Board Meeting of April 10, 1997
Statement by Ruth Jacoby

Pakistan: Country Assistance Strategy

I welcome the opportunity to discuss the Bank’s Country Assistance Strategy at this crucial stage of Pakistan’s development. The progress report is somber but realistic in its judgment of Pakistan’s economy and the Bank’s program. I agree with the general assessment in the document and I find the calibration of the Bank’s measures and activities are well justified.

The proposed direction of the Bank’s lending program during the next year seems realistic. It is in accordance with the 1995 Country Assistance Strategy which focused on supporting fiscal adjustment, expanding access to improved basic social services and nurturing a more competitive environment for private investment. Has the newly elected Government in Pakistan already indicated its views on the proposed lending program? In this context I wonder whether the Bank has any plan to support, through additional lending, any renewed reform program if and when the Pakistani Government and the IMF agree on a multi-year arrangement under the ESAF and the Extended Fund Facility?

To reach the development objectives, it is essential that the main recommendations in the CAS be vigorously and continuously pursued. Special attention must be given to expanding the tax base to the agricultural sector (the target for 1997 may still be too modest for getting the public finances in order), to banking sector reform, in particular enforcing the repayment of defaulted loans, and to improving governance.

We believe that human resources development and the social sectors should receive the highest priority in the Bank’s lending program in order to reduce poverty and foster more equitable growth. More than 2/3 of the budget is presently directed towards military expenditures and debt service while the development budget is reduced, having an adverse impact on social sector financing. While some progress in the Social Action Program has been achieved, core budgets in the social sector have been reduced in a manner which does not provide for adequate social security nets in health and education. This issue should be emphasized by the Bank.

Poor portfolio performance and slow reforms justify slow disbursements. At the same time it is essential that the Bank, on its part, takes active measures to improve the portfolio. I would encourage as much transparency about problem projects as possible. The Bank’s
measures to strengthen results, to improve implementation and to shift more responsibility for project supervision and up-stream work to the Resident Mission merits full support. In particular I welcome that the Country Director for Pakistan will be posted in Islamabad later this year. I would find it useful to have the role and composition of the Resident Missions further elaborated upon in CASs in general. This is especially true if IFC and MIGA also are active in the country concerned, as is the case in Pakistan. Are there any plans to create one stop shops for the Bank Group in the field as in Headquarters?

While the Bank is struggling with its program in Pakistan, IFC and MIGA are coming close to their exposure limits. MIGA’s growth in Pakistan will be limited in the next few years due to MIGA’s per-country exposure limit. How would an introduction of treaty reinsurance agreements with private reinsurers influence MIGA’s activities in Pakistan?

To reach the objectives of poverty alleviation the Bank should embark upon a strong drive to promote micro credits to the poor, targeting women’s’ groups whenever feasible.

With regard to the agriculture sector the Bank should strengthen its efforts to introduce Integrated Pest Management, given the fact that massive amounts of ineffective pesticides presently are being used to the detriment of public health and the environment. The Bank should encourage public debate and contract the best possible experts on the planned drainage operations, which involve high ecological risks as well as high potential return.

The Bank’s support for creating an enabling environment for privatization is of great importance. However, caution should be exercised in privatization of e.g. road maintenance, public health and primary education where its legitimacy is questionable or insufficiently articulated. On the other hand, the Bank could advise with greater vigor on privatization of productive sectors such as steel where public management has been unsuccessful.

Finally a word on the Strategic Compact (SC). It would be useful if Management would give us some indication of what implementation of the SC will mean for the Bank Group’s program in Pakistan in the years to come.