

Azad Jammu & Kashmir Consultations Report
World Bank Group (WBG) Country Partnership Strategy (CPS) 2015-19
September- December 2013

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Attachments: List of Persons Met

Azad Jammu & Kashmir Consultations
Islamabad, September 2013 – December 2013
World Bank Group (WBG) Country Partnership Strategy (CPS) 2015-19

A. INTRODUCTION / BACKGROUND

1. The CPS consultation meetings with the Government of AJK were held during the months of September 2013 {as part of the technical session co-chaired by the Economic Affairs Division (EAD)} and December 2013 chaired by the Chief Secretary in the AJK House, Islamabad. The objective was to exchange views on the challenges and development priorities for the region that WBG could support under its new five-year strategy. Please see Annex I for list of participants in the consultations sessions

2. Based on the feedback received from the government and other stakeholders, key priorities for AJK are emerging as:

- i. **Energy:** Hydropower potential.
- ii. **Attracting Diaspora and Private Sector Investment:** Improving investment climate, SME's financing and skills development
- iii. **Tourism and Infrastructure development.**
- iv. **Agriculture:** small dams for water management, irrigation, and focus on agriculture, fisheries and livestock.
- v. **Education and health**

3. Consultation sessions on AJK were part of the process of engagement to identify priorities for WBG support for the new five-year country strategy for Pakistan. Several meetings have taken place to date, including strategic level discussions with the Prime Minister, Federal Ministers of Finance, Planning and Development, and Water and Power; meeting with the Economic Team including the Governor State Bank, as well as the Chief Ministers of the four provinces. For the federal government, AJK and GB counterparts, a technical level session was co-chaired by the Economic Affairs Division (EAD) where representatives from key ministries were invited. In addition, separate sessions were also held with representatives from the Government of AJK and GB respectively. For the provinces, meetings were held at the provincial capitals of Sindh, Punjab, Balochistan and KP with the provincial administration under the leadership of Chief Secretaries or Additional Chief Secretaries. A separate session was also organized with the FATA Secretariat in Peshawar.

4. In addition to the federal, provincial, and regional governments, the WBG has also reached out to a range of other stakeholders including parliamentarians and political leaders, academia, think tanks, media, civil society, youth groups and the private sector. Findings and outcome of these discussion sessions are being documented for record and shared with the participants.

5. As explained during the consultations process, while an effort will be made to take various views on board, some level of prioritization and trade-offs would have to be made as WBG would not be able to respond to all demands with its limited resources. We would need to exercise selectivity to seek visible impact and results. One important element of the WBG strategy would be to leverage the strengths of the private sector and other development partners to support the key priorities in Pakistan. The three institutions of the World Bank Group will work together to bring value to the clients in Pakistan. The WBG includes International Development Association (IDA), the International Bank for Reconstruction and Development (IBRD), International Finance Corporation (IFC), and Multilateral Investment Guarantee Agency (MIGA). The IDA and IBRD work with the governments and provide concessional

credits, grants, loans and knowledge support (analytical work and non-lending technical assistance). IFC provides advice and commercial loans to the private sector, while MIGA provides political risk insurance guarantees for private investment in the country.

B. WBG PRESENTATION: CPS 2015 ROADMAP AND EMERGING PRIORITIES

6. The WBG presentation focused on the process of CPS development, timeline and the emerging diagnostic of challenges and opportunities for Pakistan. Key areas of reforms priorities for the country, as highlighted during various consultations, were also shared.

7. The CPS preparation process includes two rounds of consultations with the federal and provincial governments and other stakeholders – the first one from July 2013 – January 2014 is for priority setting and the follow-up in February 2014 to validate the draft strategy. After EAD's review of the final draft, the CPS would be presented to the WBG Board of Executive Directors in June 2014 and the implementation period of the CPS would start from July 1st, 2014. The implementation plan includes regular performance/portfolio reviews, an annual exercise of results assessment and learning reviews; a mid-term progress report (half-way into implementation), and a full program evaluation at the end of the CPS implementation period. This process allows for flexibility to review performance and results on an ongoing basis and make adjustments as necessary.

8. The priority setting process for the Country Partnership Strategy starts with preparing a Systematic Country Diagnostic (SCD), an assessment of challenges and opportunities, and disseminating it early in the process of consultations. Based on the emerging themes or priorities, the areas of focus are identified and are clearly linked with the outcomes. The implementation plan is prepared separately providing details of interventions and programs to achieve the intended outcomes.

9. The initial diagnostic suggests that there are both challenges and opportunities for Pakistan that together with the key global trends, are influencing and shaping up the development landscape of the country. And if addressed in a systematic way, it can unlock the great potential for economic revival and growth and can create a path to growth and poverty reduction that is inclusive, equitable and sustainable in terms of employment generation, livelihoods and human opportunity for all.

10. Looking at the key global trends, one finds that the Official Donor Assistance is shrinking and more and more, these limited resources are being used to crowd-in private capital. Technology and innovation are driving development solutions and interconnectivity, e.g. increasing use of smart phones for monitoring and transparency, BISP smart cards based payment system in Pakistan. Besides, citizen's active engagement in development process is increasing, and climate change is driving development agendas in a major way.

11. Given this global context, Pakistan's economic growth and development is challenged by scarcity of financial resource and heavy dependence on external financing, slow progress on MDGs, rapidly increasing population and growing urbanization vis-à-vis limited resources and infrastructure, manifesting itself to an extent in the energy crisis and water scarcity that we witness today. Recurring natural disasters and deteriorating law and order and security environment are also holding back development in Pakistan. On the positive side, the recent democratic political transition, a geographic location with potential regional linkages, natural resource base, the ongoing devolution process, and the increasing working-age young and female population, are some key opportunities for Pakistan that can contribute to the economic revival and growth in the country. It is important to recognize, however, that this cannot be done by the government and donors alone; private sector needs to be a partner in this process. And to facilitate private sector participation, improving investment climate and business environment remains the key.

12. In terms of key priorities for Pakistan, we have heard that job creation and employment generation remains an important goal for the country. There are several important ingredients to a successful job strategy but a central one is that it has to be private sector led for which conducive investment conditions are necessary. Another critical element is the human resource development. Pakistan would need an educated, skilled and healthy workforce for creating more and productive jobs and sustaining higher growth.

13. The Planning Minister, in the five-year plan for Pakistan, is focusing on indigenous / homegrown drivers for jobs and growth to minimize dependence on external factors. The initial set of priorities include raising own revenues for investments, improving investment climate for private sector, value chains for industry and agriculture products, and improving regional linkages for trade. The energy security, infrastructure upgrade, and building social capital remain key support areas for this agenda.

14. While human development is a central pillar of any job strategy, we have heard that on its own it remains a key priority and the government's focus on infrastructure should not be at the expense of human development. This calls for continued investments in education and skills, health and nutrition, income support and microfinance.

15. The third theme that has come out as priority is that of governance and anti-corruption reforms. There is an increasing recognition that support to devolution / local governments, addressing weaknesses in the public service delivery mechanisms, and promoting transparency would be required for sustaining any development gains in Pakistan.

C. KEY DISCUSSION POINTS AND FEEDBACK RECEIVED

16. The discussion at the consultation sessions was focused around the following five questions to the participants. Session-wise summary of feedback is provided below:

- i. Do you share similar diagnosis of the challenges, opportunities & priorities for Pakistan and AJK?
- ii. What should be the top three reform priorities for WBG to support? In order to be selective, what should the Bank do more of and less of?
- iii. What could be some of the success indicators/ Results? e.g. number of jobs created, level of resources mobilized etc.?
- iv. What are the risks we need to mitigate in the strategy?
- v. How can we improve implementation?

C-I: Meeting with the Chief Secretary and Team

17. A consultation session with government representatives from Azad Jammu and Kashmir (AJK) was held on December 19, 2013 at the AJK House in Islamabad. The session was chaired by Chief Secretary Azad Jammu and Kashmir, Mr. Khizer Hayat Gondal. The Chief Secretary highlighted that Azad Jammu and Kashmir has had an uninterrupted democratic system for 66 years, the Kashmiri people were tolerant and progressive in their outlook and make up an egalitarian society.

18. The participants appreciated the WBG presentation and the highlighted priorities and constraints, being relevant for AJK as well. The Government of AJK is currently developing its Medium Term Development Framework (MTDF). A presentation was made by the Planning Department that

highlighted 26 projects for WBG support. The main priorities included hydropower potential, private sector investment, agriculture, tourism, and vocational training for youth. It was shared that AJK is dependent on federal transfers and the development funds have not increased post 18th amendment proportionate to other provinces. The foreign development assistance portfolio of 1.1 billion PKR of 2009-2010 has dried out. It was mostly committed to infrastructure development following natural disasters, with less emphasis on the social sector. A potential source of financing for AJK could be the large diaspora members settled in UK and other countries. There are significant remittances coming into AJK but investments are mostly in real estate. To attract the diaspora as investors in the productive sectors, higher returns and creating conducive investment conditions would be important.

19. Economic growth can be sustained with a thriving entrepreneurial environment, which requires being private sector led. There are opportunities for *private sector participation* in many areas, including hydropower and tourism. In parallel, it is important to upgrade *technical and vocational skills* training to produce employable skills amongst the youth. The Government is also actively considering establishment of a *Bank of AJK*, especially for providing *lending to SMEs*, youth and women entrepreneurs. However, the equity requirements of the State Bank need to be fulfilled. WBG was asked for support through the IFC to fulfill equity requirements.

20. In terms of priorities, there is over 8000MW of *hydropower potential* in AJK out of which 6000 MW has not yet been surveyed; this is roughly equivalent to the entire national power deficit. This energy will be a “clean” source and not a drain on the foreign reserves. There are eight small potential hydropower projects proposed for funding that can be completed in the short term and brought on the grid with private sector support.

21. Development of the *tourism industry* was highlighted as a sector that could create jobs and enhance economic activity. The goal is to draw tourists from within Pakistan given the increasing domestic demand; currently the limited tourist spots are over saturated. It was shared that a few projects are in the pipeline and feasibility studies and PC-1 are being prepared. The government is also considering establishing an environment protection agency to ensure that the development activities do not negatively impact the region’s environment. WBG support was requested for capacity building in this area. As part of tourism development, road access into AJK must be upgraded. A few projects were highlighted, including the construction of a tunnel from Reshian to Leepa, better roads from Lower Topa to Kohala, Rawalkot to Koti via Tharkal, and Bhimber to Iftikharabad.

22. While literacy rates in AJK are quite high (67%), and enrollment rates are almost 100% for both boys and girls, the youth is unskilled and unable to find productive employment. Therefore, at present there is a strong focus on the establishment and strengthening of *technical and vocational training centers* in AJK. Currently there are 400 IT graduates a year that are technically skilled but are unable to market their skills. The vision is to establish 225 IT enterprises in AJK to attract and retain a skilled labour force. It was shared that overall the overseas diaspora is over 1 million people and the technical training programs should be designed keeping overseas jobs as a priority. About 1 million people are working in the rest of Pakistan so all strategies designed will be three-tiered. Currently the Government is the sole employer in AJK and with greater private sector activity, more and better employment opportunities could be created outside the public sector. In the health sector, improving and strengthening existing facilities and establishing a cardiac care center are priorities for the GoAJK. Urban *solid waste management* was also emphasized as a challenge that the government is focusing on.

23. To improve the existing agricultural zones of AJK, 26 *small dams* as well as *irrigation canals* need to be built for water conservation and better water dispersal management. An integrated rural development program which includes *agriculture, fisheries and livestock* needs to be developed, and WBG was asked to consider supporting the program. The success of WBG’s farming development project in 1999 was highlighted in this regard. Irrigating the southern districts could benefit AJK tremendously as

the land area is very fertile. The program would be inclusive; engaging the rural community and providing jobs. Technical studies of the 9 ecological zones indicate potential fruits, cash crops, spices, and cut flowers that AJK could supply to other parts of Pakistan capitalizing on seasonal differences.

D. FOLLOW UP / NEXT STEPS

26. The WBG team thanked the participants for their active participation, contributions and sharing views on the challenges and priorities for AJK. As mentioned before, the WBG has limited resources and may not be able to respond to all demands. We would however share the inputs at various forums and try to facilitate and leverage support for AJK development priorities to the extent possible.

27. **Next steps:** the consultations report documenting the discussions being shared with everyone. Second round of consultations would take place in February 2014 and first draft of the WBG CPS will be shared for validation and comments. The CPS will be finalized and presented to the WBG Board of Executive Directors in June 2014. CPS implementation will start from July 1, 2014. During implementation, effort will be made to share widely progress and results on a regular basis.

Please follow us on Facebook (www.facebook.com/WorldBankPakistan) or the webpage (www.worldbank.org.pk) for providing feedback and regular updates/information on Pakistan Country Strategy and Program. We can also be reached at the following address:

The World Bank
20-A Shahrah-e-Jamhuriat
G-5/1, Islamabad
Phone: (+92-51) 227-9641-6
Fax: (+92-51) 227-9648-9
E: mariamaltaf@worldbank.org
E: islamabadoffice@worldbank.org

Attachment: List of Persons Met

S No	Name	Designation / Party
1.	Mr. Khizer Hayat	Chief Secretary, GoAJK
2.	Mr. Yusuf Khan	ACS (D)
3.	Muhamamad Khalid	Secretary, C SW
4.	M. Akram Sohail	Secretary, Industries/ TEVTA
5.	Khurshid Ahmed Ch.	Secretary, E & S Edu.
6.	Mohammad Sadiq	Secretary LG RD
7.	Dr . Shela Waqar	Secretary IT, Tourism, Info
8.	Bashir Ahmed Choudhary	D-D-LT Board
9.	Syed Safdar Hussain Bukhari	Planning Officer, Education
10.	Raja Muhammad Qadir Khan	Director Education Extension AJK
11.	M Zahid Khan	COO Tevta
12.		
13.	Abdu Qayumm Ch	DG, EPA
14.	Abdul Khan	Secretary, PPH and PHE
15.	Waqas Ashraf	Director, PDD
16.	M. Bashir Khan	Chief Foreign Aid
17.	Dr. Asif Shah	JS, EAD
18.	Muhammad Kabir Malik	DDE, Planning
19.	Ms. Uzma Basim	Senior Operations officer, WB
20.	Mr. Rachid Benmessaoud	Country Director, WB
21.	Ms. Shabana Khawar	Senior Operations Officer, IFC
22.	Ms. Sana Shahid	Operations Analyst, WB
23.	Ms. Huma Zafar	Consultant, WB