverty Reduction and Social Sector Development

4.1 Government statistics estimated poverty at 26.8 percent of households in 1992/93.¹⁵ The 1992 country strategy noted that the high poverty levels were due in large part to the limited access of the poor to productive assets and to inadequate public services. The high population growth rate and the neglect of human resources development resulted in some of the poorest social development indicators in the world: infant mortality of 91 per thousand, an adult illiteracy rate of 65 percent,¹⁶ and high malnutrition among children. Moreover, largely because of rapid population growth, landlessness increased, with the average size of farms operated by the poor also declining. The Bank noted that weak social development would affect the country's long-term growth and human development.

The Bank's Strategy

4.2 Given the needs in poverty reduction and social sector development, it was appropriate that the Bank made improvement in these areas primary objectives. During the review period, the Bank's country assistance strategies consistently listed Poverty Reduction as a priority. The 1992 strategy discussed a three pronged approach: (i)

¹³ The experience of these loans raises the question of whether the Bank should provide emergency liquidity to countries to avoid default in the absence of a strong reform program. This issue goes beyond the scope of the CAE.

¹⁴ Progress in areas where there has been extensive Bank support through other loans (e.g., the banking sector), or where the CAS documentation lists accomplishments under ongoing programs that were planned independently of these loans (such as the Lady Health Workers or the establishment of the Micro-Credit Bank) should not be considered accomplishments of these projects.

¹⁵ Government of Pakistan, *Poverty Reduction Strategy Paper*, December 2003, p. 12.

¹⁶ World Bank. 1995. *Pakistan Poverty Assessment* (Report no. 14397).

support for the Government's Social Action Program (SAP); (ii) support for projects in agriculture and industry which expanded opportunities for small farmers and small to micro-sized enterprises, and (iii) "a focus on poverty reduction goals as part of the Bank's macro-economic and policy dialogue," including those factors which would affect the economy's ability to grow and create new jobs, and fiscal issues which affected the Government's ability to meet infrastructure and human development needs. The primary vehicles for implementing the first prong of the strategy were to be the Social Action Program and ESW work on poverty, human resource development, and execution of an Integrated Household Survey.¹⁷

4.3 Over the next few years, the strategy shifted to a focus on service delivery, mostly under the umbrella of the SAP, supplemented by focused service delivery projects (Table 4.1). The 1998 strategy progress report kept the SAP as the centerpiece of the Bank's strategy, but also introduced a discussion on targeting programs to help provide social protection, as well as the establishment of the Pakistan Poverty Alleviation Fund (PPAF; FY99) to help provide micro-credit (especially for women) and small-scale community infrastructure.

4.4 The 2001 Country Assistance Strategy Progress Report stated that the considerable support to SAP had not delivered commensurate results, that outcomes fell "far short of the SAP's targets" and that "overall results in this area remain disappointing despite significant investments from the government and the international donor community including IDA-financed interventions. Primary education is by far the worst-performing, but the very poor governance (weak financial management, poorly motivated teachers with lax accountability for results) lack of leadership and resistance to mobilizing NGO's help undermined efforts in health, family planning, and community infrastructure as well."

Table 4.1: Social sector projects, FY94-FY03

Social Protection & Poverty	Project cost (in US\$ million)	Health & Population	Project cost (in US\$ million)
1994 - Social Action Program	200.0	1995 - Population Welfare Program	65.1
1998 - Social Action Program II	250.0	1996 - Northern Health	26.7
1999 - Poverty Alleviation Fund	90.0	2003 - Partnership for Polio Eradication	20.0
		2003 - HIV/AIDS Prevention Project	37.1
Education		Community Infrastructure	
1995 - NWFP Primary Education Project	150.0	1996 - NWFP Community Infrastructure	21.5
1998 - Northern Education	22.8	2003 - AJK Community Infrastructure and Services	20.0
2003 - National Education Assessment System	3.6		

Source: Internal Bank data.

4.5 The government's new strategy was to increase devolution and accountability at the local levels, in order to improve implementation of service delivery. The Bank supported these initiatives with the Sindh and NWFP adjustment loans, a community infrastructure loan, and smaller, more focused health and education projects.

¹⁷ Several other projects were in the pipeline, including the NWFP Primary Education project (FY95), the Population Welfare Project (FY95) and Northern Health (FY96), but they were not discussed in the strategy.

4.6 Gender issues were consistently raised in the country assistance strategies and other documents. The lags in female literacy, school enrollment, and health indicators led the Bank and Government to design projects with a greater gender focus in service delivery. The Bank support of the Government's Lady Health Workers program, for example, sought to improve access of women to health care, particularly in the areas of family planning, pre-natal care, and birth delivery assistance. Extra incentives were given to encourage girls to attend school, such as providing scholarships and free textbooks to schoolgirls. Extra resources were also devoted to improving girls' school facilities and recruiting and training more female teachers.

Poverty Reduction and Social Sector Outcomes

4.7 The Bank, as well as many knowledgeable Pakistanis, refer to the 1990s as the "lost decade" for the poor, as little progress was made in the Bank's objectives of reducing poverty and improving service delivery. The 2001 household survey (the latest available data) indicates that the percent of Pakistani's households below the poverty line increased from 26.8 percent in 1992/93 to 32.1 percent in 2000/01. Although strong growth since then may have caused a recent decrease in poverty, preliminary data from a 2004 household survey suggests that poverty is still higher than it was at the beginning of the review period.¹⁸ The Government also has noted that quality of services is a problem, stating, "The ability of the state to effectively deliver quality services to the citizens is very limited. For example, rural hospitals and dispensaries lack staff and facilities and do not have effective systems of supervision over the dispensation of publicly provided medicines. The hygienic conditions of even some of the best hospitals are inadequate. The staff is poorly motivated and badly managed. Neglect and malpractices are commonplace ... Conditions in education, social welfare, environmental conservation, and population welfare programs are broadly similar."¹⁹

4.8 Although there has been marked progress in important areas such as childhood immunization, fertility, infant mortality, and female primary enrollment rates, the 2004 CAS PR noted that "Human Development indicators continue to lag behind those of countries with similar per capita incomes and despite encouraging progress in some areas, more rapid progress will be needed to achieve the MDGs (Millennium Development Goals) by 2015." (See Table 4.2 and Annex Tables 8-10.) Pakistan ranks 138th out of 177 countries on the UNDP's Human Development Index (HDI).²⁰ Infant mortality rate of 76 per thousand is well above Bangladesh's rate of 48 per thousand, and more than four times greater than Sri Lanka's rate of 16 per thousand. Its total fertility rate (as of 2002) of 4.5 is substantially higher than the rates of India and Bangladesh (2.9 and 2.95 respectively). Girls between ages 1 and 4 had a 66 percent higher death rate than boys in the 1990s,²¹ contributing to Pakistan having a lower female proportion of population than

¹⁸ See Government comments on this in Annex 6.

¹⁹ World Bank. 2001. *Pakistan: Joint Staff Assessment of The Interim Poverty Reduction Strategy Paper*, pg 35 (Report no. 23189-PAK).

²⁰ United Nations Development Program. 2004. *Human Development Report (HDR)*, Oxford University Press, New York, reports a ranking of 142 out of 177, based on combined measures of life expectancy, school enrollment, literacy, and income. However, the Pakistani Government has received a recent addendum to the HDR which upgraded the ranking of Pakistan to 138 out of 177.

²¹ Easterly cites Tinker, 1998.

normal.²² Female school enrollment and literacy continue to lag men. There are also differences between rural and urban areas, and between provinces.²³ While urban poverty fell between 1992/93 and 2002/03 (28.3 percent to 22.4 percent), rural poverty increased from 24.6 percent to 38.7 percent, a substantial widening of the urban-rural gap.

Table 4.2: Selected Social Indicators, 1993-2002

	Pakistan		India		Bangladesh		Nepal		Sri Lanka		South Asia	
	1993	2002	1993	2002	1993	2002	1993	2002	1993	2002	1993	2002
Immunization (% of children 12-23 months)	37	63	61	70	74	85	51	72	90	98	58	70
Fertility rate (births per woman)	5.8	4.5	3.8	2.9	4.1	3.0	5.3	4.2	2.5	2.1	NA	NA
Infant mortality rate (per 1,000 live births)	90	76	74	65	75	48	81	62	19	16	78	68
School enrollment, female primary (% of gross) ¹	45	68	84	90	69	98	88	113	NA	NA	83	88
School enrollment, male primary (% of gross) ¹	101	94	112	107	81	97	128	130	NA	NA	106	103
Female Literacy (age 15+) ²	22	29	39	45	26	31	17	26	86	90	36	44
Male Literacy (age 15+) ²	52	53	64	68	46	50	51	62	93	95	66	73

Source: WDI, Government of Pakistan Poverty Reduction Strategy Paper.

¹ Last available data for Bangladesh, Nepal, and Pakistan (PRSP) is 2001; India 2000.

² Last available data for India is 2000; Pakistan, 1998. Note that the Pakistan PRSP cites more recent figures of 37 percent female literacy and 61 percent male literacy based on recent surveys, but does not define the age range. Hence, for comparative purposes, the WDI data is used.

4.9 In addition to poor social outcomes, the Bank's program failed to attain its primary intermediate output: an increase in Government expenditures for the social sectors. By 2002, the Government's contribution to SAP as a percent of GDP had actually dropped (see Table 4.3).²⁴

Table 4.3: Government Allocations and Expenditures on SAP (Percent of GDP)

SAP Allocations and Expenditures (as % of GDP)									
	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02
Allocations	1.6	1.7	1.8	1.8	2.3	2.3	2.1	1.9	1.8
Expenditure	1.6	1.6	1.7	1.6	1.7	1.6	1.4	1.4	1.5

Source: The World Bank, Social Action Program ICRs and supervision reports (various years).

4.10 Several elements of the non-SAP health and education projects have had positive outcomes, including teacher training, family planning and immunization, although a strategy for scaling up these improvements is still needed. In addition, the Pakistan

²² Easterly, 2003, Table 4.

²³ A recent National Human Development Report documented marked and persistent differences in the Human Development Index (HDI) across provinces as well. See UNDP, *Pakistan National Human Development Report 2003* (UNDP: Islamabad, 2003). These differences are also noted in the World Bank's *2002 Poverty Assessment* (Report no. 24296-PAK).

²⁴ Bank staff commented that, given the increasingly difficult fiscal situation, it was a positive achievement that the Government maintained its social sector spending at roughly comparable levels. It is likely that without Bank pressure, spending levels would have decreased further. Also, the existence of the SAP kept the importance of social spending in the forefront of major policy discussions.

Poverty Alleviation Fund (PPAF) is doing well, having extended loans to 122,000 clients with an estimated recovery rate of about 95 percent; the results were encouraging enough that a second PPAF of US\$238 million was approved by the Board in 2003.

Assessing the Bank's Contribution

4.11 Although the environment for improving social services was hampered by the extremely limited fiscal space to increase expenditures aimed at the poor, the Bank's strategy for poverty reduction and social sector development had its own weaknesses as well. First, the strategy was focused on service delivery, rather than on the root causes of poverty reduction and on promoting income generating activities for the poor, particularly in rural areas. Outside of the social sectors, there was limited attention paid in the lending program to the poverty impact of Bank interventions. Bank support for rural development, for example, was focused on irrigation and drainage, to the neglect of rainfed areas and livestock; within irrigation, little attention was paid to the access of the poor to water supplies, although Bank analytic work had identified land inequality and therefore unequal access to irrigation as a key issue affecting income inequality. As another example, Bank support in infrastructure was concentrated on large power projects, with no support for rural electrification during the period under review.²⁵

4.12 Second, although the Bank had identified over the years and in a number of analytic and strategic documents political economy issues and power relations that were relevant to development efforts,²⁶ these were largely ignored in lending or in project design. Thus, issues of female access to labor and factor markets and land inequality, for example, were not taken into account in the design of Bank programs.

4.13 Third, within service delivery, the Bank's lending focus was mostly on SAP, and within SAP, on expanding the quantity rather than the quality of the services. Even as SAP wound down, most of the new social sector projects also focused on service delivery. Research in Pakistan had found that the demand for private education was growing, for example, indicating a willingness to pay for perceived quality of services. Nevertheless, SAP aimed at increasing expenditures on social services, with little attention to outputs or impact of increased spending. In addition, SAP suffered from a number of major problems: complex project design, and large numbers of government units and donors involved, which in turn meant large administrative costs to appraise and supervise, and inadequate fiduciary safeguards on the use of funds. Finally, it is not clear whether sufficient Bank effort was put into the critical buy-in to the SAP by provincial

²⁵ A Rural Electrification Project was approved in FY90, but this delivered little in terms of its original targets for rural electrification or controls on tubewells.

²⁶ The 1995 *Pakistan Poverty Assessment* (Report no. 4397-PAK) noted, for example, "Women in Pakistan have been discriminated against in seeking access to labor and credit markets, and to such government services as education and agricultural extension (pp. x-xi)" and "The evidence suggests that there are gaping inequalities in ownership of land across gender, and the law on inheritance...has failed at the implementation level in Pakistan." (p.14), and the 2002 *Poverty Assessment* (Report no. 24296-PAK) found that, "The deepest and most pervasive poverty in the country is rural and it is worst in areas that have traditionally been considered 'feudal'...Rural elites have exceptional influence in Pakistan...they have had relatively little interest in enhancing their constituents' access to education or insuring that the poor could obtain the protection of the law without elite intervention."

ministers, and thus the program was not owned by the sub-national governments who were expected to implement it.²⁷

4.14 Beyond problems in the overall strategic thrust of the Bank's program, the Bank failed to design a program that was realistic. The SAP projects were the most extreme examples of this failure, but the problems can be seen in other projects. Among the design issues were: (i) inadequate mechanisms to measure intermediate results or the effectiveness of spending; (ii) overly complex project design. For example, although implementation completion reports stressed the need for focused projects with a limited geographical and administrative span, SAP involved twenty-seven government units and numerous donors with missions teams of more than twenty members; and (iii) financial management requirements which did not reflect the capabilities of the counterparts.²⁸ Weaknesses in financial and project management were common. Audit reports by the Auditor General (AG) contained a large number of observations which pointed to major irregularities.

4.15 Supervision reports and ICRs suggest that Bank staff and the other donors were aware of implementation problems, but had difficulty addressing them. For example, following on the experiences of SAP-I, the second phase of SAP laid a greater emphasis on issues of governance, quality, and community/NGO participation, but there was still an absence of indicators defining acceptable performance.

4.16 Delivery of the program was also quite expensive. SAP I cost US\$1.1 million to prepare, and US\$1.2 million to supervise. SAP II cost US\$1.2 million to prepare, and US\$2.2 million to supervise. In addition, the Bank spent another US\$1.3 million on other SAP associated costs (dialogue and other related tasks). Altogether, delivery of the SAP program alone cost close to US\$7 million.²⁹

Lessons and Recommendations

4.17 *Overall strategy.* Government and Bank policy papers all recognize the underlying issues that affect poverty, such as access to land, credit and other inputs; ability to improve livelihoods, need for social protection, etc. Yet, these analyses have not worked their way into the lending program, with the exception of the PPAFs. Poverty issues should translate into the selection of projects and into project design. More effort must be made to have staff from across different sectors develop a holistic approach to lending for poverty alleviation.

4.18 *Institutional capacity.* Projects need to have a stronger emphasis on building institutional capacity, not just in a project management unit, but in the government and community at large. There should be greater emphasis on technical assistance (TA) in

²⁷ IEG will be carrying out a PPAR on SAP I and II in the near future.

²⁸ The ICR for SAP II noted, "the manual tracking and documenting of several million manual transactions to IDA standards was humanly impossible." Supervision reports and other documents noted problems with the submission of SOEs.

²⁹ Bank budget only. Excludes trust funds or other donor costs. Average preparation costs for projects in Pakistan from FY94-03 were US\$356K; averages for SAR and the Bank were US\$433K and US\$357K, respectively.

the program, and more realism about the start-up time for projects as local capacity must be developed. Projects should also be scaled back as needed to meet the counterparts' capabilities.

4.19 *Political economy and governance.* While the Bank is limited in its ability to break through bottlenecks caused by vested interests, Bank project must take these issues into account. This could mean focusing more on aligning incentives, and improving monitoring and evaluation systems.

5. Sustainable Growth

5.1 In the early 1990s, the state controlled most infrastructure, a number of large industrial companies, and most of the financial sector. Foreign Direct Investment (FDI) was less than 1 percent of GDP, and gross fixed investment (both public and private) was about 17 percent of GDP.

5.2 Pakistan had a limited production and export base, with agriculture contributing 26 percent of GDP, but employing half the labor force and providing 70 percent of exports, including agriculture-based manufactured goods. Industry was concentrated in cotton processing, textiles, petroleum refining and food processing, and suffered from poor product quality, outdated technology, and an untrained labor force.

5.3 In infrastructure, power outages were increasingly common, telecom density was less than 1 per 100 people (one of the lowest in the world), and the inadequate transport system (roads, railways, ports) delivered poor service levels at high costs.

The Bank's Strategy

5.4 The Bank's overall strategy was to support a shift from public sector ownership and management to the private sector. This included trade reform, expanding and modernizing the financial sector, accelerating the Government's privatization program, improving inadequate infrastructure and a poorly trained workforce, industrial deregulation, deregulation of administered prices, and a more flexible exchange rate. Law-and-order issues were also highlighted as an impediment for attracting new investment.

5.5 The 1992 country strategy identified specific areas to support growth: (i) diversifying and expanding the productive agricultural and industrial base; (ii) improving the management of the country's natural resources, particularly water and domestic energy resources, with increased attention to environmental concerns; and (iii) overcoming severe infrastructure bottlenecks, as manifested by energy shortages and inadequate transportation infrastructure. Over the course of the review period, this translated into programs which focused on: (i) energy and infrastructure (18 percent of total lending), with an emphasis on power generation; (ii) finance (17 percent); and (iii) agriculture and natural resources management (9 percent), with an emphasis on irrigation and drainage. In addition, while there were no specific loans for issues such as trade,

privatization, and investment climate, reforms were supported through AAA and conditionality in structural adjustment loans. This section discusses each of these areas below.

Energy and Infrastructure

5.6 The Bank's infrastructure strategy, in Pakistan and worldwide, shifted away from Government-owned and operated infrastructure, towards greater involvement of the private sector. The Bank concentrated its initial efforts in Pakistan on the power sector, supporting an expansion of the role of the private sector (through the use of guarantees and other financial products),

financing public sector investments, and promoting improvements in the operating efficiency of public enterprises. However, investment lending for energy disappeared in the late 1990's as a result of poor performance in power sector restructuring, poor progress

in policy reform in other infrastructure subsectors, and the need to focus on other borrowing priorities. The Bank did maintain an active dialogue, supplemented with AAA and targeted TA.

Table 5.1: Infrastructure operations FY94-03

FY	Project	Amount in US\$ million
1994	Power Sector Development Loan	230.0
1994	Sindh Special Development Credit	46.8
1995	Second Private Sector Energy Development Project	250.0
1995	Uch Power Guarantee	75.0
1995	Hub Power Guarantee	240.0
1996	Ghazi Barotha Hydro Loan	350.0
1996	Telecommunications Regulatory and Privatization	35.0
2000	Policy Reforms in the Petroleum Sector IDF Grant	0.50
2001	Trade and Transport Credit	3.0
Total		1230.0

Infrastructure Outcomes

5.7 **Power Sector.** The most notable progress in the power sector has been in terms of physical expansion. More than 5,000 MW of new private power generation capacity was installed in the 1990s, over one-third of current capacity, which helped ease the chronic shortages in generating capacity which Pakistan had experienced in the preceding decade.³⁰ One generation company was privatized, the transmission system was upgraded to service the new generation capacity, and chronic supply shortages were reduced. The sale of 73 percent of Karachi Electric Supply Company (KESC) was recently announced. On the other hand, the price of new generation capacity developed under the private power program was high³¹, serious allegations of corruption were raised related to awarding and negotiating contracts with private participants (Box 5.1), and the process of restructuring and privatization has been slow. Finally, the sector's financial performance has worsened dramatically, so that in recent years losses at the Water and

³⁰ In addition to private power, the Bank also supported the Government run Ghazi Barotha hydropower project, which had a low generation cost of US\$1.07 cents per kwh.

³¹ The cost per KW for the Hub, Uch, Rousch and Southern Electric power projects funded under the two power sector development loans ranged from US\$1,205 to US\$1,395. Price comparisons must be interpreted carefully because world generation prices fell as technology and competition advanced. However, although it may be that the cost per KW was reasonable for the IPP projects at that time, the failure to move to competitive bidding at an earlier time and to phase in the new contracts meant that the system had excess capacity for a number of years, and could not take advantage of the lower prices that accompanied technology advances and optimized fuel mix.

Power Development Authority (WAPDA) and KESC have been some \$500 million per year, amounting to 1 percent of GDP.

Box 5.1: The Independent Private Power Program: Issues¹

The Bank approved a series of loans and guarantees to assist Pakistan in attracting private sector resources. In 1995, after more than six years, the 1292 MW, US\$1.6 billion Hub Power Project reached financial closure. It was hailed as a landmark in infrastructure financing, and a model for the viability of private financing in infrastructure in a developing country.

The Government subsequently issued Letters of Support for an additional 34 projects totaling 9,000 MW, of which 19 IPPs, representing 3400 MW of additional capacity, reached financial closure. Four of those projects were not completed. The Bank provided partial risk guarantees for two projects, the IFC provided loans and/or equity for five projects, MIGA extended guarantee coverage to three projects, and the Government of Pakistan provided subordinated loans to six projects through the IBRD-financed Private Sector Energy Development Projects. See Annex 2, Table 16 for details.

In 1994, prior to tariff agreements reached under the IPPs, WAPDA's average tariff charged to the consumer was 4.5 cents per kWh. However, in order to attract potential investors, an indicative tariff of 6.5 cents per kWh was set for power sold to WAPDA; this increased WAPDA's costs considerably. In addition, the power sector suffered from distribution and system losses, and uncollected customer payments. The rupee depreciated by 45 percent from 1994 to 1998, when most of the power came online, making it yet more difficult to pass on increased costs to consumers. In the end, WAPDA and KESC experienced heavy financial losses, requiring Government support.

Given the high level of investor interest, a competitive bidding system should have been set up, which likely would have resulted in a lower tariff. Furthermore, the Bank had projected that, after Hub, only 2000 additional MW were needed at the time, and yet supported projects with total capacity in excess of that projection. Over-capacity was compounded by weaker-than-projected demand for power because economic growth weakened. Widening cross-subsidies from industrial and commercial consumers to other consumers led many of the industrial and commercial consumers to install their own captive capacity, further weakening effective demand for power from WAPDA. Finally, transmission and distribution capacity failed to keep pace with the expansion of power generation, so that even if demand had materialized, the system was not able to deliver power to the end users.

In 1998, the Government moved to cancel seven IPP contracts on grounds of corruption and two on technical grounds. This represented about two-thirds of the private power capacity contracted. Several government committees were established to renegotiate tariffs and investigate corruption charges (allegations were also made against Bank staff). After a great deal of frustration on all sides, several IPPs agreed to tariff reductions, and, in at least one case, a court-ordered reduction in tariffs resulted. While no accusations were ever proven in court, these allegations and court cases made the IPP program highly politicized, resulted in a loss of investor confidence, and severely damaged perceptions of Pakistan's investment climate.

¹ This section draws heavily on World Bank, Energy and Mining Sector Board Discussion Paper No. 14 "Lessons from the Independent Private Power Experience in Pakistan," May 2005.

5.8 Oil and Gas. Pakistan has limited known reserves of crude oil, but has exploitable gas reserves of about 27 TCF (equivalent to about 25 years of production at current levels). Although the government's stated policies were to emphasize private sector participation, through most of the decade the government tightly controlled the oil and gas industries. Starting in 1998, with support from the Bank, the Government developed a new policy framework. Policy capacity was built up in the Ministry of Petroleum and Natural Resources. Fuel oil and LPG markets were liberalized in 2000. A formula-based fortnightly adjustment of petroleum product prices, a new consumer gas

price framework, and a new wellhead gas price framework were introduced in 2001-02. These reforms have helped catalyze more than US\$1.3 billion in investment in the sector and a 50 percent increase in gas production in the last three years. Distortions in pricing remain, however, as shown by the huge discrepancies in gas pricing, with the fertilizer industry paying 37 Rs. per thousand cubic feet (mcf), and commercial customers paying 205 Rs per mcf (see Annex Table 14).

5.9 **Telecom.** Although five mobile telecom licensees have increased competition and access, physical line density still remains low at 2.84 lines per 100 inhabitants, and remains a constraint on economic development. However, regulation has improved, as the Pakistan Telecommunications Authority (PTA) has become more independent. The spectrum allocation/site clearance process has been reduced from over four months to seven days. Installation of a national frequency management and monitoring system has improved those functions considerably. Pakistan Telecommunications Corporation Ltd (PTCL) has lost its monopoly status, and bids have been invited for additional fixed line providers. The government has twice tried to sell a 26 percent stake in PTCL, but has not yet succeeded, which may reflect systemic problems such as overstaffing, restrictive labor practices, and regulatory and policy constraints.

5.10 **Transport.** Pakistan's transport sector has been characterized by poorly targeted investments, neglect of essential maintenance, inefficient labor and non-commercial practices resulting in severe bottlenecks, high transport costs, poor safety standards, and low levels of service. In the roads sub-sector, maintenance spending covered less than 15 percent of stable network needs; meanwhile, major public expenditures were made to support expensive highway projects with no obvious economic return. Deferred and inadequate road maintenance leads to Rs 16 billion of road assets being lost each year. Recently, however, there has been a movement in policy reform. An integrated transport policy has been drafted, the National Highway Authority has been strengthened and downsized, the priority of maintenance over new construction has been re-established and major progress has been made in mobilizing resources for sustainable maintenance.

Assessing the Bank's contribution

5.11 The Bank's basic strategy of shifting the burden of providing infrastructure from public to private investment was reasonable. While there were many design and implementation issues (discussed below), global experience with private infrastructure provision was very limited in the early 1990's and much has been learned in the intervening period. Pakistan pioneered the Bank's new energy policies (enunciated in 1992) which emphasized unbundling, competition and privatization, but, as a result, had to face the consequences of adopting an untested set of reforms. Indeed, the early "private energy" experience in Pakistan helped catalyze this change in Bank policy. The quality at entry of the Bank's interventions was judged superior at the time and both the strategy and the individual products designed to deliver it were regarded as highly innovative and responsive to the problems facing the country's energy sector.

5.12 The Bank also displayed considerable flexibility in using a variety of lending, guarantee and non-lending instruments as well as conditionality in implementing the

strategy. When progress in restructuring stalled in the mid 1990's (power and ports) or investment priorities became distorted (highways), the Bank appropriately refrained from investment lending and maintained the dialogue through adjustment lending (power sector), supervision (power, ports, highways) and AAA (oil and gas, power). While formal sector work was limited, significant advisory services were delivered via supervision and project preparation/appraisal.

5.13 Despite the overall coherence of the Bank's approach, a number of problems emerged in the implementation of the infrastructure agenda, most notably in the power sector. Some of these were specific to the situation in Pakistan, while others related to the teething issues and problems associated with implementing the Bank's global infrastructure initiatives which were enunciated in the early 1990's. While such issues are easy to see with hindsight, some could have been avoided, and are discussed below.

Lessons

5.14 *Inadequate attention to the financial aspects of reform.* The problems of the inadequacy of the level and structure of power tariffs, theft and collection (particularly in key provinces and cities) were well known; project documents consistently highlighted the importance of continued tariff reform as well as steps to improve collection performance. The financial crisis that followed the commissioning of the IPP projects was the result of insufficient attention to this issue. Pakistan faces immense social and political constraints in tackling these problems; a more direct focus on the tariff, cross-subsidies, the level and nature of the losses and the sector's underlying financial viability, coupled with innovative prescriptions designed to help the government tackle these problems should be pursued.

5.15 *Failure to design projects that reflect the political economy and governance climate of the client.* Given concerns about governance, a transparent competitive bidding system should have been used for the IPPs. The first project (Hub) was an unsolicited offer, and the prices for the second IPP round were set before investment interest was gauged. The Bank then recommended a switch to competitive pricing, but this did not happen. Given the subsequent rapid reduction in the global costs of generation which occurred in the mid-1990s (as a consequence of both technological advances and increased competition), and given the significant opportunities for corruption in the awards of such contracts, particularly in a weak governance environment, such transparency was particularly important.

5.16 *Overemphasis on new products.* While the Bank's approach was innovative, a more measured and pilot type approach would have been more appropriate. Specifically, fewer contracts could have been awarded in the second phase, and then subsequent contracts could have followed a competitive procurement process. A lower cost and more optimal set of generation investments which were better synchronized with the restructuring of the gas sector might have resulted. The availability of gas, associated with the restructuring and price reform, would have allowed the installation of more efficient combined cycle generation in the second IPP round.

5.17 *Bank Management must better supervise new approaches.* Bank management failed to recognize the considerable risks associated with the IPP program in Pakistan, particularly the excessive fiscal and external account risks placed on the country as a result of the guarantees extended by the government to the private power producers. Bank management also failed to recognize the credit risk of the Bank itself, in the event of a default by the government on its guarantees (which almost happened). These failures may have resulted in part from the decision to have staff working on the IPP transactions bypass normal regional management process and report directly to senior management. Establishing specialist groups to drive a new agenda item is a tried and tested management technique; however, at the Bank, such an approach requires close supervision.³²

5.18 *Government commitment to partial reform is not enough.* There was demonstrable government support and “buy-in” for private generation transactions but no appreciation of the need for and the implications of the broader reform agenda. While successive governments committed themselves to the reform process and took some important actions to implement the agenda, key officials remained uncommitted. For example, deeply entrenched vested interests successfully delayed the restructuring of WAPDA, which was central to the ultimate success of the unbundling and privatization process. It is now completed in form, but not yet in substance. Furthermore, after years of dialogue, the overall structure and level of tariffs are still inconsistent with a viable and competitive energy sector. The FY90 rural electrification project failed primarily because of inconsistencies in the tariff coupled with the unwillingness to pay for losses. Many of the new distribution companies (public or private) will not be solvent unless there is significant progress on tariff reform and collection.

5.19 In contrast, the Bank’s refusal to lend for highways for most of the period being reviewed by the CAE is a good example of the value of insisting on substantive policy reform. Lending only resumed in late 2003 when the government had clearly demonstrated a reordering of priorities away from large road projects to highway maintenance. Similarly, while the Bank refrained from making any new investment loans to the oil and gas sector during the last decade, it extended TA and AAA support when a clear commitment to reform was exhibited by its government counterparts.

5.20 *Building government policy capacity should be a focus for Bank Assistance.* Despite the existence of high level professionals in Pakistan, the policy capacity of the infrastructure ministries is weak. For example, the Water and Power Secretariat has limited capacity to analyze issues facing the power sector and to develop relevant policy options, and instead relies on AAA from the World Bank and WAPDA, an operational entity with vested interests.

5.21 *The effectiveness of ESW.* While important policy dialogues were carried out through project preparation, it might have been efficient to have spent resources on ESW

³² This point is also made in “World Bank. 2003. *Power for Development: A Review of the World Bank Group’s Experience with Private Participation in the Electricity Sector*,” (Report no. 28042) a joint review by IEG-WB, IEG-IFC and IEG-MIGA.

and other policy dialogue instruments. The recent energy strategy and water strategy papers have been well-received by the Pakistani government, showing that policy dialogue can be effective, even without lending.

Finance

5.22 At the beginning of the 1990s the financial sector was repressed: (i) the government controlled interest rates; (ii) the State Bank of Pakistan (SBP) regulated tightly the allocation of resources, giving priority to the financing of the government and its directed credit programs; (iii) the government owned most of the financial system; and (iv) the Government controlled the sale and deposit of foreign exchange. In addition, all the risks of the financial system were centralized in the government as it effectively guaranteed most financial obligations, directly through the political decisions that led to lending and indirectly through its ownership of financial institutions. In this environment, financial institutions and their regulators and supervisors were not conscious of the risks involved in financial operations and failed to develop the skills necessary to manage them. Regulations regarding the quality of the portfolios were extremely lenient and supervision formalistic. Banks reported loans as performing that should have been written off and kept accruing interest on them, obscuring their true financial situation. The system's deficiencies in terms of risk assessment and management became obvious during the 1990s, when arrears escalated in both the Nationalized Commercial Banks (NCBs) and Development Finance Institutions (DFIs) to the point of rendering them technically bankrupt.

The Bank's strategy

5.23 An FY93 financial sector report proposed a strategy based on three pillars: continued reform of macroeconomic and financial policies; institutional strengthening; and increasing access to resources to permit new and reformed institutions to meet the needs of their

clients. Specific measures included the strengthening of SBP's regulatory and supervisory

Table 5.2: Financial Sector Operations in Pakistan FY94-03

Project Name	FY	Project Cost (in US\$ million)
Financial Sector Deepening and Intermediation Project (FSDI)	1994	\$216
Bank Structural Adjustment Loan (BSAL)	1997	\$250
Banking Sector Restructuring and Privatization Project (BRSP)	2001	\$300
Banking Sector Technical Assistance Loan (BSTAL)	2002	\$26.5

functions and the acceleration of the privatization of the NCBs and DFIs. The strategy was supported by four operations (Table 5.2).

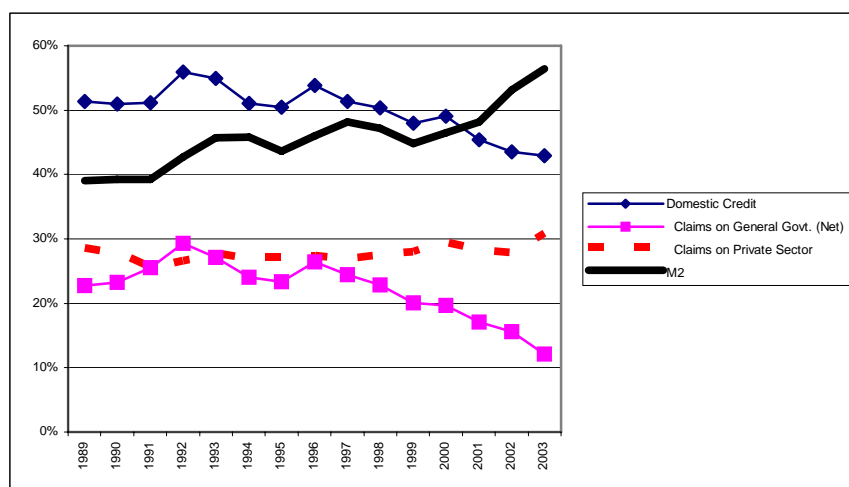
5.24 Despite the analytical work, and the poor performance of a series of previous financial intermediation loans (FILs), the first loan after the financial sector report was a FIL with a small TA component. The US\$200 million line of credit was undisbursed and cancelled, while the small TA component was implemented. The loan was unsatisfactorily designed since the financial system was not ready to absorb productively an intermediation loan, but was considered satisfactory because the TA component achieved institution building, which was one of the key loan objectives.

5.25 In early 1997, the SBP and the Ministry of Finance put together a reform program, and approached the Bank for support. The new strategy was to prepare the financial institutions for privatization by installing independent managers, under new legislation that protected the process from political interference. These new teams were required to implement action programs, approved by SBP, aimed at reversing the flow of losses and downsizing the banks. The Bank supported the project with the Bank Structural Adjustment Loan (BSAL) and followed with the Banking Sector Restructuring and Privatization Project (BSRP). Both were fast-disbursing loans designed to support the costs of restructuring the banks, including the cost eliminating redundancies, which eventually separated 29 percent of the staff at the institutions, at a cost of US\$350 million.

Financial Sector Outcomes

5.26 The Pakistani financial system has improved significantly. Among the positive achievements are: (i) losses in the banking system have been stemmed; (ii) five NCBs have been restructured and capitalized; of which four have been partially privatized and the profitability and efficiency of these banks have improved in the process; (iii) the SBP has become a modern central bank, focused on monetary policy and the regulation and supervision of the banking system, and dropping non-core functions; (iv) Bank regulation and supervision improved markedly; (v) directed credit schemes have been substantially reduced; and (vi) commercial banks are now free to allocate their resources in accordance with market signals. In addition, the capital markets have become much more buoyant; market capitalization of publicly traded companies has increased from Rs289 billion in 1998-99 to Rs1.4 trillion (US\$24 billion) in 2003-04.

Figure 5.1: M2 and credit in Pakistan (% of GDP)



Source: International Financial Statistics.

5.27 There are still, however, many things to do. Credit to the private sector as a percent of GDP has not changed substantially in the last decade (see Figure 5.1). Privatization is not yet complete, and the privatization of the most important of all the NCBs, the National Bank of Pakistan (NBP), will not occur for several years.

Regulation and supervision, while improved, still need to be applied in a more consistent way, particularly in the non-bank financial institutions. Substantial losses still need to be absorbed and operational costs reduced. With non-provisioned non-performing loans around 10 percent of the claims on the private sector, the banks still have a long way to go to clean their balance sheets. Housing credit remains underdeveloped and delinquent loans in that sector are too high. The new legal collection system is much more efficient than the one it replaced, but the backlog of collections is still substantial. It is the direction of change; however, more than the attained objectives, that marks the difference between 1993 and 2003. While there is still a long way to go, a critical mass of reforms has been achieved, making reversion to the old state-managed system unlikely.

Table 5.3 : Selected Banking Sector Statistics

	1993 ¹	2004
Total Deposits of the Banking System (Rs Billions)	620.4	2143
NPLs as % of Gross loans (All Banks)	19.0%	14.5%
Capital as % of Assets (All Banks) ²	2.8%	5.1%
ROE (All Banks)	19.4%	18.3 %
ROA (All Banks)	0.6%	1.0%
Average interest rate spread	4.8 %	4.1 %

Sources: State Bank of Pakistan; IMF; World Bank.

¹ Deposit data in first column are for 1992; 2004 data are as of June, 2004, except deposit data, which are year-end 2004.

² Regulatory Capital to Risk Weighted Assets would be the better measure. However, risk weighted assets were not properly tracked in earlier years. The SBP reports an average Regulatory Capital to Risk Weighted Assets of 9.8 percent as of June 2004. Note that interpreting NPLs, ROA, and ROE is difficult, since loan provisioning was not consistently applied.

Assessing the Bank's Contribution

5.28 In IEG interviews, government officials and private sector participants expressed the view that the participation of the Bank was crucial in the successful reform of the financial system. The strategy was appropriate and, while it evolved over time to respond to new developments, it remained essentially the same throughout the period of review. It correctly identified the key dimensions of reforms that were required to transform the financial system into a more efficient mechanism of development.

5.29 With the exception of the FSDI, the Bank loans were well-designed. The BSAL and BSRP provided critical funding and technical assistance to a solid program of bank restructuring. The loans also strengthened the asset recovery departments of NCBs, loan recovery procedures, and DFIs. These measures led to a recovery of 25 percent of the loans within one year of launching the programs.

5.30 The loans also gave attention to longer run problems, including strengthening regulations and banking supervision—with measures such as increasing and enforcing capital requirements, stopping income accrual on delinquent loans beyond 90 days, tightening regulations on loan concentration, and improving bank examination and disclosure—as well as promoting the integration of the financial markets and improving legal and judicial enforcement of loan contracts. The recent BSTAL is too new to assess.

5.31 The program was effective at the end of the decade, even if it was a failure during the early part of the period, mainly due to the increased government ownership of the strategy, which became strong only after 1997.

Lessons

5.32 *Adjustment lending should support government ownership and reform.* One reason why the BSAL performed better than the other adjustment loans is that the reforms were truly “home-grown.” The program was designed by the State Bank of Pakistan and Ministry of Finance. The counterparts had a clear vision of what they wanted to achieve and the costs of implementing those reforms, and looked to the Bank and other donors to help them with financial and technical assistance. This stands in sharp contrast to the PSAL and SAL, which were quickly put together to create a justification to provide needed balance of payment support; not surprisingly, as soon the funds were disbursed, commitment waned and reform disappeared.

5.33 *Develop an overall strategy, then focus on achievable steps.* The Government and the Bank had an overall strategy for the sector, but focused initially on the banking sector; within banking, focused primarily on the state-owned banks; and within the state-owned banks, focused on a specific set of restructuring actions for the initial loans. While there is still a large agenda for reform, these initial reforms are likely to be deeper and more sustainable than if an overly broad reform agenda had been immediately embarked upon.

5.34 *Institutional development is important at all levels to support meaningful and sustainable changes.* The counterparts and Bank staff undertook a program which not only built capacity at the Central Bank, but which also instituted reforms at the large commercial banks in the program. This included not only recruiting new top management, but also attracting strong independent Board members, and reducing staff with a buy-out program. The counterparts understood that institution building needed to cover more than a small cadre of staff in a ministry or implementation unit. The Bank and other donors followed up with TA funding to support these changes.

Agriculture and Natural Resource Management (NRM)

5.35 Agriculture accounts for half the labor force and one-quarter of GDP. However, productivity of Pakistan’s agriculture is very low. The prevailing arid and semi-arid climate in most of the country has meant that water resources available for irrigation and the expansion of irrigated land are critical to increases in productivity. Agriculture uses an estimated 95 percent of available water resources, and irrigated land produces 80 percent of agricultural production. The total irrigated area in Pakistan is about 46 million acres, or about 82 percent of irrigable area. Crop production accounts for 60 percent and livestock about 38 percent of agricultural GDP.

The Bank's Strategy

5.36 The Bank's FY94 strategy outlined the Bank's objectives in agriculture. "In agriculture, the focus of our policy dialogue is on reshaping public and private sector roles. For the public sector, the main objectives are to improve capacity to efficiently carry out the large investment programs in irrigation and drainage, strengthen support services in research and extension, and improve management of watersheds and water resources.... With respect to the private sector, recently completed economic and sector work on irrigation and drainage recommends a fundamental shift in the management of the irrigation and drainage system to reduce the need for public financing and give the private sector a greater stake in the efficient management of the system." The FY95 strategy and FY97 strategy progress report echo similar approaches, except that Environment, which had been listed as a key area of reform in the 1992 and 1994 strategy documents, was by the 1995 strategy subsumed along with agriculture, as part of the growth reform agenda.

5.37 While the Bank strategies projected 23-25 percent of lending for agriculture and NRM, actual commitments in these sectors were only 9 percent, of which irrigation and drainage accounted for 91 percent.³³ A major role for irrigation and drainage in the rural portfolio is consistent with the importance of irrigated agriculture in Pakistan and the cost and complexity of the infrastructure needed to support that resource. However, the limited scope and size of operations in other sub-sectors could imply either that the Government and Bank believed the issues were not critical or that they agreed the Bank had no comparative advantage in addressing them. There is no record that such a dialogue took place.

Table 5.4: Agriculture and Natural Resource Management Operations in Pakistan FY04-03

Project Name	FY	Project Cost (in US\$ million)
Agriculture		
Punjab Forest Sector Development	1995	24.9
Baluchistan Community Irrigation and Agriculture	1996	26.7
Punjab Private Sector Groundwater Development	1997	56.0
National Drainage Program	1998	285.0
NWFP On-Farm Water Management	2001	21.4
Natural Resource Management		
Baluchistan Natural Resource Management	1994	14.7
GEF-Protected Areas Management	2001	10.1

Source: Business Warehouse.

Agriculture and Natural Resource Outcomes

5.38 The sector grew at an annual rate of 4.5 percent in the 1990s.³⁴ Some subsectors did very well; from 1990/91 to 2002/03, milk production grew by 80 percent, poultry by 135 percent, and egg production by 145 percent. Notwithstanding, rural poverty in

³³ Including the Northern Resource Management Project approved one month before the review period as well as the value of the GEF project would result in figures of 83 percent irrigation and drainage, 12 percent NRM and 5 percent forestry.

³⁴ The World Bank *Pakistan: Rural Factor Markets* (November 19, 2004; Report no. 30381-PAK) states that agricultural growth is overstated due to a change in the base for cattle production. The study estimates that the true agricultural growth rate is 3.1 percent.

Pakistan remained more or less stagnant. A complex set of interactions is responsible. Some of the major issues are:

- The 2002 Poverty Assessment states that the Gini Coefficient of land concentration increased from 0.65 in 1990 to 0.78 in 2002. 2 percent of households own more than 40 acres of land and control 44 percent of total land area. Almost one-half of rural households own no land. The Poverty Assessment also indicates that frictions in land purchase and leasing markets have contributed to inequality in operated area per household. Due to collateral requirements, land-poor households are mostly excluded from the formal credit market.³⁵
- Adoption of “green revolution” technology supported agricultural growth over the last 40 years. However, much of the gains from the introduction of new technologies for major crops had been realized by the early 1990s. Total area cultivated has increased by only 0.18 percent since 1990. Although yields have continued to increase, land productivity could be improved.³⁶
- Over the past decade, partial liberalization of agriculture input markets, the reduced dominance of the public sector in agricultural marketing, reduced tariffs, trade liberalization, introduction of pest resistant varieties of cotton and improved crop management have contributed to improvements in sector growth. However, SOEs and powerful private marketing associations continue to intervene in the cotton and rice markets.
- Under-investment in research, development and extension, the poor quality of inputs and the unreliability of rural services, particularly for irrigation, also contribute to low agricultural yields and inefficient water use. Inadequate rural infrastructure and education and health services and the lack of effective incentives to encourage more efficient water use similarly constrain production. Diversification into new, higher yielding crops and the use of efficient irrigation technology have occurred in pockets, but programs to promote and foster an expansion or scaling up of these trends have not emerged.
- Water prices are not high enough to cover costs, and recovery rates for assessed tariffs are low. In Punjab, revenues cover less than one-third of expenditures.

5.39 Irrigation patterns also affect productivity and poverty significantly. Patterns of unequal land ownership as well as governance problems result in unequal access to water. For example, the World Bank 2002 Poverty Assessment reports that a survey of six

³⁵ The Government has commented that it does not agree that land-poor households are excluded from formal credit markets, as both the volume of disbursements to the agriculture sector and the number of borrowers have increased (see Annex 6). However, as noted in the Bank’s 2004 Pakistan Rural Factor Markets Study, while the volume of lending for agriculture has increased, the volume of rural lending is still small, representing only 3.4 percent of formal lending as of 2002. In addition, only 11 percent of farmers received formal loans (14 percent of land-owners, but only 2 percent of non-landowning farmers). Less than 1 percent of formal credit to the sector goes to tenants, with most non-landowning farmers relying on informal credit.

³⁶ For example, wheat production in India’s Punjab province was about 15.5 million tons from 3.4 million hectares in 2000-01, while similar growing conditions in Pakistan’s Punjab province produced 15.4 million tons from 6.2 million hectares.

sample villages indicates that it was routine to bribe irrigation officials to ensure a supply of water.

5.40 Water-logging and increased salinity will further limit agricultural growth. Since drainage is inadequate, increasing amounts of salt are circulating in the system, progressively poisoning the soil. Water-logging and salinity have depressed major crop yields by an estimated 25-30 percent, and as much as 40-60 percent in Sindh province.

Assessing the Bank's contribution

5.41 The Bank's rural assistance program, with few exceptions, was poorly managed, designed and executed. It lacked vision, flexibility and responsiveness to the political volatility and institutional weakness that characterized much of the review period. Given the breadth and seriousness of sector issues and constraints to agricultural growth and poverty reduction, the lack of clear strategies and implementation plans was a serious shortcoming. Despite many references in Bank documents to the importance of increasing agriculture productivity and exports, assuring food security, reducing rural poverty and strengthening natural resource management, each country assistance strategy focused on a limited Bank agenda: policy dialogue on removing distortions in pricing, trade, and taxes; and work on reforming the irrigation system. While the National Drainage Program (NDP) (1997) had an ambitious reform agenda, the dominance of irrigation and drainage in the Bank's program crowded out important policy and lending support for programs and projects that would have addressed the core problems of rural poverty and environmental degradation.

5.42 The lack of strategic focus and the poor integration of agriculture in the country assistance strategies may have resulted from the failure of economic and sector work to reach consensus on a critical path to address key constraints to agriculture growth. For example, the Bank's 2001 agriculture sector strategy did not attempt to evaluate the Bank's past agriculture lending programs, nor did it provide a rationale for the projects selected for future agriculture lending. The strategy followed the Bank's global approach to rural development through improvements in the enabling environment, but issues concerned with improving rural productivity for the poor, generating value-added production activities, SME development and non-farm employment, and achieving reforms in water/drainage management were lightly treated or absent in the strategy.

5.43 As discussed in paragraph 4.12, the Bank failed to address land inequality, and overlooked the capture of the benefits derived from Bank support to the sector by rural elites, local and provincial administrations, and de facto agribusiness and market monopolies.³⁷ Increasingly severe drainage problems were belatedly addressed under the NDP, but over-ambitious design and the lack of comprehensive ownership of this project by the provinces severely limited its impact. In the NDP and other projects, the Bank generally overlooked shortcomings in ownership, as well as over-estimated the financial, institutional and absorptive capacities for its activities. The geographical split of donor interests also resulted in poor coordination when a multi-stakeholder approach was

³⁷ The Bank was aware of the issues, but did not adjust its program design accordingly.

critical to the timely achievement of policy reforms and effective resource and knowledge transfers.

5.44 Support for Natural Resource Management was even more limited. Although the 1992 and 1994 strategies identified environment as a major objective, only two small projects went forward in this area. A planned environmental strategy paper has been repeatedly postponed. Although a number of projects, such as the NDP, have important environmental effects, there seems to be little support for environmental work, either from the Government, or in the Bank program.

Trade, Privatization, and Investment

5.45 The Bank has supported these areas primarily through AAA and conditionality in structural adjustment loans. Trade reform was steady over the period; maximum tariffs have been reduced substantially, from 95 percent in the early 1990s to 25 percent in 2004 (with an average rate of 14 percent), and the number of slabs has been reduced to four. Exports as a percent of GDP have also seen an increase, from about 13 percent during most of the decade to 15-16 percent in the last two years; one concern, however, is that at the end of 2004, the global system of bilateral quotas in textiles expired. Pakistan is vulnerable to such shifts because the share of clothes and textiles in total exports exceeds 70 percent.³⁸

5.46 Pakistan has made progress in privatization, with 144 transactions for Rs 142 billion, from 1991 through November 2004,³⁹ and the recently announced privatization of KESC was an important step. The Government still holds a number of large industrial companies (steel, chemicals, fertilizer, textiles, etc.), however, and the sale of infrastructure companies is moving slowly. As discussed in the fiscal and infrastructure sectors, these state-owned companies continue to drain fiscal resources.⁴⁰

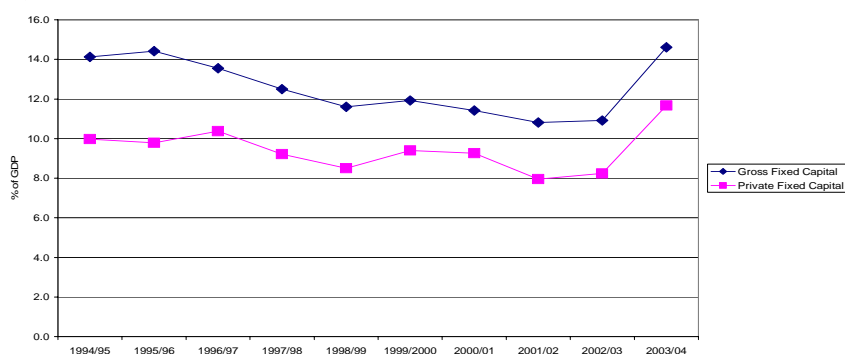
5.47 While annual GDP growth has rebounded to over 5 percent in the last two years, gross capital formation fell through most of the period, and has only rebounded in the last year, while FDI remains low at 1 percent of GDP.⁴¹ Thus the sustainability of growth is of some concern.

³⁸ The Government has also expressed concern about the robustness of Pakistan's exports, noting "Pakistan's export base is not diversified and is concentrated in a relatively few low value-added products." (World Bank. 2001. *Pakistan: Joint Staff Assessment of The Interim Poverty Reduction Strategy Paper*, pg 22. (Report no. 23189-PAK).

³⁹ The 1994 PSAL notes that the Government had already completed 84 sales by October 1994, implying that the pace has slowed considerably.

⁴⁰ See Footnote 12.

⁴¹ Figure 5.2 has been calculated using rebased GDP figures.

Figure 5.2: Pakistan: Gross fixed capital formation (% of GDP) 1993/94-2003/04

Source: IMF and Government of Pakistan statistics, and IEG calculations.

Summary

5.48 On balance, outcomes for the objective of sustainable growth were moderately satisfactory. While there was progress in a number of key areas (banking, trade) and partial and promising reforms in others (power, oil and gas, highways), the low level of investment, slow progress in privatization and regulatory reform, and the lack of a rural strategy which addresses fundamental problems, emphasize the fragility of progress.

6. Governance

6.1 The Bank, as well the Government and other stakeholders, have long noted that governance issues in Pakistan have been impediments to development throughout the period. While governance is difficult to measure, there is evidence of serious problems:

- In the 1990s, two democratically elected governments were dismissed on the basis of corruption charges.
- As of 1996, when the World Bank Institute (WBI) began collecting survey data, Pakistan was ranked in the 15th percentile on surveys on control of corruption, the lowest in the South Asia region (see Table 6.1).⁴²
- An inquiry in 1996 by the education department of Sindh discovered that 2,932 schools in rural areas existed only on paper. Many of the buildings had been converted into guesthouses, stables, or storage facilities. The Punjab government discovered similar abuses; it found about 1,600 “ghost schools” which had not operated for years, but the teachers continued to get paid.⁴³

⁴² Similar results are found in other surveys. In 1994, the International Country Risk Guide (ICRG) gave Pakistan a rating of 2 out of 6 on corruption (with a high score being less corrupt). In 2004 the rating dropped to 1.5.

⁴³ Operations Evaluation Department (OED). *Mainstreaming Anti-Corruption Activities in World Bank Assistance: A Review of Progress Since 1997* (Report no. 29620). Similar results were found in other Bank reports. The World Bank 2002 *Pakistan Poverty Assessment* (Report no. 24296-PAK) noted, “In surprise visits, Gazdar (2000) found that one-quarter of the schools surveyed were not open, there were no teachers present at all in 19 percent of them, and only one teacher was present in 35 percent. Only 38 percent of the schools were classified as “functional”, only a quarter of the schools had electricity, and only half had a latrine.”

- Governance problems complicated Pakistan’s efforts to improve its fiscal state. Tax revenues were stalled at about 13.7 percent of GDP in 1993-94. Fewer than 1.5 million people and entities filed tax returns.

6.2 Governance problems were clearly highly relevant to development in Pakistan; hence the Bank focus on this issue was appropriate.

Table 6.1: WBI Governance Indicators Percentile Rank: Control of Corruption

Country	1996	1998	2000	2002	2004
Afghanistan	N.A.	N.A.	1.1	3.1	3.9
Bangladesh	36.7	43.7	30.4	7.7	10.3
Bhutan	N.A.	75.4	86.4	80.9	75.4
India	43.3	60.1	52.7	49.5	47.3
Maldives	N.A.	33.9	39.8	56.1	60.6
Nepal	48.0	30.1	40.2	46.9	63.5
Sri Lanka	50.0	57.4	58.7	54.6	52.2
Pakistan	15.3	20.2	27.2	29.9	20.2
South Asia (average)	37.9	45.7	39.4	40.1	37.9

Source: WBI data.

The Bank’s Strategy and Program

6.3 In Pakistan, as in many client countries, the Bank has been struggling to develop a governance strategy. In early strategy documents, governance was raised as a problem, but there were no actions or projects planned to address the issue. Governance became a core priority in the FY97 strategy progress report. It did not, however, lay out any focused lending or AAA for governance; rather, it described the Bank’s approach as “assisting the effort to improve governance with actions under individual projects, and through sector program agreements such as SAP, Bank-financed projects are promoting transparent procurement processes, including third-party monitoring, and merit-based personnel practices.” There was one project in this area, the Pakistan Improvement of Financial Reporting and Auditing Project (PIFRA, FY97).

6.4 The 1999 strategy progress report laid out a more comprehensive strategy: (i) a SAL would focus on improving financial governance, by collecting overdue loans, tax arrears, unpaid electricity and gas bills, while putting in place key reforms; (ii) improved governance through project implementation, (iii) strengthened institutions through projects such as PIFRA and planned tax administration projects;⁴⁴ and (iv) policy dialogue and ESW, including the Public Expenditure Review and the Civil Service Reform Study.

6.5 The 2002 Country Assistance Strategy laid out a Bank program which would support governance reforms, through supporting the Government’s devolution program, primarily through “analytical work, technical assistance, and policy dialogue to support the implementation of the devolution strategy, particularly the strengthening of district

⁴⁴ The 1998 strategy progress report shows two planned Tax Administration projects. A US\$5 million LIL Tax Administration project planned for FY99 and a US\$40 million Tax Administration II project planned for FY01 were dropped. Bank staff said this was due to the departure of the “champion” of tax administration reform from the Government.

level capacity to manage public service delivery”, using the Sindh SAC and a Northwest Frontier Province (NWFP) SAC⁴⁵ as instruments.

Governance Outcomes

6.6 Defining progress or designing indicators for governance is difficult. The early strategy papers did not set any indicators or performance measures. The later strategies and strategy progress reports list either general qualitative outcomes (such as “Improvement in government effectiveness,” “Improvement in overall quality of financial management”) which are difficult to measure, or intermediate outputs (“Promulgation of a Procurement Ordinance,” “National Procurement Authority Established”), which do not reflect outcomes. Based on a review of the strategies, the poverty reduction strategy paper, and other documents produced by the region and the government however, there are some indicative outcomes which can be considered.

Perceptions of corruption

6.7 The Government has taken a number of initiatives, including civil service reform, designed to depoliticize recruitment and promotions. Work on financial management, financial reporting, accounting, auditing and procurement is underway.

6.8 One of the most visible actions of the Government has been the strengthening of the National Accountability Bureau (NAB), which has been mandated to investigate and prosecute cases of corruption. A number of government officials, politicians, and senior military officers have been sentenced to prison terms, received heavy fines, and been banned from holding public office. Major loan and tax defaulters were also forced to repay their overdue loans and taxes. About US\$500 million has been recovered so far.

6.9 Surveys on Pakistan show an improvement (Table 6.1) on the control of corruption; but the country lags behind most of its South Asian neighbors and Pakistan is only in the 20th percentile of 195 countries covered by WBI. In addition, of the other five indicators on governance measured by WBI, Pakistan declined between 1996 and 2004, and lags the South Asia region on the other indicators. (Annex Table 15).

6.10 ***Trade.*** Significant progress was made in reforming trade policy (paragraph 3.11) which improved the environment for potential foreign investors and trade partners. However, as the 2002 Poverty Assessment noted, through much of the period “the tariff regime sent mixed signals to producers and exporters. The complexity and non-transparency of the tariff regime was further exacerbated by ad-hoc exemptions and concessions, which allowed considerable scope for discretion and corruption in customs administration.”

6.11 ***Administrative Corruption.*** Evidence suggests that governance issues still have negative effects on the lives of most Pakistanis, including service delivery. As cited in the 2004 Pakistan Public Expenditure Management (PEM) report, of the 57 percent of

⁴⁵ The NWFP was planned only in the high-case lending scenario.

3,000 survey respondents in Pakistan who recalled using the services of one or more government agencies (education, health, power, land administration, taxation, police, or the judiciary), almost all reported corruption as part of the interaction.

Fiscal governance

6.12 The Government has taken a number of actions to improve fiscal governance, including conducting risk-based audits, reducing tax exemption categories, restructuring the Central Board of Revenue, and improving the technology for revenue collection. However, problems such as tax evasion and unpaid electricity and gas bills still continue. As discussed in Section 3, tax revenue as a percent of GDP has not changed appreciably during this period (Table 3.2), nor has the tax base expanded, with only about 1–1.5 million income tax filers.⁴⁶ Also, although progress has been made in decreasing operating losses of a number of public enterprises, losses from the power sector in 2002–03 continued to be close to one percent of GDP,⁴⁷ and some SOEs continue to drain resources from the Government budget.

6.13 The Bank has acknowledged that governance problems still are major impediments to fiscal reform. The Bank’s 2004 PEM report noted that “the main factors behind the low revenue mobilization are governance problems in tax administration, a narrow and inflexible tax base, a large informal economy that escapes the tax net and pervasive smuggling with associated revenue losses. Governance problems have been reflected in the widespread collusion (corruption) between taxpayers and tax officials, a situation that leads to tax evasion and lack of tax compliance.”⁴⁸

6.14 On balance, although progress has been made in governance, the overall outcomes remain unsatisfactory.

Assessing the Bank’s Contribution

6.15 The Bank appeared to have difficulty in devising a strategy to support this objective. In the first half of the review period, the Bank relied primarily on policy dialogue. Later, the strategy included elements such as: (i) using Bank projects as an example, demonstrating the importance of governance through the introduction of good practice procurement, financial management, and other tools; and (ii) pushing for governance through the 1999 SAL, which was focused on fiscal management. Near the end of the period, a clearer strategy was developed of supporting devolution and improving public administration through national and provincial loans, as well as through PIFRA, and providing AAA including the CFAA, advice on procurement, civil service reform, and tax administration.

6.16 This is not to say that the Bank did not have some effect. The Bank raised governance issues in every major ESW piece written in the period, highlighting to the

⁴⁶ World Bank. 2004. *Pakistan Public Expenditure Management: Strategy Issues and Reform Agenda* (Report no. 25665-PK).

⁴⁷ *Ibid*, p. v.

⁴⁸ *Ibid*, p. 25.

Government the importance that the international community (including the investor community) placed on this issue. The Government has embraced this view, and has raised it in its own documents such as the PRSP.

6.17 Dialogue on fiscal issues such as trade and tax reform has helped, as the trade regime has been greatly simplified, and tax exemptions have been cut back. The Bank's administrative reform support, through components of adjustment loans as well as AAA, has helped improve public administration capabilities.

6.18 Fiscal reform, particularly under the SAL, was not effective. IEG's evaluation of the SAL noted that the loan had resulted in "only minor sustainable improvements in public sector governance" and that institutional development impact was negligible. Indeed, the fiscal figures discussed in Table 3.2 support the earlier IEG evaluation, in that the SAL does not seem to have made a significant impact on improving governance.

6.19 One aspect of the Bank's program was the visible signs of corruption identified with some of the Bank's largest projects. Although the Bank wanted its projects to demonstrate good governance, the perception was at times quite different. Bank documents for SAP I and II, as well as reviews by the Department Auditor General of Pakistan (see Annex Table 17), repeatedly cite governance problems in recruitment, site selection, absenteeism, and procurement. The Bank did try to deal with the problems in some projects, such as suspending and then canceling part of the Baluchistan Primary Education Project; and withholding disbursements in other loans where there were irregularities. However, governance remained a problem in education.⁴⁹

6.20 The experience with the IPPs (Box 5.1) adversely affected perceptions in the international business community. When allegations of corruption in the IPP contracts emerged, the government seriously considered defaulting on several of the IPP contracts; eventually the government renegotiated several contracts. The non-competitive nature of the contract award process, the high price for power at a time when industry costs were falling rapidly (a result of competition and technical change) and the high development fees included in the contracts should have warranted extra diligence by the Bank. The perceptions of these problems together with the "near default" and the re-negotiation of several of the IPP contracts contributed to a deterioration in Pakistan's investment climate in the eyes of the international financial community.

6.21 Other projects also had problems. Political patronage in the selection of sites or inappropriate use of funds was cited as a problem in number of other projects.

⁴⁹ Bank documents on the SAP report other governance issues such as "vehicles are working out of the program and should be recovered", "delivery of educational materials is essentially supply driven and does not reflect the needs of each school as determined by teachers and head teachers." Other Bank projects had similar problems. One reported "75 percent of the teachers recruited were unqualified and had been appointed directly by political entities, teacher training programs were cancelled due to lack of vehicles; the monitoring and quality of civil works was unacceptably poor and procurement issues persisted." Another project had the collapse of part of a school under construction, which required increased review of other construction sites; another noted that millions had been spent on the purchase of supplemental reading materials, even though no textbooks were delivered and that science demonstration benches had been delivered, while only half of the schools received the equipment to be used with the benches.

6.22 In summary, the lack of a clear Bank strategy combined with poor implementation resulted in an ineffective outcome and entailed reputational risk to the Bank.

Lessons and Recommendations

6.23 *There is a need for a clear strategy, and a defined program to support it.* The Bank has recently been working with the Government on supporting devolution to increase accountability at lower levels of government. This, coupled with administrative reform, is expected to increase the efficiency and effectiveness of Government services. However, since many of the patronage problems have occurred at the local level, and the Bank is primarily working with federal and provincial counterparts, the Bank will need to ensure that the strategy and project design address problems at the right level.

6.24 *The Bank must spend more time on project design and developing institutional capacity.* Since the Bank is aware that corruption is an issue, project design must take this into account. Bank projects must ensure that incentives are properly aligned, and must include or develop financial and monitoring systems that are appropriate to the institutional capacity of the counterpart. This does not mean that the Bank should abrogate responsibility by relying more heavily on quick-disbursing loans that require minimal documentation of financial expenditures. Rather, it means that the Bank will need to spend more time on helping the Government with institutional development and monitoring systems, including more TA components and close supervision. It may also mean that the Bank may need to scale back its projects, to match the capacity of its counterparts.

7. Conclusions, Lessons and Recommendations

Overall Assessment

7.1 During the review period, the Bank embarked on a series of strategies to support important and relevant challenges faced by Pakistan. Outcomes were mixed, as changes in governments made it hard to find a committed reform partner who would see a sequence of reforms through. Development outcomes were also affected by the severe fiscal problems the governments faced, due to poor policies and implementation, as well as exogenous shocks.

7.2 The *macroeconomic* situation worsened through most of the review period. Although two near crises were averted, in part with Bank assistance, sustained reforms supported by the Bank were not implemented until the end of the review period; indeed, assistance packages appeared to do little but increase the country's debt burden. The macroeconomic situation has greatly improved since 2000, both due to a consistent Government reform program and favorable exogenous events. Debt is decreasing, reserves have increased to six months, and inflation has dropped to 4.1 percent. However, the situation is fragile. Total debt is still high (69 percent of GDP according to rebased numbers), deficits excluding grants are still over 4 percent, and many reforms

have not yet borne fruit, most noticeably revenue mobilization and improvements in expenditure management. Outcomes in this area are moderately satisfactory.

7.3 The outcomes of the Bank's programs in *poverty reduction and social sector development* have been unsatisfactory. The PRSP and other documents have recognized that although improvements in some areas have been made, poverty has increased, and the country still lags its neighbors and other low-income countries in key indicators. The social sectors suffered from a squeeze in resources as the fiscal situation deteriorated during most of the review period, a lack of a strong strategy to address the roots of poverty, and poor program implementation. While increased fiscal space and devolution of service delivery may improve social services, these initiatives have not yet made an impact. Outcomes are judged unsatisfactory.

7.4 The last two years have seen a rebound in *growth*. This may be due to increased international support, or new inflows of funds spurred by investor confidence in the Government. Where the Bank focused its support, there has been progress in important areas such as trade and banking. Recently, reforms have started in a number of infrastructure areas, including oil and gas, highways, and telecom. The Government continues to privatize companies, and has opened up competition in airlines, telecom and the financial sector. However, these sectors are still in the initial phase of reforms. Infrastructure has shown limited physical improvements, primarily in the power sector, where investment was handled in a way which damaged perceptions of the country's investment climate. Financial sector reform, while strengthening and improving the SBP, improving regulation, and restructuring and partially privatizing four NCBs, still faces a large reform agenda, including completion of privatization of the NCBs and DFIs, improving credit standards and banking performance, and developing a deeper financial market.

7.5 There was little progress in agriculture and natural resource management. While agricultural growth was solid, the effects on rural poverty were minimal, as the key issues of land inequality; unequal access to water, credit, and other resources; and generating rural employment and increasing rural incomes were not addressed. In addition, part of the sustainability aspect of growth is natural resource management. Environment was initially considered an important area for reform, but this area was generally neglected in the Bank's program. Given the large dependence of the economy, particularly the poor, on agriculture, the effects of poor water management and increased soil salinity, if unaddressed, may have severe effects on future growth and poverty. Other areas such as industrial and urban pollution have also been ignored. Overall outcomes for the sustainable growth objective are moderately satisfactory.

7.6 The Bank has worked to support the Government in improving *governance*. However, corruption is still endemic in the delivery of basic services, and the tightening of fiscal discipline has not resulted in improved tax compliance or increased tax revenue mobilization, and SOE fiscal reforms still have not taken hold. Outcomes in this area are judged unsatisfactory.

7.7 Although improvements have been made in some areas of macroeconomic management and growth, reforms in those areas are still fragile. When taken together with disappointing outcomes in social sector and poverty reduction, governance, agriculture and natural resource management, fixed infrastructure, and revenue mobilization and expenditure management, overall outcomes are moderately unsatisfactory.

Lessons

7.8 Throughout the period, the Bank generally did a good job of assessing development needs; objectives were relevant. In many sectors, the Bank's policy advice was sound, consistent and remained valid over the course of the review period. The Bank has managed to influence policy over the years, even in areas where lending was curtailed (oil and gas, transport) or where lending programs failed (social sector).

7.9 The Bank also appropriately slowed or stopped lending during some periods of poor country performance (FY97, FY00). There were also sectors where the Bank pulled out appropriately, dropping work in areas of weak reform.

7.10 The Bank demonstrated that it could learn from its mistakes. The clean-up of the portfolio and tightening of quality standards has not only improved performance along some measures (problem projects, project outcome ratings), but it also freed up resources for AAA.

7.11 While the overall analysis of issues was good, and visions for the program were valid, the Bank did not translate those visions into implementable strategies. The Bank failed to develop realistic strategies in key areas such as poverty, rural development, power, and governance. Although the Bank knew that commitment, sustainability, and institutional capacity were limited and that vested interests often overruled good policy, project design failed to take those factors into account. The Bank also failed to stick to its own plans (for example, moving to high-base case lending in FY94-95 and FY99 when conditions did not justify it), was slow to acknowledge mistakes (following up with SAP II when SAP clearly was not working) and slow to address repeated problems (e.g., the lack of commitment and institutional capacity).

7.12 The following are lessons which can be distilled from the earlier sections:

- *Invest in ESW, especially before designing loans.* The banking sector benefited greatly from having a strong sector review, which set out priorities and recommendations. Poverty, social service delivery, rural development, and governance all failed to have a coherent strategy, and it showed in program design. The power sector assistance would have been helped greatly if a good analysis of demand, sequencing of reforms, and fiscal sustainability had been carried out before the lending proceeded. The PSAL was not well-designed, in part because of the lack of ESW in some areas. The country team has started spending more on ESW, and has done some excellent work, especially in recent years (oil and gas strategy, PER, Development Policy Review).

- *Simplify projects, and reduce scale to match implementation capacity.* The program has been characterized by big projects, designed to catalyze sweeping reforms. However, in a country as large and complex as Pakistan, with issues of commitment and institutional capacity, large projects have proven difficult to implement. These large or broad projects were sometimes less effective than some of the smaller, more targeted projects. SAP, NDP, and economy-wide adjustment projects all suffered from having uneven levels of commitment, and differing abilities of counterparts to deliver. ICRs frequently emphasized the need for simpler project design, covering fewer geographical regions and including fewer implementing agencies. Another example is that while power projects did deliver the physical components, a phased or pilot approach might have been more cost effective and have averted many of the problems that arose.

This does *not* mean that the Government and the Bank should not have a sweeping reform program with a long-term vision. It does mean that such a vision should be supported by smaller or more focused projects. This means that reform may take a long time, and may need to be carried out through more projects, but it will be more effective and efficient in the long-run. As discussed in Section 5, the banking sector is a good example of focusing on a specific set of restructuring actions, with the intention of having follow-up work supported by future loans.

- *Don't assume one champion is sufficient to ensure commitment.* Although many of the projects may indeed have had a strong champion, or clear commitment from one or more counterparts, almost all projects had multiple counterparts. SAP dealt with 27 different government entities; National Drainage dealt with federal and provincial counterparts; the structural adjustment operations had counterparts in different ministries; the provincial operations (as well as SAP and NDP) rely on district level staff to carry out implementation. It was unrealistic to think that commitment would be strong for most, let alone all, of the parties, especially since there were no incentives that outweighed incentives to engage in patronage or other undesirable actions. Even within smaller projects, commitment at the level of implementation has been a problem.

As part of gaining commitment, project design should ensure that incentives are aligned. For example, adjustment operations often covered multiple sectors, and not all the affected parties benefited. The Ministry of Finance may have been strongly committed to the broad reform agenda, but that Ministry was actively involved in negotiations, and received the funding. In contrast, WAPDA, which was supposed to improve its tariff structures, increase collections, decrease costs, and dismantle itself, received no funds from the loans. Power tariff reforms are still not complete.

- *Institutional Capacity and Institutional Development matter.* Institutional capacity is almost universally lacking. Even though this issue has been raised continuously in supervision and ICR reports, most projects have little or no institutional development beyond training of the PMU (as can be seen from the low institutional development ratings for the Pakistan portfolio). Even then, PMU staff often leave for better jobs or

are rotated.⁵⁰ Also, in many projects, institutional development takes the form of short two-week or six-week training programs, with little follow-up or on-site experience to bolster the training. The financial sector serves as a good counter- example; Bank projects supported institutional development in the Central Bank and NCBs.

Projects will need to have a stronger emphasis on building institution capacity, not just in a project management unit, but in the government and community at large, i.e.: (i) there must be more TA in the program and projects; (ii) the Bank must be realistic about the start-up time for projects as capacity building takes time; (iii) projects may need to be scaled back in size to match the country's capacity, or phased in on a pilot basis until the capacity is developed.

Institutional capacity also must go beyond project implementation concerns. Many key ministries or agencies do not have adequate resources to do their own analytical or strategic work (an example is the Ministry of Water and Power). This is a problem that will not just be resolved by training, but will need to be addressed by civil service and public administration reform.

- *Adjustment lending should support government ownership and reform.* One reason why the BSAL performed better than any of the other adjustment loans, is that the reforms were truly “home-grown.” In contrast, the SAL was quickly put together to provide needed balance of payment support. Not surprisingly, as soon the funds were disbursed, commitment waned and reforms were not sustained. The experience in Pakistan has also shown that lending is not always needed to gain “a seat at the table;” the absence of lending in the oil and gas sectors and highway sectors did not mean that all dialogue ended. In addition, prior actions for adjustment operations should reflect the reform program being supported by the new operations. Some actions show up as prior actions in more than one project, or reflect progress of programs which were ongoing independently of the adjustment loans.
- *Breaking through sector silos.* The Bank must be more creative in reaching across sectors to design strategies and programs. The focus in the social sectors on service delivery, with minimal integration of rural development, infrastructure, and the other sectors needs to be more balanced. Reciprocally, the focus in agriculture on water and irrigation also speaks to a need to broaden staff involvement from other sectors.
- *The Bank must set an example in fiduciary transparency.* The Bank must be ready to suspend disbursements and cancel projects if there are problems of financial accountability. Also, much more work must be done on project design, including ensuring that incentives are aligned, and that financial management, monitoring and evaluation systems appropriate to the counterpart's institution capacity are put in place.

⁵⁰ This is a good indicator of commitment and sustainability. Some counterparts claimed that staff rotation was to be expected, as it was part of the civil service “generalist” policy. However, other Bank and government staff made it quite clear that when the project was deemed important, the assigned staff would stay in their positions as long as needed.

- *The Bank needs to react firmly to macroeconomic slippages and implementation difficulties.* The information about the inappropriateness of the SAL and of the move to “high-base case” lending was in the official documents; the problems of the SAP were discussed in supervision reports and other internal memorandum; the potential conflicts inherent to the power project should have been clear; and the continued problem of weak commitment and poor institution capacity is well documented. Yet, despite many levels of review, the Bank failed to insist on appropriate actions, programs, and project design.

Recommendations

7.13 The Bank should continue with its strong support of analytical work, but it should take it a step further and translate the analysis into implementable and prioritized actions and programs, taking into account political economy constraints. Priorities are in poverty, rural development, and governance.

7.14 Bank interventions (analytical work, technical assistance, and projects) should have a greater focus on building sustainable institutional capacity. All future projects should have clear institutional development elements or components. In the case of fast-disbursing loans, institutional development TA or AAA should precede or accompany the loan.

7.15 Projects should be more focused and scaled to fit the capacity of the implementing agencies. A shift from very broad adjustment loans to more focused loans designed to address a limited number of sectors or issues would be more appropriate for the current implementing capacity, and would likely lead to more effective loans. Innovative approaches should be initiated by pilot projects before scaling up.

7.16 Improved donor relations, including early consultation on project design and policy recommendations, and better communications with donors and NGOs, would make the Bank’s program more effective.

Annex 1: Structural Adjustment Loans and Credits

1. This annex briefly reviews the national and provincial adjustment loans (the Banking Sector Adjustment Loan is discussed in the Finance section). These projects have been audited by IEG; the Project Performance Assessment Report has been issued in FY06 under report number 34101 dated December 19, 2005.

The Public Sector Adjustment Loan/Credit (PSAL/C). On September 23, 1993, to take advantage of the reforms supported by the interim Qureshi Government, a Public Sector Adjustment Loan/Credit (PSAL/C; US\$150 million IBRD/US\$100 million IDA)¹ was approved.²

The PSAL/C had 32 agreed actions covering macro, privatization, public finance, social sector, trade, irrigation, and gas. The ICR concluded that the PSAL/C's had an unfocused "Christmas tree" approach of vaguely specified, "soft" and unprioritized measures, and country ownership of the associated reforms was too narrow. The ICR also criticized the Bank for not having done the necessary analysis and ESW: "One example...was a conditionality that recommendations of the Economy Commission on public administration reform be implemented, when the Bank did not know precisely what these recommendations were at the time of negotiations. Nor did the Bank have any preceding ESW on civil service reform issues in Pakistan to draw upon, and no experts in the field have ever participated in any of the PSAL preparation/assistance missions. Hence, the Bank was ill-prepared to undertake a dialogue or to assist in the implementation of public administration measures targeted in the PSAL."

Performance on agreed policy measures and on actual outcome was mixed, even allowing for the fact that the output performance was hindered by floods and a cotton virus. In the final analysis, the fiscal performance was inadequate, leading to the abandonment of the ESAF/EFF. It is not clear why, given the weak performance that the second tranche of the PSAL/C was released, nor is the justification for the moderately satisfactory performance rating clear.

Given the history of policy reversals in the country, and given that the loan was being supported by an interim Government which was due to be replaced shortly (the new government took office less than a month later) it seems overoptimistic to have proceeded with this loan, and it also seems that sustainability seemed unlikely (and indeed, the reforms were not sustained). The institutional development impact was rated negligible. The ICR raised the point that unlike previous adjustment loans, no technical assistance loan was prepared to accompany this loan.

The Structural Adjustment Loan (SAL). In May 1998, Pakistan carried out two nuclear tests, As a result, economic sanctions were placed on Pakistan; investment flows as well as aid decreased sharply, leading to a severe foreign exchange crisis. Reserves fell to US\$450 million in early December 1998 (about two weeks worth of imports). The Government introduced strong foreign exchange controls and other extraordinary measure to try to raise revenue and curtail expenditures. The Bank, Fund, and ADB began working with the Government on a macroeconomic and structural reform program. The CAS noted that financing gaps were estimated to be US\$5.6 billion in FY99, and US\$5.1 billion in FY00, and relied on assumptions

¹ The Japanese Overseas Economic Cooperation Fund (OECF) cofinanced \$150 million. The IMF later put in a ESAF/EFF for \$1.4 billion.

² The history of this loan was problematic, five previous appraisal missions had been aborted, before the loan was finally appraised and negotiated in 1993. The loan was originally conceived as a low conditionality emergency loan to help Pakistan with the effects of the Gulf crisis. When the crisis ended, the Bank felt it could no longer move ahead with a low conditionality loan, which caused lingering problems with the Government.

of financing support from the IMF (US\$1.5 billion), the World Bank (US\$1 billion) and the ADB (US\$700), as well as rescheduling of US\$3 billion of bilateral debt and \$1.2 billion of commercial debt, and voluntary rollover of institutional deposits in US\$1.4 billion and US\$1.2 billion from commercial banks and the Central Bank respectively.

The 1998 CAS PR reiterated that the volume of Bank commitments would be linked to: (i) the strength of Pakistan's reform effort; (ii) the maintenance of macroeconomic stability; (iii) progress in the social sector; and (iv) improvements in the country's creditworthiness. The PR argued that the new Government (elected March 1997) was truly committed to reform, even though the new Prime Minister had not sustained a reform agenda during his previous administrations. So, despite the past history of policy reversals, weak macro environment, severely deteriorating creditworthiness, and minimal progress in the social sector, the Bank deemed Pakistan to be in the "high-base case" scenario, qualifying it for about US\$750 million in lending.³ Part of the Bank's strategy was to prepare a series of one-tranche adjustment loans, as part of a "comprehensive response strategy" in coordination with the IMF and ADB. The Bank began working on the Structural Adjustment Loan (SAL; FY99). The SAL's primary objectives were to improve fiscal governance, by collecting overdue loans, tax arrears, unpaid electricity and gas bills, while putting in key reforms.

The ICR noted the SAL "helped Pakistan stabilize its macroeconomics position and strengthen its external position... overall, the objectives of the SAL were achieved and all prior actions were achieved before the loan was presented to the Board." IEG's evaluation of this loan noted that it had resulted in "only minor sustainable improvements in public sector governance", it also observed that compliance on components dealing with institutional reforms was partial. On that basis it rated the overall outcome as only moderately satisfactory, the institutional development impact as negligible, but sustainability as likely.

In terms of overall objectives, an immediate crisis was averted, as the IMF also approved US\$575 million under the ESAF/EFF arrangement, the ADB lent US\$125 million, the Paris Club rescheduled about US\$3.5 billion, and the London Club rescheduled about US\$877 in commercial debt. This support allowed Pakistan to clear its external debt arrears and start to rebuild its foreign exchange reserves. However, by spring 1999, "there were concerns that the government's commitment to the reform program was faltering. In particular, resource mobilization and governance improvements (*ed. note:* i.e, the exact areas of reform that were targeted by the SAL) remained weak."⁴ By September 1999, the government's failure to meet two conditions for IMF tranche release under the ESAF, led the IMF to formally suspend the ESAF program. In 1998/99 total debt to GDP was 93 percent; by 2000/01, it had increased to 109.2 percent of GDP.⁵

Structural Adjustment Credit I and II (SAC and SAC II). The Musharraf Government took power in October 1999. It inherited a very vulnerable macroeconomic situation, and, given the weak reform performance by previous governments, difficult relationships with lenders and donors. But by November 2000, the Government reached a new Stand-by Arrangement with the IMF, and negotiated another Paris Debt Restructuring (US\$1.8 billion) in January 2001. Although growth was lower than planned (3.1 percent versus a planned 4.5 percent), overall performance under the Stand-By was satisfactory. The Government also was in discussions with the Bank on starting a new lending program, and in May 2001, the Bank approved the US\$350

³ In fact, IBRD and IDA exceeded that planned amount; commitments in FY98 totaled US\$808 million.

⁴ World Bank. 2001. *Pakistan Country Assistance Strategy Progress Report* (Report no. 22219-PAK).

⁵ IMF estimates.

million SAC, which covered a similar range of reforms addressed by the previous adjustment loans, including revenue mobilization, improved expenditure management, banking reform, power reform, gas reform. The SAC, like the SAL, was a one-tranche operation. It was designed to be one in a series of programmatic loans, and the design reflects not only prior actions, but lays out anticipated follow-up actions

In June 2002, a full CAS was issued. By this time, circumstances had changed. The new Government had established a fairly good reform record over the previous two years. But an exogenous factor also had a major impact. The events of September 11, 2001 led to a dramatic change in Pakistan's finances. As described by the CAS, in addition to significant direct donor support (the U.S. alone contributed US\$600 million), the external financing package supported by the IMF included a PGRF for US\$1.25 billion over FY 02-04, and US\$3.5 billion in debt relief from the Paris Club. In addition, remittances increased sharply from US\$1.1 billion in 2000/01 to US\$4.2 billion in 2002/03. Debt service pressures were also eased by the drop in international interest rates.

While pressing on the many of the same general themes and policy issues as other adjustment loans (fiscal improvement, governance, removing distortions that impede growth, improving service delivery), SAC II had a large focus on improving government administration. SAC I and SAC II still had an extremely broad reform agenda, perhaps, as was noted with the SAL, due to a desire to bulk up the list of prior actions. Indeed, some prior actions were listed in both SAC I and II, some were continuations of ongoing programs, and some reflected work that was being supported by other Bank loans.

Looking at the sequence of reforms covered by the two credits, the most progress seem to be in some of the areas most directly under control of the federal government, including civil service reform, public accounting and auditing, trade reform, and budget allocations (to the social sector).⁶ Areas such as power sector reform, gas pricing, the sale of KESC and Pakistan Telecommunication Limited (PTCL), i.e., where the implementation falls under agencies or ministries that are not receiving funding from the loan, have not proceeded as well. In a country as large and complex as Pakistan, it may be more appropriate to have smaller, more focused adjustment loans, rather than economy-wide loans.

The Northwest Frontier Province SAC and the Sindh SAC were planned as part of a sequence of provincial level loans to support the Government's program of devolution. Although progress in financial management has been made, there are still issues of service at the district level. In addition, since the provinces "own" tax base is narrow (less than 1 percent of the Gross Provincial Development Product), the main source (about 80 percent) of provincial revenues are based on distributions from the federal government. Hence, the provinces are dependent on the federal government for revenues, and on district administration to implement programs effectively.

⁶ For the purpose of reviewing the effectiveness of these projects, progress in areas where there has extensive Bank support (i.e., the banking sector) through other loans, or where the country assistance strategy documentation lists accomplishments under ongoing programs that were planned independently of these loans (such as the Lady Health Workers or the establishment of the Micro-Credit Bank) are not considered accomplishments of these projects.

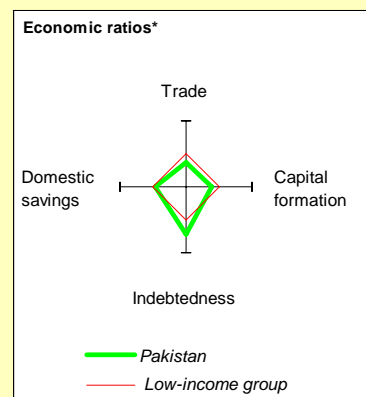
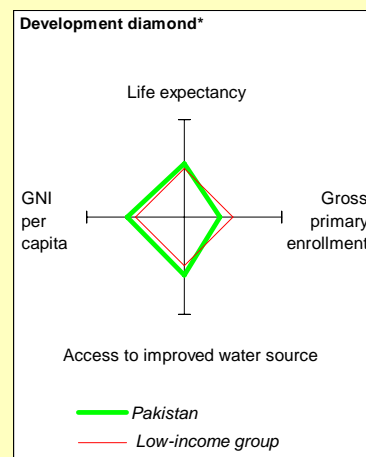
Annex 2: Statistical Tables

Table 1	Pakistan at a Glance
Table 2	Key Economic and Social Indicators, 1990-2003
Table 3	Consolidated Government Budget
Table 4	Pakistan: Presidents and Prime Ministers (September 1978-Present)
Table 5	Pakistan: IMF Programs (FY93-03)
Table 6	Project Rating by Sector
Table 7	Portfolio of World Bank Lending for Pakistan
Table 8	Pakistan: Millennium Development Goals
Table 9	Pakistan's Social Indicators in International Perspective
Table 10	Achieving the Millennium Development Goals-Pakistan's Recent Progress
Table 11	Aid Assistance to Pakistan
Table 12	World Bank Senior Management for Pakistan
Table 13	Pakistan-Analytical & Advisory Reports (including ESW)
Table 14	Pakistan-Natural Gas Prices
Table 15	Pakistan-Governance Indicators Compared with South Asia Average
Table 16	Pakistan-Private Power Projects

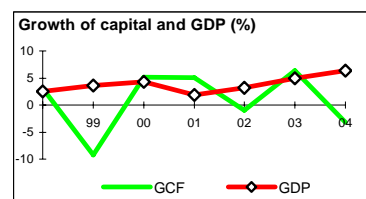
Pakistan at a glance

12/5/05

POVERTY and SOCIAL	Pakistan	South Asia	Low-income		
2004					
Population, mid-year (<i>millions</i>)	152.1	1,448	2,338		
GNI per capita (<i>Atlas method, US\$</i>)	600	590	510		
GNI (<i>Atlas method, US\$ billions</i>)	90.7	860	1,184		
Average annual growth, 1998-04					
Population (%)	2.4	1.7	1.8		
Labor force (%)	3.0	2.1	2.1		
Most recent estimate (latest year available, 1998-04)					
Poverty (% of population below national poverty line)	33	..	..
Urban population (% of total population)	34	28	31		
Life expectancy at birth (<i>years</i>)	64	63	58		
Infant mortality (<i>per 1,000 live births</i>)	74	66	79		
Child malnutrition (% of children under 5)	35	48	44		
Access to an improved water source (% of population)	90	84	75		
Literacy (% of population age 15+)	47	59	61		
Gross primary enrollment (% of school-age population)	68	97	94		
Male	80	105	101		
Female	57	92	88		
KEY ECONOMIC RATIOS and LONG-TERM TRENDS					
	1984	1994	2003	2004	
GDP (<i>US\$ billions</i>)	31.2	51.9	82.3	96.1	
Gross capital formation/GDP	18.3	19.5	16.9	17.3	
Exports of goods and services/GDP	11.1	16.3	16.9	16.0	
Gross domestic savings/GDP	6.7	16.8	17.5	18.4	
Gross national savings/GDP	25.9	22.2	23.1	23.0	
Current account balance/GDP	-2.2	-3.2	5.1	2.0	
Interest payments/GDP	1.8	1.9	1.0	0.8	
Total debt/GDP	39.3	52.8	43.6	37.1	
Total debt service/exports	19.5	35.0	16.7	15.4	
Present value of debt/GDP	36.1	..	
Present value of debt/exports	164.4	..	
	1984-94	1994-04	2003	2004	2004-08
(<i>average annual growth</i>)					
GDP	5.5	3.4	5.0	6.4	6.7
GDP per capita	2.9	0.9	2.5	3.9	..
Exports of goods and services	10.8	4.7	28.4	-1.5	7.9

**STRUCTURE of the ECONOMY**

(% of GDP)	1984	1994	2003	2004
Agriculture	27.9	25.6	23.6	22.3
Industry	22.7	24.3	23.0	24.9
Manufacturing	16.1	16.8	16.2	17.6
Services	49.4	50.2	53.4	52.7
Household final consumption expenditure	81.2	71.1	73.6	73.3
General gov't final consumption expenditure	12.1	12.1	8.9	8.4
Imports of goods and services	22.6	19.0	16.3	14.9



(<i>average annual growth</i>)	1984-94	1994-04	2003	2004
Agriculture	4.4	3.0	4.1	2.2
Industry	6.7	3.8	4.7	12.0
Manufacturing	6.2	4.9	6.9	14.1
Services	5.4	4.1	5.2	6.0
Household final consumption expenditure	4.2	3.2	0.5	8.2
General gov't final consumption expenditure	5.1	2.2	7.2	2.1
Gross capital formation	4.6	0.8	6.3	-3.2
Imports of goods and services	3.2	0.1	11.2	-8.6

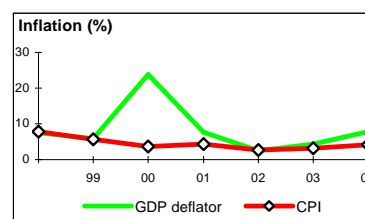


Note: 2004 data are preliminary estimates.

* The diamonds show four key indicators in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

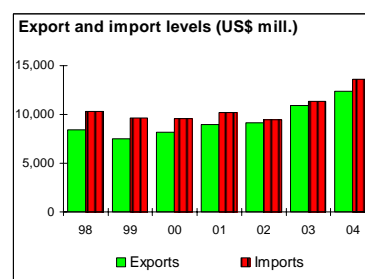
PRICES and GOVERNMENT FINANCE

	1984	1994	2003	2004
Domestic prices (% change)				
Consumer prices	..	11.3	3.1	4.1
Implicit GDP deflator	9.7	12.9	4.4	7.8
Government finance (% of GDP, includes current grants)				
Current revenue	17.2	17.4	17.5	15.1
Current budget balance	0.1	-2.4	0.8	1.1
Overall surplus/deficit	-6.0	-6.7	-1.4	-1.8



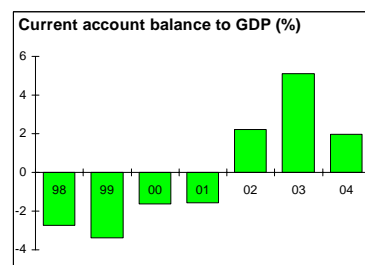
TRADE

	1984	1994	2003	2004
TRADE (US\$ millions)				
Total exports (fob)	2,669	6,685	10,889	12,395
Cotton	132	80	49	48
Rice	421	242	555	634
Manufactures	2,075	3,775	6,653	7,125
Total imports (cif)	5,994	8,685	11,333	13,607
Food	..	944	587	659
Fuel and energy	1,462	1,450	3,098	3,066
Capital goods	..	2,427	3,392	3,585
Export price index (2000=100)	..	104	104	115
Import price index (2000=100)	..	98	107	118
Terms of trade (2000=100)	..	106	97	98



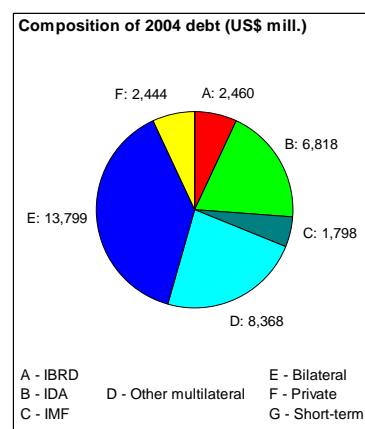
BALANCE of PAYMENTS

	1984	1994	2003	2004
BALANCE of PAYMENTS (US\$ millions)				
Exports of goods and services	3,449	8,309	13,686	15,123
Imports of goods and services	7,048	11,066	14,047	17,714
Resource balance	-3,600	-2,757	-361	-2,591
Net income	-443	-1,597	-2,210	-2,207
Net current transfers	3,354	2,704	6,775	6,684
Current account balance	-689	-1,650	4,204	1,886
Financing items (net)	627	3,235	1,475	-809
Changes in net reserves	62	-1,585	-5,679	-1,077
Memo:				
Reserves including gold (US\$ millions)	2,489	3,337	10,973	11,346
Conversion rate (DEC, local/US\$)	13.5	30.1	58.6	57.6



EXTERNAL DEBT and RESOURCE FLOWS

	1984	1994	2003	2004
EXTERNAL DEBT and RESOURCE FLOWS (US\$ millions)				
Total debt outstanding and disbursed	12,228	27,383	35,885	35,687
IBRD	337	2,934	2,695	2,460
IDA	1,256	3,054	5,869	6,818
Total debt service	1,247	3,449	3,028	2,946
IBRD	61	383	373	391
IDA	18	51	130	149
Composition of net resource flows				
Official grants	246	314	1,038	574
Official creditors	439	1,153	-147	-684
Private creditors	163	9	-505	152
Foreign direct investment (net inflows)	56	354	612	752
Portfolio equity (net inflows)	0	339	-394	156
World Bank program				
Commitments	253	985	499	847
Disbursements	166	631	145	783
Principal repayments	37	210	357	409
Net flows	130	421	-212	374
Interest payments	42	223	147	131
Net transfers	87	198	-358	243



Annex Table 2: Pakistan-Key Economic and Social Indicators, 1990-2003

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2000-2003*						
															Pakistan	Bangladesh	India	Nepal	Sri Lanka	Low income	South Asia
GDP growth (annual %)	4.5	5.1	7.7	1.8	3.7	5.0	4.8	1.0	2.6	3.7	4.3	2.6	2.8	5.8	5.8	5.3	8.0	3.0	5.5	6.8	7.4
GDP per capita growth (annual %)	1.8	2.4	5.0	-0.8	1.2	2.4	2.3	-1.4	0.1	1.2	1.8	0.1	0.4	3.3	3.3	3.5	6.4	0.8	4.3	4.9	5.7
GNI per capita, Atlas method (current US\$)	390.0	400.0	440.0	450.0	460.0	490.0	510.0	500.0	470.0	460.0	450.0	420.0	420.0	470.0	470.0	400.0	530.0	240.0	930.0	450.0	510.0
GNI per capita, PPP (current international \$)	1320.0	1400.0	1510.0	1540.0	1590.0	1660.0	1730.0	1740.0	1760.0	1810.0	1880.0	1930.0	1960.0	2060.0	2060.0	1870.0	2880.0	1420.0	3730.0	2190.0	2660.0
Agriculture, value added (% of GDP)	26.0	25.8	26.3	25.0	25.6	26.1	25.5	26.7	27.3	27.0	26.7	25.3	23.2	23.3	23.3	21.7	22.7	40.1	19.7	24.8	22.8
Industry, value added (% of GDP)	25.2	25.4	25.0	24.7	24.3	23.8	24.2	23.5	23.8	23.7	23.1	22.8	23.3	23.5	23.5	26.6	25.7	21.0	25.8	25.1	25.4
Services, etc., value added (% of GDP)	48.8	48.8	48.6	50.3	50.2	50.1	50.4	49.8	48.9	49.2	50.2	51.9	53.5	53.2	53.2	51.7	51.6	38.8	54.5	50.2	51.8
Exports of goods and services (% of GDP)	15.5	17.0	17.4	16.3	16.3	16.7	16.9	16.1	16.5	15.4	16.3	18.0	18.7	20.5	20.5	14.2	14.9	14.4	35.0	19.9	16.2
Imports of goods and services (% of GDP)	23.4	18.6	20.5	22.4	19.0	19.4	21.4	20.8	17.5	17.0	18.0	19.3	19.0	20.4	20.4	19.8	16.9	28.9	42.4	22.8	18.4
Current account balance (% of GDP)	-4.2	-2.8	-3.9	-5.6	-3.5	-5.5	-7.0	-2.7	-3.6	-1.6	-0.1	3.2	6.5	5.2	5.2	..	..	..	..	..	..
Total debt service (% of GNI)	4.9	4.4	4.7	4.6	6.6	5.2	5.2	6.6	3.7	5.1	4.8	5.2	4.8	..	4.8	1.5	2.6	1.8	4.4	3.1	2.8
External debt (% of GNI)	52.9	52.7	50.7	47.3	52.4	49.2	47.0	48.3	52.1	58.3	54.6	54.7	56.3	..	56.3	34.3	20.6	53.8	58.9	47.1	26.4
Total reserves in months of imports	1.1	1.2	1.3	1.8	3.3	1.9	0.9	1.4	1.4	1.9	1.7	3.5	7.0	8.0	8.0	3.0	11.9	9.2	..	10.5	11.3
Current expenditure, total (% of GDP)	19.8	19.4	19.6	21.1	19.8	19.1	20.7	19.8	19.2	19.0	20.9	20.0	20.9	..	20.9	..	..	..	..	..	..
Current revenue, excluding grants (% of GDP)	19.1	16.8	18.0	18.2	17.5	17.2	17.5	15.8	16.2	15.8	16.9	15.6	17.4	..	17.4	..	..	11.4	..	..	..
Overall budget balance, excluding capital grants (% of GDP)	-6.1	-8.2	-8.4	-8.9	-7.3	-6.6	-8.0	-7.8	-6.4	-6.9	-5.5	-4.7	-4.7	..	-4.7	..	..	-6.0	..	..	..
Gross domestic savings (% of GDP)	11.1	17.5	17.1	14.7	16.8	15.8	14.5	13.2	16.7	14.0	14.4	14.2	14.4	15.6	15.6	17.6	21.8	11.2	15.6	18.8	20.4
Inflation, consumer prices (annual %)	9.1	11.8	9.5	10.0	12.4	12.3	10.4	11.4	6.2	4.1	4.4	3.1	3.3	2.9	2.9	4.6	3.8	5.7	6.3	..	..
Literacy rate, adult total (% of people ages 15 and above)	35.4	36.2	37.0	37.8	38.5	39.3	40.1	40.9	41.5	..	..	..	..	..	..	..	..	..	..	..	..
Literacy rate, adult female (% of females ages 15 and above)	20.2	20.9	21.6	22.3	23.1	23.8	24.6	25.4	28.5	..	..	..	..	..	..	..	..	..	..	..	..
Literacy rate, adult male (% of males ages 15 and above)	49.3	50.1	51.0	51.8	52.7	53.5	54.3	55.1	53.4	..	..	..	..	..	..	..	..	..	..	..	..
Immunization, DPT (% of children ages 12-23 months)	54.0	50.0	42.0	37.0	39.0	58.0	46.0	52.0	58.0	60.0	61.0	63.0	63.0	..	63.0	85.0	70.0	72.0	98.0	63.8	70.2
Improved sanitation facilities (% of population with access)	36.0	..	..	..	..	..	..	..	..	..	62.0	..	..	..	62.0	48.0	28.0	28.0	94.0	41.1	34.0
Improved water source (% of population with access)	83.0	..	..	..	..	..	..	..	..	..	90.0	..	..	..	90.0	97.0	84.0	88.0	77.0	75.4	84.4
Life expectancy at birth, total (years)	59.1	..	59.7	..	..	60.9	..	61.7	..	..	63.0	..	63.8	..	63.8	62.1	63.4	59.9	73.8	58.1	63.0
Mortality rate, infant (per 1,000 live births)	96.0	..	..	..	..	90.0	..	..	..	..	81.0	..	76.0	..	76.0	48.0	65.0	62.0	16.0	81.6	67.9
School enrollment, primary (% gross)	60.7	65.0	69.4	73.5	68.1	68.6	62.8	72.8	..	71.5	73.2	..	..	..	73.2	98.9	98.8	116.6	..	116.6	94.8
School enrollment, primary, female (% gross)	39.0	41.9	44.3	45.4	48.2	47.7	44.5	57.3	..	60.6	62.0	..	..	..	62.0	99.2	89.6	106.6	..	85.3	88.0
School enrollment, primary, male (% gross)	81.5	87.3	93.5	100.6	87.3	88.6	80.4	87.6	..	81.8	83.7	..	..	..	83.7	98.6	107.4	126.0	..	99.1	102.9
School enrollment, secondary (% gross)	22.7	25.6	25.6	25.0	24.3	25.7	25.8	..	..	..	..	..	..	..	..	..	..	..	..	..	..
School enrollment, secondary, female (% gross)	14.8	17.3	19.2	18.6	18.0	18.5	18.5	..	..	..	..	..	..	..	..	46.1	48.5	40.0	..	40.0	48.0
School enrollment, secondary, male (% gross)	29.8	33.3	31.5	30.9	30.2	32.5	32.8	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Unemployment, total (% of total labor force)	3.1	6.3	5.9	4.7	4.8	5.4	5.4	6.1	5.9	5.9	7.8	..	..	..	7.8	3.3	..	..	..	..	..
Population growth (annual %)	2.5	2.5	2.5	2.5	2.5	2.5	2.4	2.4	2.4	2.4	2.4	2.4	2.4	2.4	2.4	1.7	1.5	2.2	1.2	1.8	1.7
Population, total million	108.0	110.8	113.6	116.4	119.4	122.4	125.4	128.5	131.6	134.8	138.1	141.5	144.9	148.4	148.4	138.1	1064.4	24.7	19.2	2310.3	1424.7
Urban population (% of total)	30.6	30.8	31.1	31.3	31.6	31.8	32.1	32.3	32.6	32.8	33.1	33.4	33.8	34.1	34.1	24.3	28.3	15.0	21.1	30.3	28.1
Urban population growth (annual %)	3.4	3.4	3.3	3.3	3.3	3.2	3.3	3.2	3.2	3.2	3.2	3.4	3.4	3.4	3.4	3.2	2.3	5.1	0.9	3.1	2.6

*Latest year available

Source: WDI

Annex Table 3: Consolidated Government Budget

	Pakistan									
	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99	1999/ 2000	2000/01 ^(c)	2001/02 ^(c)	2002/03 ^(c)
Total revenue and grants	17.3	16.5	17.5	16.1	15.8	16.3	16.6	17.3	19.5	20.8
Tax revenue ^(a)	13.7	13.7	15.0	13.4	13.0	13.3	12.8	12.9	13.2	13.8
Nontax revenue	3.6	2.7	2.5	2.7	2.8	3.0	3.7	3.3	4.0	4.1
Grants	-	-	-	-	-	-	0.1	1.2	2.3	2.8
Total expenditure ^(a)	23.9	23.2	25.3	22.9	23.5	22.4	23.0	21.0	22.8	22.4
Current expenditure	19.1	18.4	20.1	19.2	19.5	19.3	20.3	18.9	19.3	19.7
<i>of which:</i>										
- Interest	6.0	5.2	6.2	6.5	7.3	7.3	7.6	6.8	6.8	5.2
- Military expenditure ^(b)	6.0	6.1	5.6	5.5	5.1	4.9	4.7	3.1	4.1	4.0
Budget balance	(6.7)	(6.7)	(7.8)	(6.8)	(7.7)	(6.1)	(6.5)	(4.1)	(4.4)	(1.7)
Financing	6.7	6.7	7.8	6.8	7.7	6.1	6.4	4.1	4.4	1.6
External	1.5	1.7	1.8	1.0	1.4	5.0	2.2	2.3	1.4	0.0
Domestic	5.0	4.4	5.4	5.7	6.2	1.0	4.2	1.7	2.7	1.6

Source: IMF Country Reports for Pakistan. Note figures used are prior to the recent rebasing exercise by the National Bureau of Statistics.

Notes:

For Pakistan, data reported as the "Consolidated Government Budget"

"-" = Data not available or reported. Totals may not add up due to rounding.

(a) "Total expenditure" is defined as total expenditure and net lending.

(b) Note that after 2000/01, military pensions were consolidated with civilians pensions; hence, the military expenditure line is not directly comparable

(c) Prov. Act. for the FY for Pakistan.

**Annex Table 4: Pakistan-Presidents and Prime Ministers
(September 1978 – Present)**

Presidents	From	To
General Mohammad Zia-ul-Haq	September 16, 1978	August 17, 1988
Ghulam Ishaq Khan	August 17, 1988	August 7, 1993
Wassim Sajjad (Acting President)	August 7, 1993	November 13, 1993
Farooq Ahmed Khan Leghari	November 13, 1993	December 2, 1997
Wassim Sajjad (Acting President)	December 2, 1997	January 1, 1998
Muhammad Rafiq Tarar	January 1, 1998	June 19, 2001
General Parvez Musharraf	June 20, 2001	To date
Executive Chief		
General Parvez Musharraf	October 12, 1999	To date
Prime Ministers		
Benazir Bhutto	February 12, 1988	August 6, 1990
Ghulam Mustafa Jatoi (Caretaker)	August 6, 1990	November 6, 1990
Mohammad Nawaz Sharif	November 6, 1990	April 18, 1993
Balkh Sher Mazari (Caretaker)	April 18, 1993	May 26, 1993
Mohammad Nawaz Sharif	May 26, 1993	July 8, 1993
Moeen Ahmed Qureshi (Caretaker)	July 8, 1993	October 19, 1993
Benazir Bhutto	October 19, 1993	November 5, 1996
Malik Meraj Khalid (Caretaker)	November 6, 1996	February 17, 1997
Mohammad Nawaz Sharif	February 17, 1997	October 12, 1999

Source: Adil Kanaan (2004), Background Paper.

Annex Table 5: Pakistan-IMF Programs (FY93-03)

No.	Program	Amount (SDR million)	Not Drawn (%)	Approved (Date)
1.	SBA	265.4	67	September 16, 1993
2.	ESAF	606.6	72	February 22, 1994
3.	SBA	562.6	48	December 13, 1995
4.	PRGF	682.4	61	October 20, 1997
	EFF	454.9	75	October 20, 1997
5.	SBA	465.0	0	November 20, 2000
	Sub-total	3,416.0	55	
6.	PRGF	1,034.0	(Ongoing)	December 6, 2001
	Total	4,450.0		

Source: IMF, Evaluation Report of the Independent Evaluation Office: Evaluation of Prolonged Use of Fund Resources, Chapter 9, Appendix 3, p. 143.

Annex Table 6: Project Rating by Sector

Sector Board	Country	Total Evaluated		Outcome % Sat		Inst Dev Impact % Subst		Sustainability % Likely		Overall Bank Perf % Sat		Overall Borr Perf % Sat	
		Net Comm. (\$ mill)*	By Number**	Net Comm. (\$ mill)	By Number	Net Comm. (\$ mill)	By Number	Net Comm. (\$ mill)	By Number	Net Comm. (\$ mill)	By Number	Net Comm. (\$ mill)	By Number
Economic Policy	Bangladesh	225	2	100	100	89	50	100	100	100	100	89	50
	India	803	4	100	100	100	100	100	100	100	100	100	100
	Pakistan	1,412	6	100	100	0	0	100	100	100	100	100	83
	SAR	2,549	13	100	100	31	33	95	91	100	100	99	82
	Bankwide	28,011	191	66	73	26	31	64	62	83	79	61	70
Education	Bangladesh	203	3	100	100	4	33	100	100	100	100	100	100
	India	1,427	7	100	100	91	86	100	100	100	100	100	100
	Pakistan	968	8	56	63	0	0	35	43	48	50	48	50
	SAR	2,787	28	84	86	49	43	80	78	82	85	82	85
	Bankwide	13,988	235	83	79	46	39	72	61	80	78	80	78
Energy and Mining	Bangladesh	535	8	62	50	36	25	56	50	83	67	34	33
	India	6,692	33	69	55	31	33	67	56	56	63	66	58
	Pakistan	1,891	14	51	50	10	21	50	43	65	62	54	54
	SAR	9,443	64	66	58	27	28	63	54	59	61	61	53
	Bankwide	33,164	329	70	65	44	40	64	58	72	72	67	63
Environment	Bangladesh	148	1	100	100	0	0	100	100	100	100	100	100
	India	431	5	68	80	48	60	48	60	49	60	49	60
	Pakistan	47	3	88	67	88	67	54	33	34	33	88	67
	SAR	627	9	77	78	39	56	61	56	60	56	64	67
	Bankwide	2,736	100	62	72	37	48	67	70	56	71	58	70
Financial Sector	Bangladesh	314	3	39	67	32	33	39	67	39	67	39	67
	India	823	4	31	50	31	50	57	67	53	75	53	75
	Pakistan	269	2	100	100	93	50	7	50	100	100	100	100
	SAR	1,519	12	46	67	41	42	45	73	61	82	57	73
	Bankwide	22,909	144	83	69	57	47	78	64	84	72	83	74
Global Information/Communications Technology	India	163	1	100	100	0	0	100	100				
	Pakistan	116	2	100	100	85	50	100	100	100	100	100	100
	SAR	402	6	100	100	43	50	100	100	100	100	100	100
	Bankwide	2,533	41	97	90	61	49	97	85	98	94	95	81
Health, Nutrition and Population	Bangladesh	240	2	100	100	0	0	100	100	100	100	100	100
	India	1,336	14	80	86	45	43	91	86	87	85	67	69
	Pakistan	102	4	100	100	49	50	100	100	100	100	100	100
	SAR	1,727	23	84	87	38	35	91	83	89	82	74	73
	Bankwide	8,489	164	80	67	50	37	77	62	82	71	81	69
Private Sector Development	Bangladesh	109	2	49	50	0	0	49	50	100	100	0	0

Sector Board	Country	Total Evaluated		Outcome % Sat		Inst Dev Impact % Subst		Sustainability % Likely		Overall Bank Perf % Sat		Overall Borr Perf % Sat	
		Net Comm. (\$ mill)*	By Number**	Net Comm. (\$ mill)	By Number	Net Comm. (\$ mill)	By Number	Net Comm. (\$ mill)	By Number	Net Comm. (\$ mill)	By Number	Net Comm. (\$ mill)	By Number
Sector Board	India	32	1	0	0	0	0	100	100	0	0	0	0
	Pakistan	116	2	100	100	22	50	78	50	100	100	100	100
	SAR	314	7	72	71	27	43	74	71	88	83	66	67
	Bankwide	6,427	111	87	70	53	38	80	68	88	78	87	66
Public Sector Governance	Bangladesh	407	2	100	100	0	0	0	0	100	100	75	50
	India	249	1	100	100	0	0	100	100	100	100	100	100
	Pakistan	252	1	100	100	0	0	0	0				
	SAR	1,038	5	100	100	0	0	52	50	100	100	85	67
	Bankwide	11,173	172	84	75	46	45	83	66	88	82	83	71
Rural Sector	Bangladesh	409	13	74	77	10	23	8	20	57	60	65	80
	India	3,121	29	66	69	47	52	38	44	46	59	42	55
	Pakistan	659	15	84	87	36	27	67	71	80	82	80	82
	SAR	4,493	75	69	72	39	35	39	41	53	64	50	66
	Bankwide	26,091	505	78	68	46	39	60	48	70	65	69	63
Transport	Bangladesh	907	7	100	100	46	43	80	71	85	86	80	71
	India	1,110	8	74	75	16	38	74	75	81	86	81	86
	Pakistan	374	3	100	100	100	100	100	100	100	100	100	100
	SAR	2,569	25	88	83	42	50	77	67	86	83	82	73
	Bankwide	22,653	264	89	83	53	52	72	66	92	91	83	81
Urban Development	Bangladesh	31	1	0	0	0	0	0	0	0	0	0	0
	India	790	5	76	60	28	20	60	40	76	60	76	60
	Pakistan	224	4	38	25	0	0	0	0	61	33	61	33
	SAR	1,146	14	60	29	19	7	42	15	68	42	68	42
	Bankwide	8,227	133	79	67	24	26	58	48	80	73	82	68
Water Supply and Sanitation	Bangladesh	76	2	39	50	0	0	0	0	0	0	0	0
	India	627	8	64	75	64	75	67	63	40	43	58	71
	Pakistan	301	2	27	50	0	0	27	50	27	50	27	50
	SAR	1,088	15	49	60	39	47	46	40	33	38	43	54
	Bankwide	7,857	120	61	62	26	31	39	44	68	67	58	60
Overall Result	Bangladesh	3,607	46	82	76	26	24	63	52	82	74	69	64
	India	18,108	121	73	70	41	47	69	64	63	68	68	67
	Pakistan	6,732	66	73	74	19	26	59	60	75	72	72	71
	SAR	30,372	299	74	72	33	35	65	58	68	70	69	66
	Bankwide	203,035	2,639	77	72	43	40	68	59	80	75	74	70

* Total Evaluated (\$) is Total Net Commitment of evaluated projects which outcome was rated minus total net commitment of evaluated projects which outcome was not rated.

** Total Evaluated (No) is Total Number of evaluated projects which outcome was rated minus total number of evaluated projects which outcome was not rated.

Source: Business Warehouse as of December 31, 2004.

Annex Table 7: Portfolio of World Bank Lending for Pakistan

Approv FY	Project ID	Project Name	Loan Amt (US\$ mil)	Approval Date	Proj Stat	Latest DO	Latest IP	ICR RATING FOR:			IEG RATING FOR:		
								Outcome	Sustainability	Inst Dev Impact	Outcome	Sustainability	Inst Dev Impact
2003	P074856	HIV/AIDS PREVENTION PROJECT	37.1	5-Jun-03	A	S	S	n/a	n/a	n/a	n/a	n/a	n/a
2003	P077288	NATIONAL EDUCATION ASSESSMENT SYSTEM	3.6	3-Jun-03	A	S	S	n/a	n/a	n/a	n/a	n/a	n/a
2003	P081909	PARTNERSHIP FOR POLIO ERADICATION	20.0	15-May-03	A	S	S	n/a	n/a	n/a	n/a	n/a	n/a
2003	P075810	SINDH STRUCTURAL ADJUSTMENT CREDIT	100.0	9-Jul-02	C	S	S	S	L	M	S	L	M
2003	P077834	NWFP STRUCTURAL ADJUSTMENT CREDIT	90.0	9-Jul-02	C	S	S	S	L	M	MS	NR	M
2003	P074797	BANKING SECTOR TECHNICAL ASSISTANCE	26.5	9-Jul-02	A	S	S	n/a	n/a	n/a	n/a	n/a	n/a
2003	P071454	AJK COMMUNITY INFRASTRUCTURE & SERVICES	20.0	9-Jul-02	A	S	S	n/a	n/a	n/a	n/a	n/a	n/a
2002	P074968	STRUCTURAL ADJUSTMENT CREDIT II	500.0	11-Jun-02	C	S	S	S	L	M	MS	L	M
2002	P055292	BANKING SECTOR RESCTRUC. & PRIVATIZATION	300.0	23-Oct-01	A	S	S	n/a	n/a	n/a	n/a	n/a	n/a
2001	P071463	STRUCTURAL ADJUSTMENT CREDIT	350.0	12-Jun-01	C	S	S	S	L	M	S	L	M
2001	P071092	NWFP ON-FARM WATER MANAGEMENT PROJECT	21.4	12-Jun-01	A	S	S	n/a	n/a	n/a	n/a	n/a	n/a
2001	P035823	PROTECTED AREAS MGMT/BIODIVERSITY CONSERVATION (GEF)	-	24-Apr-01	A	S	S	n/a	n/a	n/a	n/a	n/a	n/a
2001	P056213	TRADE & TRANSPORT	3.0	24-Apr-01	A	S	S	n/a	n/a	n/a	n/a	n/a	n/a
1999	P049791	POVERTY ALLEVIATION FUND	90.0	17-Jun-99	A	S	S	n/a	n/a	n/a	n/a	n/a	n/a
1999	P059323	STRUCTURAL ADJUSTMENT LOAN	350.0	21-Jan-99	C	S	S	S	L	M	MS	L	N
1998	P037835	SOCIAL ACTION PRG II ^(a)	250.0	24-Mar-98	C	U	S	U	L	M	U	NR	M
1998	P049448	BANKING SECTOR ADJUSTMENT	250.0	9-Dec-97	C	S	S	HS	L	SU	HS	UNC	SU
1998	P010500	NATIONAL DRAINAGE ^(a)	285.0	4-Nov-97	A	U	U	n/a	n/a	n/a	n/a	n/a	n/a
1998	P037834	NORTHERN EDUCATION	22.8	30-Oct-97	C	S	S	S	L	SU	S	L	SU
1997	P034301	PHASE OUT OF ODS (MONTREAL PROTOCOL)		7-Feb-97	A	S	S	n/a	n/a	n/a	n/a	n/a	n/a
1997	P036015	IMPROVEMENT TO FINANCIAL REPORTING & AUDIT	28.8	17-Sep-96	A	S	S	n/a	n/a	n/a	n/a	n/a	n/a

Approv FY	Project ID	Project Name	Loan Amt (US\$ mil)	Approval Date	Proj Stat	Latest DO	Latest IP	ICR RATING FOR:			IEG RATING FOR:		
								Outcome	Sustainability	Inst Dev Impact	Outcome	Sustainability	Inst Dev Impact
1997	P010501	PRIVATE SECTOR GROUND WATER DEV SUPPORT	56.0	11-Jul-96	C	S	S	S	L	SU	MS	NR	M
1996	P037827	NORTHERN HEALTH	26.7	13-Jun-96	C	S	S	S	L	M	S	L	M
1995	P040547	UCH POWER GUARANTEE	75.0	14-May-96	A	NR	NR	n/a	n/a	n/a	n/a	n/a	n/a
1996	P010478	NWFP COMMUNITY INFRA	21.5	14-Mar-96	C	S	S	S	L	SU	MU	NR	M
1996	P039281	GHAZI BAROTHA HYDROP	350.0	19-Dec-95	C	S	S	S	L	M	n/a	n/a	n/a
1996	P034101	TELECOM REG & PRIVAT	35.0	9-Nov-95	C	S	S	S	L	M	S	L	M
1996	P010482	BALOCHISTAN COMMUNITY IRRIGATION AND AGR	26.7	26-Sep-95	C	S	S	S	L	M	S	L	M
1995	P010481	PUNJAB FOREST SECTOR DEV.	24.9	20-Jun-95	C	S	S	S	L	M	MS	L	M
1995	P010486	NWFP PRIMARY EDUCATION PROJECT	150.0	14-Mar-95	C	S	S	S	L	M	MS	L	M
1995	P010492	POPULATION WELFARE P	65.1	14-Mar-95	C	S	S	S	L	M	MS	L	M
1995	P069043	HUB POWER GUARANTEE	-	29-Nov-94	A	NR	NR	n/a	n/a	n/a	n/a	n/a	n/a
1995	P010450	PRIVATE SECTOR ENERGY DEVELOPMENT II	250.0	29-Nov-94	C	U	U	U	UN	N	U	UN	N
1995	P010470	FIN SECTOR DEEPENING & INTERMEDIATION	216.0	15-Nov-94	C	S	S	S	HL	SU	MS	L	M
1994	P010458	POWER SECT. DEV. PROGRAM	230.0	23-Jun-94	C	S	S	S	L	M	S	L	M
1994	P010456	SOCIAL ACTION PROGRAM	200.0	31-Mar-94	C	S	S	S	L	M	MS	UNC	M
1994	P010453	BALOCHISTAN NATURAL RESOURCE MANAGEMENT	14.7	22-Mar-94	C	U	U	U	UN	M	U	UN	M
1994	P010452	SINDH SPECIAL DEVELO	46.8	16-Dec-93	C	S	U	U	UN	M	HU	UN	N
1994	P010447	PUBLIC SECTOR ADJUST	250.0	14-Sep-93	C	HS	HS	MS	UNC	N	MS	UNC	N
1993	P010421	NORTHERN RESOURCE MANAGEMENT	28.8	15-Jun-93	C	S	S	S	L	SU	S	L	SU
1993	P010417	BALOCHISTAN PRIMARY EDUCATION	106.0	13-Apr-93	C	U	U	S	UN	M	S	UN	M
1993	P010415	1992 FLOOD DAMAGE RESTORATION	100.0	4-Mar-93	C	S	S	S	L	P	S	L	M
1993	P010414	FAMILY HEALTH II	48.0	23-Feb-93	C	S	S	S	L	SU	S	L	SU

Approv FY	Project ID	Project Name	Loan Amt (US\$ mil)	Approval Date	Proj Stat	Latest DO	Latest IP	ICR RATING FOR:			IEG RATING FOR:		
								Outcome	Sustainability	Inst Dev Impact	Outcome	Sustainability	Inst Dev Impact
1993	P010413	SECOND KARACHI WATER SUPPLY (SUPPLEMENTAL CREDIT)	91.9	9-Feb-93	C	NR	NR	NR	NR	NR	NR	NR	NR
1993	P010405	EAST. SADIQIA (SOUTH) IRRIGATION & DRAINAGE	54.2	2-Jul-92	C	S	S	S	L	SU	S	L	SU
1992	P010401	DOMESTIC ENERGY RESO	180.0	30-Jun-92	C	U	S	S	UNC	M	S	L	M
1992	P010399	ENV. PROT. & RESOURCE CONSERVATION	29.2	11-Jun-92	C	S	S	S	UNC	SU	S	UNC	SU
1992	P010394	MIDDLE SCHOOLING	115.0	14-Apr-92	C	S	S	S	L	M	MS	L	M
1991	P010380	SUPPLEMENTAL LOAN TO ESL II	28.0	21-Jun-91	C	NR	NR	NR	NR	NR	n/a	n/a	n/a
1991	P010379	SUPPLEMENTAL LOAN FOR CRSEP	60.0	21-Jun-91	C	NR	NR	NR	NR	NR	n/a	n/a	n/a
1991	P010377	SCARP. TRANSITION II	20.0	4-Jun-91	C	S	S	S	L	SU	S	L	SU
1991	P010376	CEMENT SUPPLEMENTAL	56.4	30-May-91	C	NR	NR	NR	NR	NR	n/a	n/a	n/a
1991	P010375	KARACHI PORT MODERN.	91.4	30-May-91	C	S	S	S	L	P	S	L	M
1991	P010372	ON-FARM WATER MGMT III	83.6	21-May-91	C	HS	S	S	L	M	S	L	M
1991	P010371	FAMILY HEALTH	45.0	7-May-91	C	S	S	S	L	SU	S	L	SU
1991	P010366	RURAL WATER SUPPLY & SANITATION	136.7	23-Apr-91	C	S	S	S	L	SU	MS	L	M
1991	P010367	MICROENTERPRISE PROJECT	26.0	23-Apr-91	C	S	S	S	L	SU	S	UNC	SU
1991	P010360	CORP. RESTRUCT. & SYSTEM EXPANSION (CRSEP)	130.0	7-Aug-90	C	U	U	U	UNC	M	U	UNC	M
1990	P010352	TRANSPORT SECTOR PROJ	184.0	28-Jun-90	C	U	S	U	UNC	SU	MAS	L	SU
1990	P010349	AGRIC. RESEARCH II	57.3	12-Jun-90	C	U	U	U	UNC	P	U	UN	M
1990	P010350	AGRIC. CREDIT	150.0	12-Jun-90	C	S	S	U	UN	N	U	UN	N
1990	P010346	SINDH PRIMARY EDUCATION DEVELOPMENT PROGRAM	112.5	13-Mar-90	C	S	S	S	L	M	MS	L	M
1990	P010344	RURAL ELECTRIFICATION	160.0	18-Dec-89	C	U	U	U	UN	N	U	UNC	N
1990	P010345	TRANSMISSION EXTENSION AND REINFORCEMENT	162.0	18-Dec-89	C	S	S	S	L	M	S	L	M
1989	P010328	PRIVATE TUBEWELL DEV	34.4	11-Apr-89	C	S	S	U	L	NR	MAS	L	N

Approv FY	Project ID	Project Name	Loan Amt (US\$ mil)	Approval Date	Proj Stat	Latest DO	Latest IP	ICR RATING FOR:			IEG RATING FOR:		
								Outcome	Sustainability	Inst Dev Impact	Outcome	Sustainability	Inst Dev Impact
1989	P010325	KARACHI WATER SUPPLY & SANITATION PROJECT (02)	125.0	28-Feb-89	C	U	S	U	UN	M	U	UN	M
1988	P010313	PRIVATE SECTOR ENERGY DEVELOPMENT PROJECT	150.0	29-Jun-88	C	S	S	U	UN	N	U	UN	N
1988	P010311	NATIONAL OILSEED DEVELOPMENT PROJECT	51.4	23-Jun-88	C	S	S	S	L	M	MAS	L	M
1988	P010305	PUNJAB URBAN DEVELOPMENT PROJECT	90.0	12-Apr-88	C	S	S	S	UNC	P	MAS	UNC	M
1988	P010304	IRRIGATION SYSTEMS REHABILITATION PROJECT (02)	79.5	29-Mar-88	C	S	S	S	UNC	M	S	UNC	M
1988	P010301	CEMENT INDUSTRY MODERNIZATION PROJECT	96.0	17-Nov-87	C	S	S	U	UNC	N	U	UNC	N
1987	P010281	REFINERY ENERGY CONS	21.0	16-Jun-87	C	S	S	S	L	SU	S	UNC	SU
1987	P010272	TECH. ASSIST. III	7.0	20-Jan-87	C	S	S	S	L	M	S	L	M
1987	P010270	TELECOMMUNICATIONS V	100.0	22-Jul-86	C	HS	S	HS	L	SU	HS	L	SU
1986	P010252	2ND VOC TRAINING	40.2	25-Mar-86	C	S	S	U	UN	M	U	UN	M
1985	P010209	LEFT BANK OUTFALL DR	150.0	13-Dec-84	C	S	S	S	L	SU	MAS	L	SU
1983	P010188	FOURTH DRAINAGE PROJ	65.0	31-May-83	C	S	HS	NR	NR	NR	S	UN	SU
1982	P010171	BALUCHISTAN AG. DEV.	14.0	11-May-82	C	S	S	NR	NR	NR	S	L	M
		GRAND TOTAL	8,066.1										

(a) Includes Drought Emergency Recovery Assistance operation of \$130 million (\$100 million from National Drainage and \$30 million from SAP II) processed as an Amendment to the respective loans. EX=Exemplary, HS=Highly Satisfactory, MS=Moderately Satisfactory, S=Satisfactory, MAS=Marginally Satisfactory, MS=Marginally Unsatisfactory, MU=Moderately Unsatisfactory, U=Unsatisfactory, HL=Highly Likely, L=Likely, UN=Unlikely, HUN=Highly Unlikely, HU=Highly Unsatisfactory, H=High, SU=Substantial, P=Partial, N=Negligible, NR=Not Rated, UNC=Uncertain, and n/a=Not available (project may still be "Active").

Annex Table 8: Pakistan-Millennium Development Goals

Millennium Development Goals					
	1990	1994	1997	2000	2003
Goal 1: Eradicate extreme poverty and hunger					
Percentage share of income or consumption held by poorest 20%	..	..	..	8.8	..
Population below \$1 a day (%)	47.8	..	13.4	..	..
Population below minimum level of dietary energy consumption (%)	..	..	19	..	20
Poverty gap ratio at \$1 a day (incidence x depth of poverty)	14.6	..	2.4	..	..
Poverty headcount, national (% of population)	..	28.6	..	32.6	..
Prevalence of underweight in children (under five years of age)	40.2	40	..	35	..
Goal 2: Achieve universal primary education					
Net primary enrollment ratio (% of relevant age group)	..	..	..	59.1	..
Primary completion rate, total (% of relevant age group)	..	..	..	..	..
Proportion of pupils starting grade 1 who reach grade 5	..	..	..	..	..
Youth literacy rate (% ages 15-24)	47.4	51.9	54.6	..	..
Goal 3: Promote gender equality and empower women					
Proportion of seats held by women in national parliament (%)	10	..	2	2	22
Ratio of girls to boys in primary and secondary education (%)	..	..	..	71.7	71.1
Ratio of young literate females to males (% ages 15-24)	49	52.9	55.9	..	..
Share of women employed in the nonagricultural sector (%)	6.6	8.1	8.1	7.4	8.2
Goal 4: Reduce child mortality					
Immunization, measles (% of children ages 12-23 months)	50	53	52	56	61
Infant mortality rate (per 1,000 live births)	96	90	..	81	74
Under 5 mortality rate (per 1,000)	138	125	..	108	98
Goal 5: Improve maternal health					
Births attended by skilled health staff (% of total)	18.8	..	18	23	..
Maternal mortality ratio (modeled estimate, per 100,000 live births)	..	..	..	500	..
Goal 6: Combat HIV/AIDS, malaria, and other diseases					
Contraceptive prevalence rate (% of women ages 15-49)	14	17.8	23.9	27.6	..
Incidence of tuberculosis (per 100,000 people)	181.3	181.3	181.3	181.3	181.3
Number of children orphaned by HIV/AIDS	..	..	..	..	..
Prevalence of HIV, total (% of population aged 15-49)	..	..	..	0.1	0.1
Tuberculosis cases detected under DOTS (%)	..	1	3.8	2.8	16.8
Goal 7: Ensure environmental sustainability					
Access to an improved water source (% of population)	83	..	..	..	90
Access to improved sanitation (% of population)	38	..	..	..	54
Access to secure tenure (% of population)	..	..	..	..	..
CO2 emissions (metric tons per capita)	0.6	0.7	0.7	0.8	..
Forest area (% of total land area)	3.6	..	..	3.1	..
GDP per unit of energy use (2000 PPP \$ per kg oil equivalent)	3.9	4	4.1	4.2	4.3
Nationally protected areas (% of total land area)	..	..	..	..	4.9
Goal 8: Develop a global partnership for development					
Aid per capita (current US\$)	10.5	13.4	4.6	5.1	7.2
Debt service (% of exports)	..	..	..	..	..
Fixed line and mobile phone subscribers (per 1,000 people)	7.5	14.7	20.8	24.5	44.2
Internet users (per 1,000 people)	..	0	0.3	2.2	10.3
Personal computers (per 1,000 people)	1.3	2.8	3.7	4.2	..
Unemployment, youth female (% of female labor force ages 15-24)	1.3	10	21	29.2	..
Unemployment, youth male (% of male labor force ages 15-24)	5.7	6.9	7.9	11.1	..
Unemployment, youth total (% of total labor force ages 15-24)	5.1	7.4	10	13.3	..
Other					
Fertility rate, total (births per woman)	5.8	5.3	5	4.8	4.5
GNI per capita, Atlas method (current US\$)	420	450	500	480	520
GNI, Atlas method (current US\$) (billions)	45.5	54.3	63.7	66.5	77.6
Gross capital formation (% of GDP)	18.9	19.5	17.9	16	15.5
Life expectancy at birth, total (years)	59.1	..	61.7	..	64.1
Literacy rate, adult total (% of people ages 15 and above)	35.4	38.5	40.9	..	..
Population, total (millions)	108	119.4	128.5	138.1	148.4
Trade (% of GDP)	38.9	35.3	36.9	34.3	40.8

Source: World Development Indicators database, April 2005

Note: Figures in italics refer to periods other than those specified

Annex Table 9: Pakistan's Social Indicators in International Perspective

Indicators	Actual values for Pakistan (2001/02) ^a	Predicted values for countries with similar incomes (2002) ^b	Difference between actual and predicted
Fertility	4.5	3.8	0.7
Adult illiteracy ^c	49.5	29	20
Adult illiteracy—female	62	35	27
Gross primary enrollment	72	98	-26
Gross primary enroll—female	61	94	-33
Infant mortality rate	82	62	20
Under-5 mortality ^d			

Notes and sources:

a. PIHS 2001/02. unless otherwise indicated.

b. The predicted values column is derived from a cross-country regression aimed at explaining the indicator in question by per capita GDP (PPP). Data are from the World Development Indicators (World Bank).

c. PRSP, based on 1998 Population Census.

d. Ministry of Health

Source: Pakistan-Devolution in Pakistan (Report no. 29912-PK), dated September 1., 2004.

Annex Table 10: Achieving the Millennium Development Goals-Pakistan's Recent Progress

Key Targets	Current Status and Progress
Halve, between 1990 and 2015, the proportion of people below the poverty line.	After declining during the 1980s, poverty began to increase, rising from a 26.1 percent in 1990/91 to 30.6 percent in 1998/99. Data made available since the time of the CAS indicate a continued increase, with a poverty head count of 32.1 percent for FY2000/01.
Enroll all children in primary school by 2015.	Enrollment rates remain low. The net primary enrollment rate remained unchanged between 1996/97 and 2000/01 at 42 percent.
Make progress towards gender equality and empowering women by eliminating gender disparities in primary and secondary education by 2005 and at all levels of education by 2015.	Gender disparities narrowed during the nineties, but remain substantial. The female share in primary enrollment rose from 34 percent to 43 percent between 1991 and 2000. Large regional variations persist and female enrollment remains low in rural areas. The 2005 goal is unlikely to be met.
Reduce infant and child mortality rates by two-thirds between 1990 and 2015.	Infant and child mortality declined over the 1990s; infant mortality fell from 120 per 1,000 live births in 1990 to 82 per 1,000 live births in 2001 while child mortality decreased from 140 in 1990 to 105 in 2001. Immunization coverage has shown gradual improvement over time; the proportion of fully immunized children aged 12-23 months increased from 25 percent in 1990 to 53 percent in 2001.
Reduce maternal mortality ratios by three-quarters between 1990 and 2015.	The proportion of births attended by skilled attendants has risen from 18 percent in 1996/97 to 24 percent in 2001. In 2001, some 31 percent of women who had given birth in the last 3 years went for prenatal consultations during their last pregnancy compared to the corresponding estimate of 27 percent in 1996/97. Reliable maternal mortality rates are not available.
Have halted by 2015 and begun to reverse the spread of HIV/AIDS, incidence of malaria and other major diseases.	Pakistan is low prevalence/high risk country for HIV/AIDS, in the process of scaling-up its prevention program. The contraceptive prevalence rate has more than doubled over the 90s rising from 19 percent in 1990/91 to 28 percent in 2000/01. Population coverage under TB DOTS is estimated at 52 percent in 2003. The case detection and cure rate in areas covered by DOTS is 36 percent and 73 percent respectively.
Integrate principles of sustainable development into country policies and programs and reverse the loss of environmental resources. Halve by 2015, the proportion of people without sustainable access to safe drinking water.	The percentage of the populations with access to an improved water source increased from 82 percent in 1991 to 86 percent in 2001. Environmental issues related to water resource utilization—e.g., waterlogging and salinization of cropland—represent huge challenges.

Source: Pakistan: Country Assistance Strategy Progress Report.

Annex Table 11: Aid Assistance to Pakistan

Top 10 Donors (US\$ million)

Donor	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	TOTAL
Japan	567.3	630.3	65.5	551.5	295.6	286.0	13.0	641.6	88.5	459.2	N/A	3,598.4
United States	44.9	43.4	11.3	13.2	37.5	11.5	71.9	111.2	761.8	321.3	1,151.0	2,579.1
Germany	213.4	185.7	107.0	198.5	46.9	51.9	29.1	7.0	41.9	48.7	24.2	954.2
France	17.5	36.0	58.2	31.3	30.2	2.1	3.1	70.8	68.6	1.9	502.5	822.3
United Kingdom	31.6	36.5	56.2	64.2	44.0	48.5	39.5	23.7	27.4	83.8	127.3	582.7
EC	34.3	32.1	7.4	5.1	29.7	85.4	1.7	20.2	29.2	84.9	17.2	347.2
Arab Countries	7.0	61.0	-	-	-	-	-	0.7	265.0	-	-	333.8
Netherlands	17.6	23.5	27.0	40.1	14.4	30.8	26.2	3.4	24.6	6.2	8.3	222.1
Other Donors	926.5	734.4	822.2	522.7	674.7	354.8	278.4	309.5	1,121.5	1,765.6	265.5	
ALL DONORS	1,860.0	1,782.9	1,154.9	1,426.6	1,173.0	871.0	462.8	1,188.1	2,428.5	2,771.8	2,095.8	17,215.4
DAC Countries	953.8	1,037.8	394.7	946.6	497.2	471.7	214.1	890.0	1,066.1	989.7	1,870.3	9,332.0

Source: OECD Development Assistance Committee - International Development Statistics, 11/27/04.

Notes:

All Donors = as defined by DAC.

Lenders (US\$ million)

Donor	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	TOTAL
ADB (a)	302.6	407.2	531.8	583.0	501.0	-	402.8	707.0	956.8	1,141.0	870.7	6,403.9
World Bank (b)	428.90	741.50	706.00	459.90	84.80	807.80	440.00	-	374.35	800.00	297.24	5,140.5
o/w IBRD	-	380.0	466.0	385.0	-	250.0	350.0	-	-	-	-	1,831.0
o/w IDA	428.9	361.5	240.0	74.9	84.8	557.8	90.0	-	374.4	800.0	297.2	3,309.5
IMF ©	88.0	295.4	134.0	107.2	205.2	132.7	447.5	150.0	401.2	258.4	344.6	2,564.0

Source and Notes:

(a) ADB, March 2004. Data refers to ADF and OCR projects.

(b) BW, December 2004. Year refers to the Bank's fiscal year (Jul-Jun). Data refers to commitments.

© IMF, December 2004. Data refers to purchases and loans.

Year = as defined by organization.

Annex Table 12: World Bank Senior Management for Pakistan

Year	Vice President	Director	Resident Rep
1990	Willi Wapenhans	Hans-Eberhard Kopp	Luis de Azcarate
1991	Willi Wapenhans	Michael H. Wiehen	Abdallah El Maaroufi
1992	D. Joseph Wood	Paul Isenman	Philippe Nouvel
1993	D. Joseph Wood	Paul Isenman	Philippe Nouvel
1994	D. Joseph Wood	Paul Isenman	Philippe Nouvel
1995	D. Joseph Wood	Paul Isenman	Philippe Nouvel
1996	D. Joseph Wood	Mieko Nishimizu	Sadiq Ahmed
1997	D. Joseph Wood	Mieko Nishimizu	Sadiq Ahmed
1998	Mieko Nishimizu	Sadiq Ahmed	(In Field Country Director)
1999	Mieko Nishimizu	Sadiq Ahmed	---
9/99	Mieko Nishimizu	John Wall	---
2000	Mieko Nishimizu	John Wall	---
2001	Mieko Nishimizu	John Wall	---
2002	Mieko Nishimizu	John Wall	---
2003	Mieko Nishimizu Praful Patel (Regional VP)	John Wall	---

Source: World Bank Group Telephone Directory.

Annex Table 13: Pakistan–Selected Analytical & Advisory Reports (including ESW)

Item No.	Document Title	Date	Report No.	Document Type
1	Islamic Republic of Pakistan: Country Financial Accountability Assessment	12/30/03	27551	Country Assistance Strategy Document
2	Pakistan - Oil and gas review Vol. 1	07/10/03	26072	Sector report
3	Pakistan - Poverty Reduction Strategy Paper (PRSP) Preparation Status Report and joint assessment Vol. 1 (English)	01/31/03	25463	Poverty Reduction Strategy Paper
4	Pakistan - Poverty assessment : poverty in Pakistan - vulnerabilities, social caps, and rural dynamics Vol. 1 (English)	10/28/02	24296	Economic Report
5	Pakistan - Country Assistance Strategy	06/24/02	24399	Country Assistance Strategy Document
6	Pakistan - Development policy review - a new dawn? Vol. 1 (English)	04/03/02	23916	Sector report
7	Precautionary saving from different sources of income - evidence from rural Pakistan Vol. 1 (English)	01/31/02	WPS2761	Policy Research Working Paper
8	Pakistan - Interim poverty reduction strategy paper and joint assessment Vol. 1 (English)	11/15/01	23189	Poverty Reduction Strategy Paper
9	Pakistan : clean fuels Vol. 1 (English)	10/31/01	ESM246	ESMAP paper
10	Pakistan - Reforming Punjab ' s public finances and institutions Vol. 1	08/21/01	20981	Sector report
11	Pakistan - Country Assistance Strategy Progress Report	05/16/01	22219	Country Assistance Strategy Document
12	Household schooling decisions in rural Pakistan Vol. 1 (English)	02/28/01	WPS2541	Policy Research Working Paper
13	Productivity growth and resource degradation in Pakistan ' s Punjab - a decomposition analysis Vol. 1 (English)	11/30/00	WPS2480	Policy Research Working Paper
14	Pakistan - Reforming provincial finances in the context of devolution - an eight point agenda Vol. 1 (English)	11/10/00	21362	Economic Report
15	The urban and rural fellowship school : experiments in Pakistan - design, evaluation and sustainability Vol. 1 (English)	07/31/00	22982	Departmental Working Paper
16	Evaluation of the Balochistan Rural Girls ' Fellowship Program - Will rural families pay to send girls to school? Vol. 1 (English)	11/30/99	22983	Departmental Working Paper
17	Education reforms in Balochistan, 1990-1998 - a case study in improving management and gender equity in primary education Vol. 1	09/30/99	22842	Working Paper
18	1994 and 1995 questionnaires : Northwest Frontier Province of Pakistan surveys Vol. 1 (English)	08/31/99	25190	Working Paper
19	Pakistan - Agricultural taxation in Pakistan Vol. 1 (English)	06/21/99	18935	Sector report
20	Strategic reforms for agricultural growth in Pakistan Vol. 1 (English)	04/30/99	21393	Publication
21	Pakistan - A framework for civil service reform in Pakistan Vol. 1 (English)	12/15/98	18386	Sector report
22	Pakistan - public expenditure review : reform issues and options Vol. 1 (English)	10/07/98	18432	Economic Report

Item No.	Document Title	Date	Report No.	Document Type
23	Improving women ' s health in Pakistan Vol. 1 (English)	05/31/98	17927	Publication
24	Pakistan - Economic update : adjustment and reforms for a better future Vol. 1 (English)	04/22/98	19015	Working Paper
25	Pakistan - Towards a health sector strategy Vol. 1 (English)	04/22/98	16695	Sector report
26	Can the poor influence policy : participatory poverty assessments in the developing world Vol. 1 (English)	02/28/98	19083	Publication
27	Learning and institutional capacity building in South A sia Vol. 1 (English)	01/01/98	20892	Working Paper
28	Leasing to support small businesses and microenterprises Vol. 1 (English)	12/31/97	WPS1857	Policy Research Working Paper
29	Cost-benefit analysis of the Global Dracunculiasis Eradication Campaign (GDEC) Vol. 1 (English)	10/31/97	WPS1835	Policy Research Working Paper
30	Financing Pakistan ' s Hub Power Project : a review of experience for future projects Vol. 1 (English)	08/31/97	18925	Working Paper
31	Pakistan - Private sector participation in urban environmental services : water and wastewater services and solid waste management - a sector study Vol. 1 (English)	06/26/97	16182	Sector report
32	Pakistan - Recent development policy issues, and agenda for change Vol. 1 (English)	03/25/97	19013	Working Paper
33	Pakistan - Economic policies, institutions, and the environment Vol. 1 (English)	12/15/96	15781	Sector report
34	Agricultural growth and poverty in Pakistan Vol. 1 (English)	09/30/96	16033	Human Development Working Paper
35	Pakistan - The Aga Khan rural support program : a third evaluation Vol. 1 (English)	07/31/96	15899	Publication
36	Pakistan - Improving basic education : community participation, system accountability, and efficiency Vol. 1 (English)	06/06/96	14960	Sector report
37	Leveling the playing field : giving girls an equal chance for basic education - three countries ' efforts Vol. 1 (English)	05/31/96	15662	Publication
38	Pakistan : social assessment demonstrates successes of participatory processes Vol. 1 (English)	05/31/96	18212	Newsletter
39	Public spending and the poor : theory and evidence Vol. 1 (English)	11/30/95	15152	Publication
40	Pakistan - Poverty assessment Vol. 1 (English)	09/25/95	14397	Sector report
41	Pakistan ' s agriculture sector : is 3 to 4 percent annual growth sustainable? Vol. 1 (English)	01/31/95	WPS1407	Policy Research Working Paper
42	Public sector deficits and macroeconomic performance Vol. 1 (English)	11/30/94	13905	Publication
43	Pakistan - A strategy for sustainable agricultural growth Vol. 1 (English)	11/03/94	13092	Sector report

Source: Imagebank and Business Warehouse.

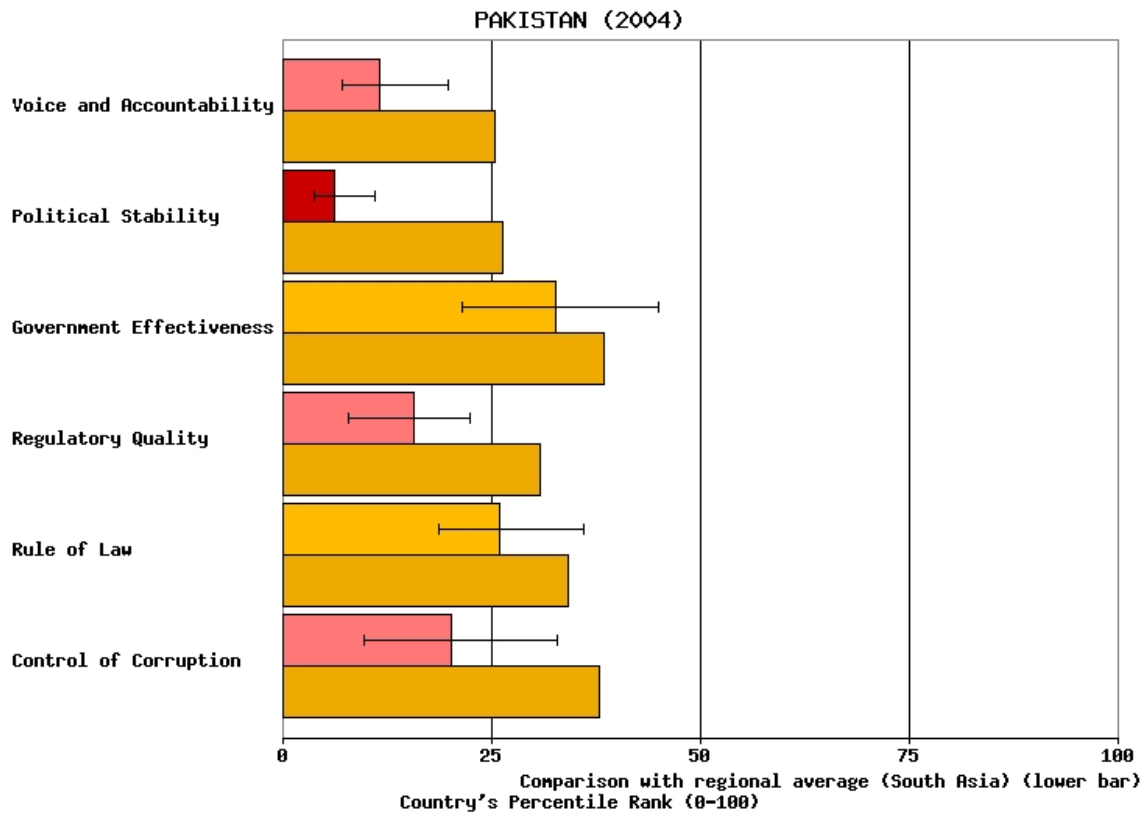
Annex Table 14: Pakistan-Natural Gas Prices

	1/1/1997	1/7/2004
	(In Pakistan rupees per thousand cubic feet)	
Fertilizer industry	34.01	36.77
Other industries	102.46	182.09
Household		
Up to 3.55 mcf/month	49.09	73.95
From 3.55 to 7.1 mcf/month	50.75	111.42
From 7.1 to 10.64 mcf/month	69.30	178.25
From 10.64 to 14.20 mcf/month	83.16	231.88
Above 14.20 mcf/month		231.88
Commercial	115.28	204.88
Memorandum item:		
Weighted price index*	86.3	158.7

Sources: Ministry of Petroleum and Natural Resources; and Fund staff estimates

* The weights used, based on the 1984/85 consumption pattern, are as follows: fertilizer industry, 0.148; other industries, 0.644; household use, 0.165 (with equal shares for all classes of users); and commercial, 0.043.

Annex Table 15: Pakistan Governance Indicators Compared with South Asia Average



Source: D. Kaufmann, A. Kraay, and M. Mastruzzi 2005: Governance Matters IV: Governance Indicators for 1996-2004 (<http://www.worldbank.org/ubi/governance/pubs/govmatters4.html>)

Annex Table 16: Pakistan-Private Power Projects

	Project Name/Location *	Notes	Technology and Fuel	Capacity Gross (MW)	Capacity Net ** (MW)	Commercial Operations Date
1	AES Lalpir Limited Lalpir	/a	Steam turbines on fuel oil	362	351.3*	Nov. 6, 1997
2	AES Pak Gen (Pvt) Co. Lalpir	/a	Steam turbines on fuel oil	365	343.9*	Jan 2, 1998
3	Altern Energy Limited Fatch Hang, Attock		Flared gas	14	13	Apr. 30, 2000
4	Fauji Kabirwala Power Co. Kabirwala, Dist Khanewal	/d	Combined cycle on gas	157	150*	Oct. 21, 1999
5	Gul Ahmed Energy Ltd, Korangi Town, Karachi	/a/e	Fuel oil	136.17	128.5*	Nov. 3. 1997
6	Habibullah Coastal Power Quetta		Combined cycle on natural gas	140	126*	Sep. 11, 1999
7	Japan Power Generation Off Raiwind Rd, Near Jia Baggo		Diesel engines on fuel oil	120	107	Mar. 14, 2000
8	Kohinoor Energy Limited Raiwind – Manga Road	/a	Diesel engines on fuel oil	131.44	126	Jun. 20, 1997
9	Liberty Power Project Daharki		Combined cycle on natural gas	235	211.9	Apr. 30, 2000
10	Northern Electric Co. Ltd. Choa Saidan Shah, Chakwal		Steam turbines on coal	6	5.5	Jun. 30, 2003
11	Rousch (Pakistan) Power Ltd Sidhnai Barrage Punjab	/b	Combined Cycle on fuel oil	412	355.1*	Dec.11, 1999
12	Saba Power Co. Ltd. 9 km from Sheikhpura	/d	Steam turbines on fuel oil	114	109	Dec. 31, 1999
13	Southern Electric Power Co. Raiwind, Lahore	/b	Diesel engines on fuel oil	115.2	112.1*	Jul. 12, 1999
14	Tapal Energy Limited West Karachi	/d /e	Fuel oil	126	125.5*	Jun. 20, 1997
15	Uch Power Limited Dera Murad Jamali	/a /b /c	Combined Cycle on low Btu gas	586	548*	Oct. 18, 2000
	TOTAL under 1994 Policy			3,020	2,813	
16	Hub Power Project Tehsil Hub, District Lasbela	/b /c	Steam turbines on fuel oil	1292	1200	Mar. 31, 1997
	(a) TOTAL incl. Hub			4,312	4,013	

* Four IPPs were terminated after reaching financial close: (i) Davis Energen (Pvt) Ltd. (gas turbines on flared gas, 10.5 MW); (ii) Eshatech (Pvt) Ltd. (coal, 20 MW); (iii) Power Generation Systems (diesel engines on fuel oil, 116 MW); and (iv) Sabah Shipyard (fuel oil, 288.6 MW)

** Actual initial dependable capacity

/a IFC participation

/b PSEDF participation

/c IBRD Guarantee

/d MIGA participation

/e PPA with KESC

Source: *Lessons from the Independent Private Power Experience in Pakistan, World Bank Energy and Mining Sector Board Discussion Paper No. 13, April 2005.*

Annex 3: List of People Met

Ministry of Finance

Mr. Ashfaq Hasan Khan, Advisor

Mr. Wajid Rana, Joint Secretary

Mr. Abdul Wajid Rana, Joint Secretary (External Finance)

Mr. Ismail Qureshi, Additional Secretary (former Secretary of Health, Punjab)

Economic Affairs Division (EAD)

Dr. Waqar Masood Khan, Secretary

Mr. Ahmed Jawad, Joint Secretary

Mr. Tariq Pasha, Deputy Secretary

Planning Commission

Dr. Salahuddin Sulaiman, Chief Agriculture

Mr. Abdul Hafiz Qaiser, Chief Water

Mr. Javed Sadiq Malik, Secretary

Dr. Mushtaq A. Khan, Director, Poverty Reduction Unit

Dr. Parvez Tahir, Chief Economist, Planning Commission

Ministry of Commerce

Mr. Kamal Afsar, Secretary

Ministry of Communications

Mr. Iftikhar Rashid, Secretary

Ministry of Education

Mrs. Zubaida Jalal, Minister for Education

Dr. Haroona Jatoti, Joint Educational Advisor, Curriculum Wing

Ministry of Food & Agriculture

Mr. Salik Nazir, Secretary

Ministry of Health

Mr. Muhammad Nasir Khan, Minister for Health

Mr. Ijaz Rahim, Secretary

Dr. Zahid Larik, Deputy Director-General

Ministry of Industries

Mr. Hafeez Chaudhry, Joint Secretary, Ministry of Industries

Ministry of Petroleum & Natural Resources

Mr. Abdullah Yusuf, Secretary

Ministry of Privatisation & Investment

Dr. Abdul Hafeez Sheikh, Minister

Ministry of Population Welfare

Mr. Shakeel Ahmed Durrani, Secretary, Ministry of Population Welfare

Ministry of Water & Power

Mr. Aftab Ahmad Khan Sherpao, Minister for Water & Power

Mr. Saeed Ullah Jan, Secretary

Mr. Zarar Aslam, Joint Secretary

Mr. Riaz Ahmad Khan, Additional Secretary

Ministry of Railways

Mr. Khurshid Ahmed Khan, Chairman/Secretary

Ministry of Women Development, Social Welfare & Special Education

Ms. Nilofar Bakhtiar, Advisor to the Prime Minister

Dr. Sh.Aleem Mahmud, Secretary to Government of Pakistan

Mr. Suhail Safdar, Additional Secretary

Mr. Khalid Saeed Haroon, Director General of Special Education

Mr. Pervez Iqbal, Director of Planning

Project Implementation Unit - Project to Improve Financial Reporting and Auditing

Mr. Mueen Aftab Sheikh, Project Director

Mr. Khuram Farooq, Director, Financial Accounting and Budgeting

Mr. Shamroz Khan, Director, Training

Mr. Akmal Minallah, Director, Audit

Ms. Izzat Jahan, Director, Human Resource Management

Mr. Tarik Hijizi, Director, Budget and Accounts

Water & Power Development Authority (WAPDA)

Mr. Tariq Hameed, Chairman

Mr. Javed Nizam, Member Finance and Director Finance

Mr. M. Amjad, General Manager, Finance, Power

Water & Sanitation Authority (WASA)

Mr. Riaz Hakeem, Director Finance

National Electric Power Regulatory Authority (NEPRA)

Lt. Gen. (Retired) Saeed-uz-Zaffar, Chairman

Oil & Gas Regulatory Authority

Mr. Munir Ahmad, Chairman

Mt. Jawaid Inam, Vice Chairman

Mr. Syed Jawad Naseem, Executive Director, Finance & Coordination

Karachi Electric Supply Company (KESC)

Mr. Riaz Ahmed Khan, Chairman

National Highway Authority

Major General Farrukh Javed, Chairman

Mr. Raja Nowsherwan, Member

National Reconstruction Bureau

Mr. Daniyal Aziz, Chairman

National Electric Power Regulatory Authority (NEPRA)

Lt. Gen. (Retd.) Saeed-uz-Zaffar, Chairman and members, NEPRA

National Accountability Bureau (NAB)

Lt. Gen. Munir Hafeez, Chairman (on Corruption and CAR Commission on Adm. Restructuring)

Mr. Syed Mansoor Ali, Member, Financial Crimes Investigation Wing

Mr. Syed Irfan Ali, Member

Higher Education Commission

Prof. Dr. Ata-ur-Rehman, Chairman

Public Procurement Regulatory Authority

Mr. Mushtaq Mohammad, Director

Defense Housing Authority

Brig. Javed Ashraf, Project Director, Defense Housing Authority (Former General Manager Planning & Development, KPT)

Education Department, Civil Secretariat

Mr. Hassan Nawaz Tarar, Special Secretary

Environmental Protection Agency

Mr. Asif Shuja Khan

Pakistan Telecommunication Authority (PTA)

Mr. Mohammad Niamatullah, Member Finance/Acting Chairman

Pakistan Telecommunication Company

Mr. Akhtar Ahmed Bajwa, Chairman

Pakistan Railways

Mr. Iqbal Samad, General Manager, Pakistan Railways, Lahore

Pakistan Water & Power Development Authority

Mr. Tariq Hamid, Chairman

Civil Secretariat

Mr. Hasan Nawaz Tarar, Special Secretary, School, Education Department,

Export Promotion Bureau

Mr. Shauja-uddin Siddiqui, Director General

Privatization Commission

Mr. Abdul Hafeez Mirza, Director General (Banking & Infrastructure)

Government of Punjab

Mr. Khushnood Akhtar Lashari, Additional Chief Secretary/Formal Secretary Education

Mr. Sohail Ahmed, Secretary, Health Ministry

Mr. Shakar Javed Khawaja (Lahore Urban)

Mr. Khalid Gilani, Director, Punjab Education Sector Reforms Program

Naguibullah Malik, Secretary, Government of Punjab

Government of Punjab (cont'd)

Mr. Javid Latif, Additional Secretary Development, Government of Punjab

Government of Sindh

Dr. Muktavakil Kazi, Chief Secretary

Mr. Omer Abro, Additional Director, Health Ministry

Mr. Malik Asrar Hussain, Secretary, Government of Sindh

Mr. Nawaz Ali Laghari, Special Finance Secretary, Government of Sindh

Local Government & Rural Development Department

Mr. Naguibullah Malik, Secretary

State Bank of Pakistan

Dr. Ishrat Hussain, Governor

National Bank of Pakistan

Mr. S. Ali Raza, President/Chief Executive Officer, National Bank of Pakistan

Mr. Masood Karim Shaikh, SEVP & Group Chief

Commercial & Retail Banking

Mr. Shahid Anwar Khan, Executive Vice President/Group Chief

Risk Management Group

Mr. Javed Mahmood, Group Chief

Operations Group

Mr. Salamatulla, Executive Vice President

Mr. Farooq-ul-Hassan Chishti, Group Chief

Corporate & Investment Banking Group

Mr. Masood Karim Shaikh, SEVP & Group Chief

Pakistan Poverty Alleviation Fund

Mr. Kamal Hyat, Chief Executive

Mr. Iltifat Rasul Khan, General Manager

Mr. Muhammad Zaffar P. Sabri, General Manager, Community Infrastructure

Mr. Ahmad Jamal, General Manager, Credit & Enterprise Development

Mr. Ali Nasir, Manager, Human & Institutional Development

Karachi Port Trust

Vice Admiral Ahmed Hayat, Chairman

Mr. Farid Ahmed, General Manager, Finance

Rear Admiral Noman Bashir, General Manager Operations

Karachi Electric Supply Corporation

Mr. Tariq Mahmood Sadozai, Managing Director

Karachi Water Supply Board

Brig. Mansoor Ahmed

Pakistan Center for Philanthropy

Ms. Shahnaz Wazir Ali, Executive Director (former social sector advisor)

Donors/Development Agencies

Ms. Kausar S. Khan, Aga Khan Health Services

Mr. Gareth Aiken, Head of Development Section, DFID

Mr. Haroon Sharif, Economic Adviser, DFID

Ms. Nargis Sultana, Senior Programme Officer (Education), DFID

Mr. Marshuk Ali Shah, Country Director, Asian Development Bank

Ms. Samia W. Altaf, Senior Health Adviser, USAID

Ms. Margaret Harrit, Economic Growth Officer

Mr. Paul Oquist, Senior Governance Advisor, UNDP

Mr. Syed Mohammad Ali, National Program Officer, Food & Agriculture Organization
Res. Rep, UNDP

Res. Rep, World Food Program

Mr. Takeshi Matsunaga, Head of Economic and Development Section, Embassy of Japan

Mr. Toru Arai, Chief Representative, Japan Bank for International Cooperation (JBIC)

Mr. Manabu Sawa, Representative, Japan Bank for International Cooperation (JBIC)

Mr. Takeshi Matsunaga, Head of Economic & Development Section Japan Embassy, and
representative of JICA

Mr. Marshuk Ali Shah, Country Director, Asian Development Bank

Mr. Babur A. Beg, Programs Officer, Asian Development Bank, Asian Development Bank

Mr. R. Keith Leonard, Senior Evaluation Specialist, Asian Development Bank

Export Promotion Bureau

Mr. Rahat Ul Ain, Director General

Private Sectors

Mr. Humayum Murad, Managing Director, Orix Leasing Overseas Investors

Mr. Asif Siddiqi, Managing Director, Network Leasing

Mr. Mohammad Chaudhry, Managing Director, Adamjee Insurance Co.

Mr. Siraj Kassam Teli, President, Karachi Chamber of Commerce & Industry

Mr. Gohar S. Butt, Managing Director, First Grindlays Modaraba

Mr. Sohail Wajahat, Managing Director, Siemens

Mr. Jawaid Shaikh, Managing Director, Noor Entineering (SME – auto parts)

Mr. Jerry Mobs, Chief Executive, Paktel

Mr. Mohammad Sarwar, Senior Executive Vice President (Technical), PTCL

Mr. Qaiser Bengali, SPDC

Mr. Zafar Ali Khan, Managing Director of Private Power & Infrastructure Board (PPIB)

Brig. Muhammad Zareen, General Manager, Project Director, Ghazi Barotha Hydropower Project

Mr. Arif Hasan, Orangi Pilot Project, Karachi

Mr. Mohsin Khalid, Executive Director, ITTEHAD

Mr. Mian Akram Farid, President, Islamabad Industrial Association

Mr. Karim Aziz Malik, Director Sales, Fazal Steel (Pvt) Limited

Islamabad Chamber of Commerce & Industry

Mr. Zubair Ahmad Malik, President

Mr. Khalid Iqbal Malik, Member Executive Committee

Karachi Chamber of Commerce & Industry

Mr. Siraj Kassam Teli, President
 Mr. Muhammad Saeed Shafiq, Senior Vice President
 Mr. Hamid Nisar, Vice President
 Mr. Mohammad Salim Kapadia, Member, Managing Committee
 Mr. Iftikhar Ahmed Sheikh, Member Managing Committee
 Mr. S. Jawed Iqbal Magoon, Member Managing Committee
 Mr. Abdul Majid Haji Muhammad, Member Managing Committee
 Dr. Arshad A. Vohra, Member Managing Committee
 Mr. Rasheedudin Rashid, Member Managing Committee
 Mr. Muhammad Ishaq Subhani, Director Research
 Mr. Abdul Sattar, Assistant Public Relations Officer

NGOs

Mr. Abdul Latif Rao, Country Rep, IUCN (World Conservation Union), Karachi
 Dr. Rashid Bajwa, Chief Executive, National Rural Support Program
 Dr. Saba Khattak, Executive Director, Sustainable Development Policy Institute
 Mr. Munir Mehr Ali, Chief Executive, Aga Khan Foundation
 Mr. Imtiaz Alvi, Executive Director, Sungi Development Foundation
 Mr. Khawar Mumtaz, Coordinator, Shirkat Gah, and Chair, Pakistan NGO Forum
 Mr. Rashid Bajwa, General Manager, National Rural Support Program
 Prof. Anita Ghulam Ali, Managing Director, Sindh Education Foundation
 Ms. Shaheen Atiq-ur-Rehman, Executive Director, BUNYAD

Private Citizens

Mr. Shamsul Mulk, former Chairman, WAPDA
 Mr. Javed Burki, former Secretary, EAD/Finance
 Dr. Gulfaraz Ahmed, former Chairman, NEPRA
 Mr. Shafi Niaz, former Advisor, Food & Agriculture to Chief Executive
 Mr. V.A. Jaffery, former Advisor to Prime Minister of Pakistan
 Mr. Sartaj Aziz, Senator/former Minister of Finance
 Mr. Mueen Afzal, former Secretary General Finance, Government of Pakistan
 Dr. Eitzaz Ahsan, Chairman, Economic Department, Quaid-e-Azam University
 Mr. Salman Shah, Director, Lahore College of Business Administration
 Dr. Shahid Amjad Chaudhry, Rector, Lahore School of Economics
 Mr. Fateh Mohammad Chaudhry, former World Bank staff
 Mr. Shamsul Mulk, former Chairman, WAPDA
 Mr. Usman Aminuddin, Ex-Minister of Petroleum and Natural Resources
 Mr. Zafar Altaf, Chairman, Idrara-e-Kissan Committee
 Mr. Shahid Kardar, former Finance Minister, Government of Punjab
 Mr. Mueen Afzal, former Secretary General Finance
 Mr. Sartaj Aziz, former Minister Finance
 Mr. Nazar Hussain Mahar, former Education Secretary, Sindh
 Dr. Akmal Hussein, Author, 2003 Pakistan Human Development Report
 Mr. Muzzaffar Mahmood Qureshi, former Secretary for Population Welfare
 Mr. Haris Gazdar, former Chief Engineer, Pakistan Railways
 Ms. Tahira Abdullah, formerly UNFPA

Press

Mr. M. Ziauddin, Resident Editor, Dawn
 Mr. Farahan Bokhari, Correspondent, The Financial Times

Private Banks**Allied Bank of Pakistan Ltd.**

Mr. Muhammadi Yaqoob, Senior Vice President & Company Secretary
Khalid A. Sherwani, President, Allied Bank of Pakistan

Habib Bank Limited

Zakir Mahmood, President
Mr. Sohail Malik, Senior Executive Vice President
Mr. Ayaz Ahmed, SEVP/Chief Financial Officer

Muslim Commercial Bank Ltd.

Mohammad Aftab Manzoor, President

Financial Institutions & International Division

Mr. Shafiq A. Khan, Group Head

Financial Institutions Division

Ms. Nadira Saeed, Senior Vice President & Divisional Head

Network Leasing Corporation Ltd.

Mr. Asif Siddiqi, Managing Director
Mr. Musaret Siddiqi, FCA Executive Director

ORIX Leasing Pakistan Ltd.

Mr. M. Shakeb Murad, Head of Treasury
Mr. Teizoon Kisat, General Manager Finance & Company Secretary
Mr. Humayun Murad, Chief Executive

United Bank

Mr. M. Pervez, Vice President
Mr. Aameer Karachiwalla, Senior Executive Vice President
Amar Zafar Khan, President, United Bank Ltd.

Union Bank

Mr. Choudhri Mueen Afzal, H.I., Chairman

Annex 4: Guide to IEG's Country Evaluation Rating Methodology

1. This methodological note describes the key elements of IEG's country assistance evaluation (CAE) methodology.⁵⁷

CAEs rate the outcomes of Bank assistance programs, not the Clients' overall development progress

2. A Bank assistance program needs to be assessed on how well it met its particular objectives, which are typically a sub-set of the Client's development objectives. If a Bank assistance program is large in relation to the Client's total development effort, the program outcome will be similar to the Client's overall development progress. However, most Bank assistance programs provide only a fraction of the total resources devoted to a Client's development by donors, stakeholders, and the government itself. In CAEs, IEG rates only the outcome of the Bank's program, not the Client's overall development outcome, although the latter is clearly relevant for judging the program's outcome.

3. The experience gained in CAEs confirms that Bank program outcomes sometimes diverge significantly from the Client's overall development progress. CAEs have identified Bank assistance programs which had:

- satisfactory outcomes matched by good Client development;
- unsatisfactory outcomes in Clients which achieved good overall development results, notwithstanding the weak Bank program; and,
- satisfactory outcomes in Clients which did not achieve satisfactory overall results during the period of program implementation.

Assessments of assistance program outcome and Bank performance are not the same

4. By the same token, an unsatisfactory Bank assistance program outcome does not always mean that Bank performance was also unsatisfactory, and *vice-versa*. This becomes clearer once we consider that the Bank's contribution to the outcome of its assistance program is only part of the story. The assistance program's outcome is determined by the *joint* impact of four agents: (a) the Client; (b) the Bank; (c) partners and other stakeholders; and (d) exogenous forces (e.g., events of nature, international economic shocks, etc.). Under the right circumstances, a negative contribution from any one agent might overwhelm the positive contributions from the other three, and lead to an unsatisfactory outcome.

5. IEG measures Bank performance primarily on the basis of contributory actions the Bank directly controlled. Judgments regarding Bank performance typically consider the relevance and implementation of the strategy, the design and supervision of the Bank's lending interventions, the scope, quality and follow-up of diagnostic work and other AAA activities, the consistency of the Bank's lending with its non-lending work and with its safeguard policies, and the Bank's partnership activities.

⁵⁷ In this note, *assistance program* refers to products and services generated in support of the economic development of a Client country over a specified period of time, and *client* refers to the country that receives the benefits of that program.

Rating Assistance Program Outcome

6. In rating the outcome (expected development impact) of an assistance program, IEG gauges the extent to which major strategic objectives were relevant and achieved, without any shortcomings. In other words, did the Bank do the right thing, and did it do it right. Programs typically express their goals in terms of higher-order objectives, such as poverty reduction. The country assistance strategy (CAS) may also establish intermediate goals, such as improved targeting of social services or promotion of integrated rural development, and specify how they are expected to contribute toward achieving the higher-order objective. IEG's task is then to validate whether the intermediate objectives were the right ones and whether they produced satisfactory net benefits, and whether the results chain specified in the CAS was valid. Where causal linkages were not fully specified in the CAS, it is the evaluator's task to reconstruct this causal chain from the available evidence, and assess relevance, efficacy, and outcome with reference to the intermediate and higher-order objectives.

7. For each of the main objectives, the CAE evaluates the relevance of the objective, the relevance of the Bank's strategy towards meeting the objective, including the balance between lending and non-lending instruments, the efficacy with which the strategy was implemented and the results achieved. This is done in two steps. The first is a top-down review of whether the Bank's program achieved a particular Bank objective or planned outcome and had a substantive impact on the country's development. The second step is a bottom-up review of the Bank's products and services (lending, analytical and advisory services, and aid coordination) used to achieve the objective. Together these two steps test the consistency of findings from the products and services and the development impact dimensions. Subsequently, an assessment is made of the relative contribution to the results achieved by the Bank, other donors, the Government and exogenous factors.

8. Evaluators also assess the degree of Client ownership of international development priorities, such as the Millennium Development Goals, and Bank corporate advocacy priorities, such as safeguards. Ideally, any differences on dealing with these issues would be identified and resolved by the CAS, enabling the evaluator to focus on whether the trade-offs adopted were appropriate. However, in other instances, the strategy may be found to have glossed over certain conflicts, or avoided addressing key Client development constraints. In either case, the consequences could include a diminution of program relevance, a loss of Client ownership, and/or unwelcome side-effects, such as safeguard violations, all of which must be taken into account in judging program outcome.

Ratings Scale

9. IEG utilizes six rating categories for **outcome**, ranging from highly satisfactory to highly unsatisfactory:

<i>Highly Satisfactory:</i>	The assistance program achieved at least acceptable progress toward all major relevant objectives, <u>and</u> had best practice development impact on one or more of them. No major shortcomings were identified.
<i>Satisfactory:</i>	The assistance program achieved acceptable progress toward all major relevant objectives. No best practice achievements or major shortcomings were identified.
<i>Moderately Satisfactory:</i>	The assistance program achieved acceptable progress toward <i>most</i> of its major relevant objectives. No major shortcomings were identified.
<i>Moderately Unsatisfactory:</i>	The assistance program did <i>not</i> make acceptable progress toward <i>most</i> of its major relevant objectives, <i>or</i> made acceptable progress on all of them, but either (a) did not take into adequate account a key development constraint or (b) produced a major shortcoming, such as a safeguard violation.
<i>Unsatisfactory:</i>	The assistance program did not make acceptable progress toward <i>most</i> of its major relevant objectives, <i>and</i> either (a) did not take into adequate account a key development constraint or (b) produced a major shortcoming, such as a safeguard violation.
<i>Highly Unsatisfactory:</i>	The assistance program did not make acceptable progress toward <i>any</i> of its major relevant objectives and did not take into adequate account a key development constraint, while also producing at least one major shortcoming, such as a safeguard violation.

10. The **institutional development impact (IDI)** can be rated as: *high, substantial, modest, or negligible*. IDI measures the extent to which the program bolstered the Client's ability to make more efficient, equitable and sustainable use of its human, financial, and natural resources. Examples of areas included in judging the institutional development impact of the program are:

- the soundness of economic management;
- the structure of the public sector, and, in particular, the civil service;
- the institutional soundness of the financial sector;
- the soundness of legal, regulatory, and judicial systems;
- the extent of monitoring and evaluation systems;
- the effectiveness of aid coordination;
- the degree of financial accountability;
- the extent of building NGO capacity; and,
- the level of social and environmental capital.

11. **Sustainability** can be rated as *highly likely*, *likely*, *unlikely*, *highly unlikely*, or, if available information is insufficient, *non-evaluable*. Sustainability measures the resilience to risk of the development benefits of the country assistance program over time, taking into account eight factors:

- technical resilience;
- financial resilience (including policies on cost recovery);
- economic resilience;
- social support (including conditions subject to safeguard policies);
- environmental resilience;
- ownership by governments and other key stakeholders;
- institutional support (including a supportive legal/regulatory framework, and organizational and management effectiveness); and,
- resilience to exogenous effects, such as international economic shocks or changes in the political and security environments.

Annex 5: Pakistan: Country Assistance Evaluation Management Action Record

<i>Major Monitorable IEG Recommendations Requiring a Response</i>	<i>Management Response</i>
<p><i>Continue strong support of analytical work:</i> The Bank should continue with its strong support of analytical work, but it will need to translate the analysis into implementable and prioritized actions and programs. Priorities are in poverty, rural development, and governance. The work should directly address difficult issues such as land inequality and unequal access to other key resources.</p>	<p>Agree that analytical work should include implementable and prioritized actions and programs and that poverty, rural development and governance are key areas. The program has already moved in this direction. A rural factors market study was completed in FY04 and a rural DPR will be completed in FY06. We will continue annual ESW/TA on poverty monitoring as well as follow-up work on financial management, tax administration, and civil service reform. The Rural Factor Markets study devotes significant attention to issues of access to land, water, and credit.</p>
<p><i>Greater Focus on building institutional capacity:</i> Bank interventions (analytical work, technical assistance, and projects) should have a greater focus on building sustainable institutional capacity. All future projects should have clear institutional development elements or components. In the case of fast-disbursing loans, institutional development TA or AAA should precede or accompany the loan.</p>	<p>Agree. The program has increased its emphasis on institutional development with the approval of a broad-based vehicle, the Public Sector Capacity Building TA loan, and focusing on this aspect more carefully during design of new projects.</p>
<p><i>Projects should be more focused and scaled</i> to fit the capacity of the implementing agency. Economy wide adjustment loans should be replaced by more focused loans (such as a civil service reform loan or a tax administration reform loan). Innovative approaches should be initiated by pilot projects before scaling up.</p>	<p>Partially Agree. Management reached a similar conclusion in evaluating the experiences of SAP and NDP and the program has already moved away from multi-province, umbrella type operations. However, disagree that economy-wide adjustment loans (such as PRSCs) should be abandoned; they are a very useful tool for supporting economy wide reforms within the constitutional domain of federal government.</p>
<p><i>Focus on improving donor relationships:</i> The Bank should focus on improving donor relationships, including soliciting input at a stage early enough to affect project design or policy recommendations. The Bank also needs to work on improving communications with other donors and agencies.</p>	<p>Agree. Progress has been made in deepening policy dialogue on the PRSC, particularly with the UK and US. Cooperation with ADB is also increasing in many areas. Also this approach needs to be tailored to the specific sectors.</p>

Annex 6: Comments from the Government



Asif Bajwa
Additional Finance Secretary

No. 3 (81) EFC-II/2003
Government of Pakistan
Finance Division
PRSP Secretariat
Ph: 92-51-9201023
Fax: 92-51-9205880

Islamabad, the 15th June 2005

Sub: World Bank Report on Pakistan-Country Assistance Evaluation

Dear Laurie,

Reference is invited to your letter of May 06, 2005 addressed to the Advisor to the Prime Minister on Finance on the captioned subject. The Government of Pakistan has gone through the subject report and comments on the report are enclosed. We hope that the report will be finalized in the light of our comments.

Regards,



Asif Bajwa

Laurie Effron,
Acting Manager,
Country Evaluation and Regional Relations,
Operation Evaluation Department
Washington D. C., USA
Fax no. 202-477-6391

Comments on Pakistan Country Assistance Evaluation

The Government of Pakistan has gone through the contents of the subject report. Comments on the report are given in the following paras.

General comments

2. In annexure 5: Guide to OED's Country Evaluation Rating Methodology it is clearly written in bold that "CAEs evaluate the outcomes of Bank assistance programs, not Clients' overall development progress". Very rightly in the preface of the report it is stated that its objective is to analyze the objectives and content of Bank's assistance program during 1994-2003, and the outcomes in terms of economic and social development in Pakistan. Accordingly, the subject report was supposed to be the evaluation of the World Bank's assistance programs through 1994-2003. However, the way it is written and presented; it can easily be misconstrued as performance of Pakistan during this period. Thus there seems to be an apparent divergence in the methodology and the manner in which the evaluation has been carried out. Therefore, this needs to be taken by the Bank seriously.

3. If the Bank's assistance programs were assessed then the descriptions in the ratings should give evaluation in terms of strengths and weaknesses of the assistance program (as eloquently given in the detailed discussion of various Areas). On the other hand if the assistance program was to be evaluated only in terms of achievements, (as it presently seems from summary table on page iii) then it would be pertinent to revisit the way in which the achievements or otherwise have been reported.

4. In the report a common or a single benchmark has not apparently been adopted for the program evaluation. Specifically, at some places the report uses South Asian region as its benchmark whereas at other places the report makes a comparison with a single country. In addition, the choice of time period for evaluation purposes is not consistent throughout the report. These inconsistencies in approach can lead to erroneous judgment. This needs to be taken by the Bank seriously.

5. The selection of varying time period is particularly important. It would have been more appropriate if the report had been bifurcated into two sections i.e. 1994-1999 and 2000-2003. Pakistan's Economic performance during the period 2000-2003 has been remarkable. This has not been acknowledged in the report. Without implying that Pakistan has achieved ideal level of progress in various areas, such a comparison does show that Pakistan has made significant progress in almost all the areas in the latter period, despite adverse internal and external environment at the beginning. In addition, there are also some other issues particularly in the manner the report takes stock of the progress in various areas and the way the report analyses the data. The report should have reflected the turnaround in the economy after 1999 and the measures adopted such as fiscal reforms including banking sector reforms and macro economic stability should have been acknowledged. Although the period 2004-2005 is not covered in the report, it would have been appropriate to highlight Pakistan's economic turnaround and the high growth rate achieved (8.4%) which is the highest in the region. The report needs to be updated and the language should be used very carefully.

Specific Comments

6. The specific comments are further divided into two parts; first part focuses on three areas where the CAE report has rated the program performance as 'unsatisfactory' and the second part focuses on other areas.

Social Sector

7. The report states that the 2001 household survey indicates that the poverty increased from 26.6 percent in 1992/93 to 32.1 percent in 2000-01. While it is true that the poverty increased during the 1990s, there has been considerable debate on the level of poverty 2000-01 onwards. Encouraged by two years of strong growth (5.1% in 2002-03 and 6.4% in 2003-04) and over Rs. 860 billion of cumulative spending on the social sector and poverty related programs, the government asked the Federal Bureau of Statistics (FBS) to conduct a sample Survey of Household Consumption Expenditure (HCES) with a view to gauging the impact of the macroeconomic and social sectors on the living conditions of the people of Pakistan. The Survey, covering 5046 rural and urban households (*One-third of the sample covered in PIHS 2000-01*) from all the four provinces of Pakistan, was conducted during April 19, 2004 to May 06, 2004. The findings of the Survey were highly encouraging. Not only has the incidence of poverty shown a significant decline but other social indicators as well as indicators that represent the living conditions of the people have shown marked improvements over 2000-01. The Center for Research on Poverty Reduction and Income Distribution (CRPRID), Planning Commission, estimated the incidence of poverty using the primary data from the Survey. The results show that the incidence of the poverty at the national level has declined by 4.2 percentage points with both urban and rural poverty showing significant decline in 2004 compared with 2000-01. Further, the report mentions that in the UNDP's Human Development Report (HDR) for 2004, Pakistan was ranked at 142 out of 177 countries in the sample. However, it ignored the addendum to 2004 HDR, wherein the UNDP changed the Pakistan ranking to 138 and the country was also upgraded to the medium human development category.¹ Recent results of the PSLM Survey as reported in Economic Survey 2004-05 show further improvements in social and living standard indicators.

Agriculture

10. The second area where the rating is unsatisfactory is Agriculture. While the importance of Agriculture sector and need for improvement in water and land management is undisputable, the manner in which the report takes stock of the developments is questionable.

Table 1: Area under Major Crops (000 hectares)

	Wheat	Rice	Cotton	S.Cane
1993-94	8034.2	2187.1	2804.6	962.8
1998-99	8229.9	2423.6	2922.8	1155.1
2002-03	8033.0	2245.1	2794.0	1089.6

Source: MINFAL

11. For instance the report states that the "While yields have increased land productivity remains below India." It is not clear why comparison with India was considered appropriate since elsewhere comparison has mostly been made with South Asian region. A look at tables 1 and 2 clearly shows that while the area under cultivation has not changed much but there has been a marked improvement in the yields over the years. The yields might be lower than India, they have increased nevertheless. For example, yields for the wheat and rice crops have increased by 22.7% and 27.5% respectively and those for cotton and sugarcane have increased by 14.5% AND 10.0% respectively.

Table 2: Major Crops' Yield Indices
Cotton million bales; other crops 000 tonnes

	Wheat	Rice	Cotton	S.cane
1992-93	120.72	95.18	120.67	120.45
1998-99	134.62	116.21	113.78	133.89
2002-03	148.14	121.34	138.22	132.49
% increase	22.7	27.5	14.5	10.0

¹ UNDP earlier used adult literacy rate in Pakistan at 41.5 percent (it was in 1996), which was later updated to 49.5 percent.

12. Similarly, the report states that due to collateral requirements, land-poor household are mostly excluded from the formal credit market. This seems more of a general view than a statement of facts. As can be seen from table 3, disbursements to agriculture sector have increased many folds since FY93 and substantially since FY99, the number of borrowers has also gone up from 0.85 million in FY97 to 1.6 million in FY04.²

Table3: Agricultural Credit Disbursement (billion Rupees)

FY93	15.83
FY99	42.85
FY03	57.50

Source: ACD State Bank Of Pakistan

13. Likewise, report's observation that "government expenditure is dominated by subsidies that typically do not help farmers" is factually incorrect. Government does not provide any direct subsidy to the Agriculture sector. There is subsidy on gas used for the production of fertilizer, which is aimed at reducing input cost of the farmers.

14. With regard to report's view on increasing land inequality, it may be pointed out that there is more of a problem of land fragmentation than land inequality in Pakistan. The land fragmentation is a result of prevailing law of inheritance which has led to increase in number of farms both small and large.

Governance

15. Governance is yet another area where the ranking is unsatisfactory. Although the report acknowledges the recent efforts of the Government to tackle governance issues and corruption, citing a survey on Pakistan that shows a marked improvement on the control of corruption, the same is not reflected in the ranking.

16. What is reflected in the ranking is the results of a survey conducted by Transparency International, "Corruption in South Asia", the methodology of which is questionable and is known to all of us. Citing this survey, the report states "the country lags behind most of its South Asian neighbors". Interestingly there is a foot note to table 6.2 corruptions rating by sector that says "The cross-country results may not be comparable, as the Pakistan sample is more urban, male, and educated than the samples in the other countries. The sample table is reproduced below:

The Profile of Sample Household Used in the Transparency International Corruption Study (Table 18 on Page 73)

	Sample size	Percent				
		Rural	Urban	Male	BA/Bsc	Post-Graduate
Bangladesh	3030	76	24	73	4	1
India	5157	44	56	74	16	2
Nepal	3060	85	15	71	5	1
Pakistan	3000	27	73	97	29	17
Sri Lanka	2278	86	14	75	2	1

17. As can be seen the sample is obviously biased, urban educated male will not only be more aware and critical about the public services but will also be more exposed to them. Any analysis would be useless on the basis of these results.

² Figures of number of borrowers in Agriculture sector is compiled by the Statistics Department of the State Bank of Pakistan.

18. More recent reports from Transparency International officials on their assessment of Pakistan are more positive and do give due recognition to the improvements that have taken place in combating corruption.

Lending for Agriculture and Rural Development

19. Given the high incidence of rural poverty, it would appear that Bank support for projects and programs in agriculture, rural development (including rural infrastructure) deserved a higher share of the Bank's lending, which amounted to just 9% as against the projected level of 23-25%. This is clearly a case of missed opportunities, because rural poverty has actually risen during the review period.

Power Sector Interventions

20. We share the report's observations on the IPP policy pushed by the Bank; we think it was seriously flawed, for which the Bank should take the responsibility and acknowledge its failure. The Bank pushed IPPs without sufficiently building in house and in country capacity to evaluate unsolicited offers, reasonableness of capital costs and fairness of resultant PPAs. The fact is that the Bank experimented at Pakistan's expense. The fact also is that the pioneering Bank supported IPP Hub Power became a sort of trend setter and a standard, indeed a poor one, for subsequent IPPs. And when the Government, upon being better informed, started to renegotiate with the IPPs, the Bank, together with IMF, pressurized the Government to rush to a closure with IPPs, which occurred de facto on IPP's terms. We agree with the report's remarks that this episode damaged the investor confidence but we think that the evaluators should be more candid and direct in acknowledging the Bank's failures in this area. We also think that the report should examine what impact the tariff and subsidy reforms, pushed by the bank during the review period, might have had on poverty. It is pertinent to mention here that under Structural Adjustment Credit Program, the World Bank was to carry out a Poverty and Social Impact Analysis (PSIA) for increase in power tariffs. The Bank started the PSIA but abandoned the same without informing the Government of Pakistan. This, we believe, is academic dishonesty on part of the Bank staff.

SAP Project

21. We fully agree with the report's criticism of the SAP project. It was ill designed, excessively complex and required much more capacity at various implementation levels than existed at the time it was formulated. The fact, as the CAE notes, that several elements of the non-SAP health and education projects have had positive outcomes suggests that there may have been serious problems with both the design and implementation of SAP, for which the Bank must share the responsibility.

Overall Balance of bank's Strategy and program

22. Given that growth is essential for poverty reduction, the report should analyze whether, on balance, Bank strategy and program had enough growth orientation. It does not require the wisdom of hindsight to know that growth requires investment in the productive capacity of the economy. In the context of ground realities in Pakistan at the time of CAS formulation and reviews, it should have been clear that policy dialogue, policy reform and privatization alone would not bring about an increase in productive capacity. Selective public sector investments would have been necessary, particularly in infrastructure sectors that are traditionally not attractive to the private sector. Hindsight only confirms that the bank did not take a realistic view of the prospects of private infrastructure investments.

Adequacy of Bank's Country Assistance Program

23. The report has done well to highlight actual delivery of Bank assistance vis-à-vis the levels envisaged in the CASs. The fact is that the bank delivered one-third less than what it promised and it did so during a period when the country experienced a series of exogenous shocks. We think that the Bank's and the country's efforts to reduce poverty were undermined by the cutback in Bank lending in the middle years of the review period. The CAE seems to justify the lower lending levels, and we have a serious disagreement with this. We think that the CAE should analyze the impact of cutback in bank lending on fiscal space and the Government's ability to implement reforms while undertaking priority development and poverty reducing expenditures.

Reasonableness of Conditionality Vs Reversal of Reforms

24. The report seems to confuse slippages on conditionality e.g. privatization and fiscal targets, with Government's commitment to reforms. It refers to "reversal of reforms" at several places. The Government takes a serious note to this view. Meeting targets prescribed by the Bank and the Fund was not just a function of Government commitment but, equally importantly, it required institutional capacity and financial resources, both of which the country lacked. As far as the Government is concerned, there has been a change only in the pace of reform implementation, not the direction of reforms. We do, however, agree that the political instability that prevailed up to 1999 did affect the pace of reform implementation.

Macroeconomic Outcomes

25. Macroeconomic stability has been rated as "Moderate Satisfactory". Here it is mentioned that in the draft Implementation Completion Report (ICR) no. 32277 for PRSC1, the World Bank has assigned macroeconomic stability as "highly satisfactory". As per Table 3.2 of the report, the total foreign exchange reserves for FY 2002-03 and FY 2003-04 were sufficient for imports of 6.5 and 6.0 months respectively. These figures are incorrect as these reserves were sufficient to meet import requirements of 11 and 12 months respectively according to Economic Survey of Pakistan. The report repeatedly takes the view that macroeconomic reforms are still fragile, but does so without explaining any reasons. The World Bank in its Program Document for PRSC1 (Report no. 28268-PK) and draft ICR no. 32277, the reforms have been rated as "satisfactory". Secondly, the statement in paragraph 3.7 that "public enterprises still drain the budget" appears too all-inclusive given the fact that three large public enterprises – Pakistan Steel, PIA and Pakistan Railways – have all been profitable for the last 2-3 years. Finally, we do not entirely agree that the large increase in remittance experienced in recent years is the result of post 9-11 improvement in outlook. In our view, a significant portion of the initial surge in remittances actually comprised the reverse capital flight in response to the Government's macroeconomic policies and structural reforms.

26. We also disagree with the report's criticism that Bank proceeded with structural adjustment loans under the high base case scenarios without satisfying conditionality. The Government values these loans, because without them neither achieving macroeconomic stability nor implementing structural reforms would have been possible.

Portfolio Management and Performance

27. The CAE seems to credit the Bank for portfolio clean-up by project closures. Such an action may well have improved the appearance of the quality of the residual portfolio. But we think it is unfair to claim credit for portfolio improvement by closing

projects on the Bank's books while ignoring the real problems faced by projects on the ground.

28. We also think that the high outcome ratings of closed projects should not be belittled by pre-emptive value judgment, as the CAE seems to present in paragraph 2.13. It is not fair that CAE pre-judge OED's assessment of structural adjustment loans.

Government Partnership in ESW

29. We think this is highly desirable, so as to incorporate informed domestic view in ESW and help build capacity within the Government to undertake similar work on its own. We do not agree with the report's suggestion in paragraph 2.17 that there is a tradeoff between partnership with government and objectivity and candor of ESW. If this is the Bank staff's view, then it only confirms their arrogance that the last two annual opinion surveys in South Asia have highlighted.

Privatization

30. We do not agree with the report's criticism of slow pace of privatization, particularly of banks and PTCL. The development literature within and outside the Bank has repeatedly pointed out that privatization is not a panacea. Nevertheless, Pakistan has a privatization program that is far more aggressive than in many countries around the world.

31. As far as the banking sector is concerned, 84% of banking assets and 82% of deposits are now in the hands of privately (Majority) owned and managed banks. Only one major bank-the NBP remains in the public sector, and that too because it performs the vital treasury functions in areas where the Central Bank does not have a physical presence.

32. As regards PTCL, the report itself acknowledges that the Government has been making efforts to privatize it. However, this is a valuable national asset whose handover to the private sector must await the right buyer at the right price. There appears to be little realization that the pace of privatization, particularly of larger SOEs, is affected by international market conditions as well as travel advice frequently issued by the US authorities. Proper sequencing is necessary too. One cannot just privatize without regard to the need to realize optimal value of assets, and some times this means waiting a while. Moreover, it has also to be ensured that private monopolies are not created and that a proper regulatory framework is in place.

33. Finally, we find some discrepancies between the figures of budget balance, total public debt and inflation rate given in the CAE (Box 1.1 and Table 3.2) and comparable data contained in IMF's report on Pakistan dated November 16, 2004

Concluding Remarks:

1. The report is essentially the evaluation of the World Bank's assistance programs thorough 1994-2003, however, the way it is written and presented, it can easily be misconstrued as performance of Pakistan. This misconception needs to be clearly identified and clarified accordingly.
2. Summary table at page iii should focus on strengths and weaknesses of the assistance program.

3. Outcomes should be evaluated by setting a common benchmark; preferably evaluation of progress should be made over time.
4. Description of ratings and methodology should be mentioned before the findings.
5. Assessment based on sources with obvious weaknesses should be avoided.

The World Bank
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION

1818 H Street N.W.
Washington, D.C. 20433
U.S.A.

(202) 522-3124
Cable Address: INTBAFRAD
Cable Address: INDEVAS

June 23, 2005

By Fax: 92-51-921-1316

Mr. Asif Bajwa
Additional Finance Secretary
Government of Pakistan
Finance Division
PRSP Secretariat
Islamabad, PAKISTAN

Dear Mr. Bajwa:

Re: Pakistan – Country Assistance Evaluation

Thank you very much for your detailed comments on the Pakistan Country Assistance Evaluation (CAE). Your comments will be attached to the CAE, and many of the comments (as discussed below) will be incorporated in the final version.

We would like to explain some of the methodology and other issues raised by your comments.

General comments

The methodology is, as you noted, designed to evaluate the outcomes of the Bank Assistance Program. We have added language to the text to emphasize that the focus of the report is on the areas of support by the Bank, and the assessment is based on the objectives that the Bank was trying to accomplish.

On the issue of comparators, we acknowledge there are differences in the comparators used. This reflects the availability and quality of data. Data are often reported differently by different countries, or are missing for comparator time periods. We have attempted to use regional comparisons whenever possible, but at times only had data for a limited number of countries.

IEG did consider the issue of splitting the time periods for the purpose of ratings. Indeed, we had already noted in the text that in some areas, particularly macroeconomic reform, the period after 2000 did indeed show a strong improvement over the previous period. However, in some other areas such as governance, rural development, or social service delivery there was not a marked change in outcomes, or there were insufficient data to support this change. Also, in some cases, the time period for reform varied, such as the financial sector (where developments were quite positive), where the reform process was initiated in 1997. Hence, it was decided that an overall rating for the entire period was more appropriate.

Specific comments

Paragraph 7. We have noted in the CAE that preliminary information from the 2004 household survey has shown improvements in poverty since the 2001 survey. We have also noted in the CAE that the Government has received an addendum increasing Pakistan's UNDP ranking to 138 from 142 out of 177.

Paragraph 12. We have noted in the CAE that the volume of disbursements to the agriculture sector and the number of borrowers have increased. However, as noted in the Bank's 2004 Pakistan Rural Factor Markets Study, while the volume of agricultural lending has increased, the volume remains small, with rural lending representing only 3.4 percent of formal lending as of 2002. In addition, overall, only 11 percent of farmers received formal loans (14 percent of land-owners, but only 2 percent of non-landowning farmers). Less than 1 percent of formal credit to the sector goes to tenants, with most non-landowning farmers relying on informal credit.

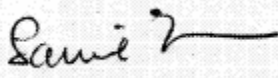
Paragraph 16. We understand the concern that the differences in sampling may present difficulties in interpreting comparative data. Therefore, we have dropped the comparative data, and the evaluation now only cites the respondent data for Pakistan, which is consistent with the treatment in the recent Pakistan Public Expenditure Management Paper.

Paragraph 25. On months on imports, we have used the data from the IMF reviews of the PRGF. Regarding the financial situation of the public enterprises, we note that KESC and WAPDA still require infusions accounting for about 1 percent of GDP. In addition, while Pakistan Steel, PIA, and Pakistan Railways are recording profits, PIA and Pakistan Railways are still dependent on the Pakistani Government for financial support. Data from Pakistan Railways show that from 1994/95 to 2003/04, subsidies increased from 1.6 billion rupees to 6.6 billion rupees, and capital transfers from the government increased from 1.8 billion rupees to 4.6 billion rupees. Similarly, PIA received substantial government financing through selling shares to the Government in exchange for interest forgiveness and capital contributions. Nevertheless, we have included a footnote in the CAE text, which refers to your comments, noting that the Government does not agree that the statement "Public enterprises are still draining the budget."

Paragraph 33. Please note that the source of the figures in Box 1.1 of the CAE is Box 4 in the December 2004 IMF Article IV Consultation. The figures in Table 3.2 are based on the July 2004 Eighth Review of the PRGF and earlier IMG documents. The earlier documents were used in order to maintain a consistent time series, since the rebased data presented in the December 2004 paper are not always available for the early part of the review period. We have used the December data for figures that are not affected by the rebasing.

I hope this clarifies some of the issues that you have raised and I thank you once again for your detailed and useful comments.

Sincerely,



Laurie Effron
Acting Manager
Country Evaluation and Regional Relations
Operations Evaluation Department

CHAIRMAN'S SUMMARY
COMMITTEE DEVELOPMENT EFFECTIVENESS

Pakistan Country Assistance Evaluation (CAE) and Country Impact Review (CIR)
(Meeting of November 28, 2005)

1. The Informal Subcommittee (SC) of the Committee on Development Effectiveness (CODE) met on November 28, 2005 to discuss the reports entitled *Pakistan: Country Assistance Evaluation*, prepared by the Independent Evaluation Group-Bank (IEG-WB) and *Pakistan: IFC Country Impact Review*, prepared by the Independent Evaluation Group-IFC (IEG-IFC). Written statements were issued by Messrs. Hermann and Holland.

2. **Background.**

a) **CAE.** The Pakistan CAE reviewed the Bank's assistance to the country during the period of 1994-2003. The report noted that, while Pakistan trailed its neighbors in GDP growth in the 1990s and lagged on a number of key social indicators, since 1999 the country was more successful in implementing reforms and improving economic performance. Overall, IEG-WB has rated the development outcome for the Bank's program in Pakistan as moderately unsatisfactory. Portfolio performance was uneven, with lack of government commitment and institutional capacity appearing as major impediments to project implementation and sustainability. CAE noted the good quality of analytical work, although its relevance and timeliness could have been improved. CAE recommended the Bank to focus on: (i) continued support of AAA, translating it into implementable actions and programs, while taking into account political economy constraints and prioritizing areas of poverty, rural development and governance; (ii) building sustainable institutional capacity; (iii) scaling project interventions to fit the capacity of implementing agencies, replacing economy-wide loans with more focused loans, piloting innovative approaches before scaling up; (iv) improving partner relationships, including soliciting input at an early stage. Management concurred with most of the CAE's conclusions and recommendations, but disagreed that economy-wide adjustment loans should be abandoned.

b) **CIR.** The IEG-IFC review of IFC's operations in Pakistan (FY90-04) noted that since 1999 positive trends in the economy helped improving Pakistan's business climate. Nevertheless, removal of remaining obstacles to higher levels of private investment is still a major challenge. The CIR found that IFC's strategies in Pakistan were relevant and its commitments reflected their priorities and noted two major lessons: (a) critical importance of business climate at the appraisal and initial stages of operation; and (b) the need to ensure access to follow-up financing for non-deposit-taking financial institutions after IFC funds are utilized. The report recommended that in Pakistan IFC: (i) assess how to better assist the Government in removing obstacles for higher levels of private investments and IFC financing; (ii) consider development of long-term debt market; (iii) develop and promote IFC's capacity to support local currency financing; (iv) be more pro-active in promoting privatizations and public-private partnerships in infrastructure sectors; and (v) pursue a more diversified investment portfolio and increase the use of quasi-equity instruments. IFC management welcomed the report and its recommendations.

3. The Pakistani Chair thanked IEG-WB for producing a comprehensive evaluation, and noted that CAE provided valuable inputs for future, but left some open questions. He acknowledged the challenges of evaluating a period that includes two distinctly different time slices, and noted that traditional evaluation methodology might not have done justice to the performance of the Bank and the government. The Pakistani Chair conveyed his authorities'

concern that some ratings failed to reflect the cumulative progress achieved to date, especially in the areas of macroeconomic stability, finance and trade. He emphasized that CAE could have been more helpful in clarifying whether the Bank's strategy was sufficiently responsive to country needs and priorities, especially in light of cutback on lending in agriculture and rural development. The Pakistani Chair was supportive of CIR recommendations, and welcomed IFC's intention to scale up its operations in Pakistan. At the same time, he noted that IFC needs to increase its willingness to take risks in areas where private sector response to existing opportunities is inadequate. He also stressed that IFC needs to make its pricing more attractive for the private sector, as well as provide long-term local currency financing and consider making pre-privatization investments.

4. The acting DGE noted in the opening statement that in the aftermath of the earthquake, IEG has been in contact with the country team, and had discussed general findings from the ongoing evaluation of the Bank's responses to previous disasters with the team. Management commented that they had found this dialogue useful. The acting DGE stressed that despite the high costs of recovery, it most likely will not have a major impact on growth rate in Pakistan in the long run.

5. **Main Conclusions and Next Steps.** The Subcommittee welcomed the CAE and CIR and broadly agreed with their findings and recommendations. Among main issues raised by the members were: debt sustainability in light of post-earthquake reconstruction; portfolio "clean-up" in the 1990s and its impact on relations with the clients; appropriateness of broad structural adjustment loans made in 1990s; coordination and cooperation with other donor partners; importance of progress on governance reforms. Management agreed with most of the IEG recommendations and will take them into account during CAS preparation.

The following points were raised.

6. **Earthquake and debt sustainability.** Members conveyed their condolences to and deep sympathy with the population affected by the devastating earthquake, and expressed hope that the natural disaster will not derail the promising economic policies. Some members were interested in the impact of the earthquake on debt sustainability and whether Pakistan is already in the "debt trap". Management replied that there has been considerable improvement over the last five years in debt sustainability due to availability of concessional assistance and tight fiscal policy of the government.

7. **Methodology and coverage.** Members appreciated simultaneous submission of CAE and CIR and encouraged following that practice for future country evaluations. Some members concurred with the Pakistani authorities that a clear distinction needed to be drawn between two sub-periods under review, to better highlight the recent progress and achievements. IEG-WB noted that CAE did mention positive changes in the quality of some outcomes and overall coherency of policy-making process after 1999. IEG-WB added that in a number of key areas, such as poverty and governance, the program did not achieve its objectives throughout the whole period, thus not affecting the overall ratings even if divided into sub-periods. IEG-IFC explained that it had selected a fifteen-year review period (instead of usual ten) to show the importance of business climate for the private sector by contrasting the investment levels of 1990s, when the business climate was very unfavorable, with the last four-five years. A member expressed hope that IEG-WB would develop overtime a standardized structure/template of analysis with checklists for key actions and embedded outcome indicators. IEG-WB replied that there are serious limitations to applying standardized frameworks and sets of indicators to different CAEs, since country programs and strategies are tailored to specific country circumstances.

8. **Poverty.** Several members expressed disappointment with unsatisfactory outcomes on poverty reduction, which overshadowed achievements on growth and macroeconomic stability. In this context, they stressed the importance of more attention to poverty impact of the Bank's interventions and pro-poor growth. Management noted that since 2001 growth in Pakistan has been more broad-based and there are clear indications (based on preliminary review of the latest survey) that poverty has declined since 2001. Management added that in the next CAS pro-poor investments will be significantly expanded.

9. **Governance and capacity building.** Members agreed with the report's description of challenges in the area of governance. While several speakers welcomed the government's intentions to improve governance, they agreed with IEG-WB's assessment that poor governance was often the main cause for failure of the Bank's programs and projects. Members noted that simple increase in aid volumes will hardly have the desired impact, and stressed the need for technical assistance for building institutional capacity for efficient resource utilization. In this context, several members emphasized the importance of strengthening requisite statistical capacity. Management concurred with the importance of governance, but noted limitations in the Bank's mandate to deal with it. At the same time, management added that there have been some encouraging developments and signs of progress on the overall governance agenda in Pakistan.

10. **Adjustment lending.** Members noted the critical role of the Bank in preventing major crises in the country through supporting macroeconomic stability, mainly in the form of massive adjustment credits. Some speakers felt that the CAE could have highlighted the issue of the Bank providing emergency liquidity to avoid default in the absence of a strong reform program – one of the core lessons to be derived from Pakistani experience. A member stressed that this case supports the merits of the Bank's assistance to countries under stress with minimal conditions, to avoid the unpredictable and destructive consequences of a major crisis. Several members supported management's view on the difficulty of avoiding broad adjustment operations. Management noted that despite many pitfalls, adjustment loans of the 1990s laid foundations to some positive changes happening today. IEG-WB clarified that it was not advocating abandoning adjustment loans, but rather narrowing down their scope and sharpening focus.

11. **Private sector development/business climate.** Members welcomed the CIR and its recommendations and agreed that IFC should support further developing the long-term debt market, promote local currency financing and public-private partnerships in infrastructure financing. A speaker stressed the importance of drawing appropriate lessons with respect to the roles of public and private sectors in infrastructure financing, especially in light of the controversial experience with Independent Power Producers (IPPs). A concern was expressed about IFC's activity in the country being rather modest compared with the urgent need to increase investment as a share of GDP. Several members acknowledged that fluctuations in the levels of IFC investment to a large extent mirrored developments in the overall business climate. Another speaker noted, however, that IFC might have done more to improve the business climate, instead of going along with the country's business climate cycle. IFC management replied that addressing the most important business climate factor - macroeconomic stability - is outside of IFC's expertise, and noted that IFC focused its work on resolving non-performing loans and projects affected by the financial crisis. IFC management added that such work, while not necessarily involving actual investments, tends to contribute to improving investment climate perceptions in post-crisis periods. A member asked to elaborate on the competitiveness of IFC's currency loan terms. IFC management clarified that its intention is not to compete with private sector on loan pricing.

12. **AAA.** Members agreed with the CAE recommendation about the need for more analytical work, but also noted that it needs to be viewed in the context of recent natural disaster. Several speakers underlined the importance of translating the Bank's analytical reports into Government programs, such as through the development of implementable and timed action plans.

13. **Portfolio management and risks.** Some members asked for further clarification regarding the Pakistani authorities' criticism of the Bank's portfolio management. Management noted that portfolio "clean-up" effort was necessitated by the debt reduction strategy and the need to find new solutions to strategies that were not working and became obstacles to positive changes. A member noted that some risks, related to the political economy of the country (e.g. potential impact of expected political changes on Bank lending), as identified in CAE, should have been more clearly reflected in project documentation when presented to the Board. Management replied that while it acknowledges the need for more consistent message in project documentation, the normal practice is to quote the official statements/platforms of parties/candidates rather than rely on their previous roles in the government.

14. **Priorities and ownership.** Members emphasized the crucial importance of country ownership for program success, noting that successful outcomes in financial sector are a strong testament to that. Some members noted that while they do not disagree with future priorities as identified in CAE, they would prefer priorities to be derived from the country's own PRSP. Several members suggested adding infrastructure to the list of country priorities along with poverty, rural development and governance. Management noted that due to improved level of country dialogue it was able to develop a comprehensive infrastructure program dealing with strategic gaps.

15. **Cooperation and coordination.** Some members noted that the report should have paid more attention to donor coordination, e.g. division of labor between the Bank and the Fund and their respective contributions to macroeconomic stability. A member felt that more consultations with bilateral agencies should have been conducted by the Bank and IEG during report preparation. IEG-WB noted that during the preparation of the CAE, extensive visits had been made to multilateral and bilateral agencies, although not all of them were visited. It also agreed that the theme of donor coordination took relatively small space in the report, but stressed that improving donor coordination was one of the report's key recommendations, as there was a consistent message from donors that the Bank needed to improve significantly in this area.

Pietro Veglio, Chairman

BIBLIOGRAPHY¹

- Asian Development Bank. 2001. *Project Performance Audit Report on the Social Action Program (Sector) Project in Pakistan* (Manila: Asian Development Bank).
- Asian Development Bank. 2002. *Poverty in Pakistan: Issues, Causes and Institutional Responses* (Manila: ADB).
- BBC News. “Pakistan army seeks out phantom schools,” March 23, 1998, available at <http://news.bbc.co.uk/1/hi/despaches/68762.stm>.
- Easterly, William. 2001. “The Political Economy of Growth Without Development: A Case Study of Pakistan,” Paper for the Analytical Narratives of Growth Project, Kennedy School of Government, Harvard University, June.
- Easterly, William. 2000. “Growth implosions, debt explosions, and my Aunt Marilyn: Do growth slowdowns cause public debt crises?”
- Easterly, William. 2001. *Pakistan’s Critical Constraint: Not the Financing Gap but the Social Gap*; Background Paper for Pakistan Poverty Assessment.
- Government of Pakistan. 2001. *Interim Poverty Reduction Strategy Paper* (Islamabad).
- Government of Pakistan. 2004. *Poverty Reduction Strategy Paper* (Islamabad).
- Hasan, Parvez. 1998. *Pakistan’s Economy at the Crossroads: Past Policies and Present Imperatives*, Oxford University Press, 1998.
- Human Development Centre. 1998. *Human Development in South Asia – The Education Challenge* (Karachi: Oxford University Press).
- Hussain, Akmal. 2003. *Pakistan National Human Development Report 2003* (Islamabad: UNDP).
- International Crisis Group. 2004. *Devolution in Pakistan: Reform of Regression*, Asia Report No. 77, March.
- Issues and Policies Consultants. 2004. “Pakistan: Review of Selected Social Safety Net Programs”. Lahore, Pakistan.
- Khan Reodad. 1997. *Pakistan: A Dream Gone Sour*; Oxford University Press.
- Khan, Shahrukh Rafi. 2004. *Pakistan Under Musharraf: Economic Reform and Political Change* (Vanguard).
- Krishnan Thampi, Dr. Gopakumar. 2002. “Corruption in South Asia: Insights & Benchmarks from Citizen Feedback Surveys in Five Countries”. Transparency International Secretariat.

¹ In addition to World Bank lending documents, economic and sector work reports, IEG assessments and PPARs, and IMF documents.

- Ministry of Foreign Affairs, Government of Netherlands. 1999. *Gender Equity in Education in Pakistan: Evaluation of the education component of Social Action Program Project I (SAPP I)*, available at: http://www.unicef.org/evaldatabase/PAK_99-800_Part1.pdf.
- Multi-donor Support Unit for the Social Action Programme. 2000. *Social Action Programme Third Party Validation: Analysis of the Last Three Rounds, Governance Issues* (Islamabad: MSU).
- Multi-donor Support Unit for the Social Action Programme. 2001. *Annual Report 2001* (Islamabad: MSU).
- Nouvel, Philippe. 2003. *Pakistan: Back to Basics?*
- Pakistan Privatisation Commission. *Annual Report 2003*.
- Rodrik, Dani. 2003. *In Search of Prosperity: Analytic Narratives on Economic Growth*. Princeton University Press: United Kingdom.
- State Bank of Pakistan. 2004. "Financial Sector Reforms and Pro-Poor Growth: Case Study of Pakistan". Keynote address by Dr. Ishrat Husain, Governor, State Bank of Pakistan at the 53rd Annual General Meeting of the Institute of Bankers on February 21, 2004.
- State Bank of Pakistan; *Annual Report. Various years*.
- Tinker, Anne. 1998. *Improving Women's Health in Pakistan* (Washington, DC: World Bank, 1998)
- United Nations Development Program. 2004. *Human Development Report 2004: Cultural Liberty in Today's Diverse World* (New York: Oxford University Press).
- United Nations Development Program. 2004. *Human Development Report (HDR)*, Oxford University Press, New York
- World Bank. 1995 *Pakistan Poverty Assessment* (Report no. 4397-PAK)
- World Bank. 2001. *Pakistan: Country Assistance Strategy Progress Report* (Report no. 22219-PAK).
- World Bank. 2001. *Pakistan: Joint Staff Assessment of The Interim Poverty Reduction Strategy Paper*, pg 35 (Report no. 23189-PAK).
- World Bank. 2002 *Poverty Assessment* (Report no. 24296-PAK)
- World Bank. 2003. *Power for Development: A Review of the World Bank Group's Experience with Private Participation in the Electricity Sector*," (Report no. 28042) a joint review by IEG-WB, IEG-IFC and IEG-MIGA.
- Zaid, S. Akbar. 1999. *Issues in Pakistan's Economy* (Karachi: Oxford University Press)
- Zaidi, S. Akbar. 1996. "An evaluation of community participation and NGO capability in the rural water supply sector", Mimeo (Karachi: Social Policy Development Centre).