Program Information Document (PID)

Appraisal Stage | Date Prepared/Updated: 16-Jun-2020 | Report No: PIDA28434
BASIC INFORMATION

A. Basic Project Data

<table>
<thead>
<tr>
<th>Country</th>
<th>Project ID</th>
<th>Project Name</th>
<th>Parent Project ID (if any)</th>
</tr>
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<tbody>
<tr>
<td>Pakistan</td>
<td>P171850</td>
<td>Resilient Institutions for Sustainable Economy (P171850)</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Region</th>
<th>Estimated Board Date</th>
<th>Practice Area (Lead)</th>
<th>Financing Instrument</th>
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<tbody>
<tr>
<td>SOUTH ASIA</td>
<td>30-Jun-2020</td>
<td>Macroeconomics, Trade and Investment</td>
<td>Development Policy Financing</td>
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<table>
<thead>
<tr>
<th>Borrower(s)</th>
<th>Implementing Agency</th>
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<tbody>
<tr>
<td>Islamic Republic of Pakistan</td>
<td>Ministry of Finance and Revenue</td>
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</tbody>
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Proposed Development Objective(s)

The program’s development objectives are: (i) enhancing the policy and institutional framework to improve fiscal management, and (ii) improving the regulatory framework to foster growth and competitiveness.

Financing (in US$, Millions)
SUMMARY

| Total Financing | 500.00 |

DETAILS

<table>
<thead>
<tr>
<th>Total World Bank Group Financing</th>
<th>500.00</th>
</tr>
</thead>
<tbody>
<tr>
<td>World Bank Lending</td>
<td>500.00</td>
</tr>
</tbody>
</table>

Decision

The review did authorize the team to appraise and negotiate...
B. Introduction and Context

Country Context

The COVID-19 pandemic has adversely affected Pakistan’s economy. Since March-2020, the pandemic related containment measures have led to a sharp decline in domestic economic activity and caused disruptions in domestic and international travel. With the biggest impact of these measures projected on the services and industrial sectors, which account for nearly 80 percent of total GDP, the economy is expected to contract in the range of 2.6 – 3.3 percent in FY20, and between 0.2 – 4.0 percent in FY21. The pandemic has also worsened Pakistan’s fiscal position as the collapse in economic activity has dampened revenue mobilization efforts but pressures on expenditures have increased as the government tries to support the economy in these trying times. Prior to the onset of the pandemic, Pakistan was recovering from an economic crisis which emerged in 2018 and moving toward macroeconomic stabilization. The main factors that caused this crisis, as well as those before it, include incomplete implementation of structural reforms, inappropriate policy responses to macroeconomic imbalances, and a federal structure that exacerbates challenges of coordination of institutions and harmonization of policies nationwide. To address these challenges, the government embarked on a program of stabilization and structural reforms which are being supported by the international community, including the World Bank, the Asian Development Bank (ADB), the Asian Infrastructure Investment Bank (AIIB) and the International Monetary Fund (IMF). Pakistan needs to continue to implement long-delayed structural reforms, including in the power sector and in revenue generation to enable a stronger and quicker recovery when COVID-19 abates. The alternative is sluggish growth and lower welfare gains.

The government has requested the World Bank Group for support to strengthen the country’s fiscal position and improve welfare gains through three operations: this proposed Resilient Institutions for Sustainable Economy (RISE) series, the Securing Human Investments to Foster Transformation (SHIFT) series and a potential Program for Affordable and Clean Energy (PACE) series. RISE is the first in a programmatic series of three operations focused on addressing foundational reforms through: (i) enhancing the policy and institutional framework to improve fiscal management, and (ii) improving the regulatory framework to foster growth and competitiveness. RISE is aligned to the government’s COVID-19 crisis response program which aims at scaling up spending on health and social protection while maintaining macro-fiscal stability in the face of a severe economic contraction. SHIFT focuses on reforms to enhance human capital accumulation, increase the contribution of women to economic productivity, and improve federal safety nets to respond to shocks, including those from the stabilization program and the COVID-19 pandemic. PACE would tackle critical power sector reforms, by building on the foundations of RISE, to ensure the sector becomes financially viable.

Pakistan has requested debt service suspension from all of its bilateral creditors under the Debt Service Suspension Initiative (DSSI). The country has committed to use the created fiscal space for social, health or economic spending, disclose all debt, and contract no new non-concessional debt during the suspension period, other than agreements under the DSSI or in compliance with limits agreed under the WBG policy on non-concessional borrowing and the IMF Debt Limit Policy. RISE includes a set of actions that will enhance debt transparency.
Relationship to CPF

The proposed operation supports three pillars of the FY15-FY20 Country Partnership Strategy (CPS), namely transforming the energy sector, increasing competitiveness, and improving the quality of service delivery across Pakistan. With the overall objective of accelerating growth while protecting the poor, this DPC series supports the World Bank Group’s twin goals of ending extreme poverty and boosting shared prosperity. The proposed operation is part of the World Bank’s support to the government to cope with the COVID-19 pandemic by supporting structural reforms for a stronger and quicker recovery.

C. Proposed Development Objective(s)

The program’s development objectives are: (i) enhancing the policy and institutional framework to improve fiscal management, and (ii) improving the regulatory framework to foster growth and competitiveness.

Key Results

The operation will support the government’s efforts to maintain macroeconomic stability and build fiscal buffers to respond to the on-going COVID-19 pandemic so as to ensure stronger and faster recovery. These reforms will also set the foundations for achieving sustainable growth as envisaged under Pakistan@100 Shaping the Future. Reforms completed and the results achieved are in the first pillar are: (i) improving fiscal policy and sustainability by establishing effective institutions and strengthening intergovernmental arrangements, (ii) enhancing debt transparency and management, (iii) broadening the tax base by reducing distortions in tax policy, and (iv) setting foundational reforms for improving the financial viability of the power sector through a strategy to address the sector’s circular debt and policies to facilitate the development of low carbon resources: (i) harmonizing the general sales tax across the country, (v) ensuring that all bank accounts are biometrically verified and non-banks can deploy electronic money platforms, (vi) promoting better regulated real-estate developments, and (vii) lowering barriers to the formalization of firms.

D. Program Description

The programmatic RISE DPF series has been designed to address long-standing and long-delayed structural reforms in the economy. The first operation has two pillars and tackles foundational reforms to build resilient institutions and policies. The program’s development objectives are: (i) enhancing the policy and institutional framework to improve fiscal management; and (ii) improving the regulatory framework to foster growth and competitiveness. The efforts aimed at strengthening fiscal management will contribute towards a strengthened federation and support the ongoing stabilization efforts. Some of the measures in this area include the establishment of the fiscal policy office; preparation of budgets that are aligned with the Medium-Term Fiscal Framework; enhanced debt transparency and management; a broadened tax base; and efforts to improve the financial viability of the power sector through the circular debt reduction management plan and policies to facilitate the development of low carbon energy resources. Collectively, these will reduce the burden on the government’s finances and provide additional fiscal space to better deliver social services. For stronger recovery post-COVID and to support growth, the proposed operation will help harmonize the goods and services tax framework which will reduce the regulatory burden and create a harmonized tax jurisdiction. The operation also supports increased use of digital financial services, enhanced integrity in the financial sector, and a reduction in the anti-export bias of the national trade tariff policy.

The World Bank has had extensive consultations with ADB, AIIB, the IMF, bilateral partners including the US, UK and Japan. DFID is financing technical assistance through a new trust fund, the Pakistan@100 Trust Fund with a focus on revenue, investment and trade. The EU is providing TA on medium term budgeting and DFAT is financing support to the
Government in trade and regional integration. All reforms supported by this operation went through a rigorous consultative process.

E. Implementation

Institutional and Implementation Arrangements

The Finance Division of the Ministry of Finance is responsible for overall oversight of the current operation, coordinated by its External Finance Wing. Several federal government agencies responsible for Power, Revenue, Commerce and Economic Affairs and provincial governments will implement the program. The above government agencies have extensive experience and are fully conversant with World Bank policies and procedures for development policy financing. Monitoring and evaluation of the operation will be led by the Government with continued support from the World Bank. Timely achievement of targets will be assessed through documents made promptly available and regular analysis of data (e.g. national accounts, fiscal and, household surveys). These will be publicly disclosed in a transparent manner.

F. Poverty and Social Impacts, and Environmental, Forests, and Other Natural Resource Aspects

Poverty and Social Impacts

The COVID-19 situation has adversely impacted the economy, and the poverty situation is expected to be impacted. Policy measures supported by the operation are expected to have positive effects on poverty and social welfare in the medium-term. The policy action on reducing the anti-export bias of the National Tariff Policy is expected to have a positive welfare impact on Pakistani households and on the issuance of regulations for Electronic Money Institutions (EMI) and granting of licenses to EMIs to increase the use of digital payments is expected to have a pro-poor and gender effect. The only action that may have a negative impact in the short-term is related to measures included in the FY20 budget to broaden the tax base, the increase in the immovable property valuation for tax purposes and the reduction in the personal income tax threshold. Other policy actions are expected to have positive poverty and social impacts through securing macroeconomic stability, promoting economic growth and competitiveness. An analysis of the welfare impact of addressing the stock and flow of circular debt in the power sector will be conducted with the new HIES 2018-19 data and will be used to inform ex-ante the reforms on energy subsidies, and tariff determination, which will be supported by future operations.

Environmental, Forests, and Other Natural Resource Aspects

RISE will have an overall positive effect on the environment. Pakistan has adequate legislative cover, policy guidelines, and institutional mechanisms in place for managing the environment. This operation is not likely to cause any significant effects on Pakistan’s environment, forests and other natural resources. Reforms in the energy sector, particularly the approval of the renewable energy policy that aims to rebalance the energy mix toward renewables and away from expensive fossils including coal will have a positive impact on the environment.

G. Risks and Mitigation

The risks to this operation are high. Macroeconomic, political, and institutional risks are high. The macroeconomic situation in the near term is likely to remain fragile, with elevated risks now due to the impact of global COVID-19 pandemic on the economy, which could decelerate progress on key reforms. In addition, a delay in the adjustment process or volatility in oil prices could significantly worsen the economy's prospects. Macroeconomic risks are mitigated, in part, by
the financing from the ADB, AIIB, the IMF and the World Bank. Political risks are high because in the past, reforms that seemingly benefited from broad support stalled because they challenged an existing equilibrium of power and those benefiting from the status quo. These risks are partly mitigated through efforts to secure buy-in from political leaderships across the spectrum. Institutional risks are high because of weak federal-provincial coordination and technical capacity on taxation and fiscal policy. These risks are mitigated, in part, through taking an all-of-government approach by engaging with the Federal government and provinces address long standing and long delayed structural reforms, strengthening of institutions responsible for inter-governmental coordination, and provision of technical assistance for implementation. The World Bank is collaborating with ADB, AIIB, IMF and other development partners, to provide a coordinated support program to the authorities, both in terms of financing and reform implementation, including on the COVID-19 response.

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<tr>
<td>Approved By</td>
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<tr>
<td>Country Director:</td>
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