



1. Project Data:		Date Posted : 08/07/2002									
PROJ ID: P071463		Appraisal	Actual								
Project Name: Structural Adjustment Credit	Project Costs (US\$M)	350	350								
Country: Pakistan	Loan/Credit (US\$M)	350	350								
Sector(s): Board: EP - Central government administration (34%), General energy sector (29%), Health (15%), Primary education (12%), Banking (10%)	Cofinancing (US\$M)										
L/C Number: C3515											
	Board Approval (FY)		2								
Partners involved :	Closing Date	12/31/2001	12/31/2001								
<table border="1"> <tr> <td>Prepared by :</td> <td>Reviewed by :</td> <td>Group Manager :</td> <td>Group:</td> </tr> <tr> <td>Elliott Hurwitz</td> <td>Anwar M. Shah</td> <td>Rene I. Vandendries</td> <td>OEDCR</td> </tr> </table>				Prepared by :	Reviewed by :	Group Manager :	Group:	Elliott Hurwitz	Anwar M. Shah	Rene I. Vandendries	OEDCR
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2. Project Objectives and Components a. Objectives The credit was intended to support the government in implementing its Poverty Reduction Strategy in the areas of : (1) Improving governance; (2) Strengthening the foundations for economic growth; and (3) Improving the delivery of social services. b. Components 1. Improving Governance : Improved resource mobilization (extending coverage of general sales tax); More efficient and accountable use of public resources (establishing committees at federal and provincial levels to improve quality and reliability of public financial statements; better definition of the functions and powers of the Auditor General); Increased transparency, participation, and accountability (open hearings of Public Accounts Committees to the Press); Civil service reform (enhance independence, autonomy, and scope of Federal Public Service Commission); 2. Achieving Broad -based Growth : Trade liberalization (reduction of excise taxes to bring maximum nominal effective tariff rate to 35%); Banking sector reform (strengthen state-owned banks through recovery of some non-performing loans; strengthen bank supervision; reduce government ownership of one bank from 23 percent to 15 percent; prepare 3 large state-owned banks for privatization by developing restructuring programs); Natural gas sector reform (establish new Gas Regulatory Authority; place private sector professionals on boards of state -owned entities); Petroleum sector reform (deregulate furnace oil and LPG markets through liberalization of imports, transport, and prices through the production and distribution chain); power sector reform (initiate financial restructuring of Water and Power Development Authority; restructure power sector by separating distribution, generation, and transmission activities; increase electricity tariffs); 3. Reform Human Development and Social Protection : Improve coverage and quality of basic education (develop comprehensive Education Reform Strategy by Provinces and Federal Government; rationalize education investment programs; establish stronger sanctions for teacher absenteeism; hire additional teachers through contract hiring); Improve coverage and quality of health services (increase staff in family planning and maternal and child health programs; increase immunization coverage); Improve social protection (increase budget allocation for poverty reduction programs; implement small -works program to provide employment and basic services to the poor; launch direct cash transfer program for food support targeted to poor families; strengthen PVO that provides direct cash transfers to the poor; establish micro -credit bank). c. Comments on Project Cost, Financing and Dates The credit of US\$350 million was approved on June 12, 2001, became effective the following day, and was disbursed in a single tranche on June 14, 2001, following the completion of specified actions .											
3. Achievement of Relevant Objectives: Most relevant objectives were achieved, including : 1. Improving Governance : the General Sales Tax was extended to additional products; fiscal monitoring committees were established at the federal level and in some provinces; additional civil service reforms were implemented; Public Accounts Committees (PAC) were established at the federal and provincial levels (to enhance transparency and accountability), and the press has been given access to											

the federal PAC; an ordinance was issued defining the functions of the Auditor General; a revised public accounting framework was issued. **2. Achieving Broad-based Growth** : Macroeconomic performance was moderately favorable, with FY01 GDP growth of 2.7% despite a severe drought and FY02 growth estimated at 3.3% (by EIU) despite significant external challenges; inflation has been moderate; and the fiscal deficit declined from 6.4% of GDP (FY00) to 5.4% (FY01); tariff rates were reduced and the number of rate categories was rationalized; sales tax and duty refund backlogs were cleared, and procedures put into place to process new refunds more quickly; some price controls were lifted; a committee to guide future deregulation was established; initial steps were taken to restructure the power sector into separate generation, transmission, and distribution companies; natural gas prices were increased; petroleum prices were further deregulated, and a system put into place to adjust prices quarterly in accordance with the world market price; a Privatization Ordinance was enacted which is intended to facilitate privatization. **3. Reform Human Development and Social Protection** : The Lady Health Workers program was expanded; the TB control program was expanded; a national HIV/AIDS program was formulated; targeted income transfer programs (e.g., a small works program and a direct cash transfer program) as well as a micro credit program were expanded.

4. Significant Outcomes/Impacts:

The credit laid the initial elements of the foundation for a medium-term program of fundamental reform.

5. Significant Shortcomings (including non-compliance with safeguard policies):

- Enterprise privatization did not take place to the extent envisioned, in part due to uncertainties in the international business environment
- Some conditions do not appear to have been implemented. For example, "Cabinet approval of a short and medium term strategy and timetable for privatization....focused on privatization of critical large public enterprises in power, telecoms, banking, oil, and gas;" "increase in (social protection) fund allocation for poverty reduction from 2.5% of GDP to 2.9%;" Also, it is not clear to what extent some banking and financial sector reforms have been implemented.

6. Ratings:	ICR	OED Review	Reason for Disagreement /Comments
Outcome:	Satisfactory	Satisfactory	
Institutional Dev.:	Modest	Modest	
Sustainability:	Likely	Likely	Continuing involvement of International Lending Institutions, and the country's dependence on them, makes it likely that the project achievements will continue to yield benefits
Bank Performance:	Satisfactory	Satisfactory	
Borrower Perf.:	Satisfactory	Satisfactory	
Quality of ICR:		Satisfactory	

NOTE: ICR rating values flagged with '*' don't comply with OP/BP 13.55, but are listed for completeness.

7. Lessons of Broad Applicability:

- The SAC would have been stronger if its conditions focused to a greater degree on outcome and made greater use of compliance benchmarks

8. Assessment Recommended? ☐ Yes ☒ No

9. Comments on Quality of ICR:

The ICR is satisfactory, however it is not clear in describing those instances in which the credit goals were not met (see Section 5, above). Also, the ICR does not address some of the envisioned banking sector reforms, e.g., privatization or corporate governance reforms in several specific banks. In assessing SAC achievements, it would have been helpful if the ICR had presented macroeconomic data in tabular form showing performance over time, including the most recent data.