Mr. Chairman, I would like to express my sincerest thanks to every member of the Board with whom I have been interacting in connection with Pakistan’s CAS update and SAL. I have found them, without any exception, showing genuine sympathy for Pakistan’s travails, Pakistan’s enormous difficulties, its unbearable hardship. I found everyone supportive.

May I also express my special thanks to Messrs. Andrei Bugrov, Khalid Al-Saad, Surendra Singh, Matthias Meyer, Valeriano Garcia and Ms. Jan Piercy for their written statements.

All the views expressed are not identical. This is understandable. Of course there can be differences in perceptions and a difference of opinion. I would like to assure on behalf of my authorities and on my own behalf that we have great respect for the views of every colleague. If these happen to be critical, this is the friendly constructive criticism of friends.

Mr. Chairman, however, I would like here to enter an important caveat: some of the concerns and doubts about full implementation of this program stem from a historical reading of the situation rather than a contemporary fact finding. Impressions, unless care is exercised, can become substitutes for facts. It needs to be recognized that our track record in the recent past represents a clear point of departure. The real and the recent track record is clearly and distinctly better than the dubious reputation which we have come to acquire. We indeed bear the cross of our past omissions, but when put in possession of facts on the ground it would be unfair for anyone to crucify us on the basis of something which is no longer valid.

Mr. Chairman, correct understanding on the basis of facts is the key. My authorities do not ask anything more, and in all fairness they are entitled to no less.

In reviewing this CAS update and the contemplated assistance to Pakistan, one is struck by the fact that there is hardly any disagreement about the remedial policy prescriptions. It is a “home grown program” and my authorities fully own it. The ownership of the program is further demonstrated by the Government’s implementation of up-front measures as indicated in paragraph 64 of the SAL, and spelled out in detail in the CAS and PFP. The program has been found professionally in order both by the IMF and World Bank.

The crux of the matter lies in implementation of the program. The question is not whether the medicine is correct, but whether the patient will continue taking it for the prescribed period, and in the proper dosage. I do understand the concerns of some of my colleagues on this count.

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Hence, in my view, the following issues are germane to the matter under consideration:

1) What had been the level of commitment of the GOP to the reform program and what had been the outcome of those efforts from February 1997 to May 1998?

2) What is the degree of commitment today?

3) Whether the strategic focus of the Bank’s strategy is appropriate?

4) Why should this Board favorably consider helping Pakistan?

5) Whether the magnitude of the help proposed by the Bank’s Management/Staff is appropriate?

As to the first issue of commitment of the GOP to the reform program and the outcome thereof from February 1997 to May 1998. Mr. Nawaz Sharif, after winning an unprecedented large popular mandate, formed the Government in February 1997 and took a number of initiatives to improve governance and put the economy in order. Among other things, the Government reached an agreement with the IMF and World Bank in October 1997 on a “home grown” reform program. As explained by Bank staff: considerable initial success was achieved, and the reforms began to lay the basis for future acceleration of Pakistan’s economic growth and development. In 1997/98, real GDP grew by 5.4 percent (up from 1.3 percent in 1996/97), virtually as programmed, reflecting favorable performance of agriculture and its indirect contribution to the expansion in large scale manufacturing, as well as a recovery in other sectors. Inflation fell to 7.8 percent (well below the target of 10.5 percent) from 11.8 percent in 1996/97, the result of tighter demand management policies, recovery in output growth, and a decline in import prices. Financial policies were broadly in line with the ESAF/EFF targets, as was the budget deficit. The external current account deficit was halved to 3.2 percent of GDP compared with the program ESAF/EFF of 5.1 percent of GDP. These were not small accomplishments and could not have been possible without a very high level of commitment on the part of the Government of Pakistan.

As a matter of fact, Mr. Chairman, the Pakistan Development Forum which met in Islamabad on May 12-13, 1998 congratulated the Government for starting the implementation of its comprehensive, “home grown” reform program. They noted the positive impact of these reforms in reducing fiscal and balance of payments deficits, lowering inflation, and the improvement in GDP growth. They commended the Government’s frank statements on governance, and for proceeding with the long-overdue population census. They applauded the recent declines in defense expenditures as a share of GDP despite regional security concerns.

This, Mr. Chairman, has been our track record in the recent past, which was a clear manifestation of the commitment of the Government to go ahead with reforms, to implement its accord with international financial institutions, and to fully live up to its covenants.

The objective realities on the ground, however, underwent a marked change due to developments in May 1998. Financial conditions greatly deteriorated as a result of loss of investor confidence, a decline in private capital inflows, imposition of economic sanctions, and the suspension of new official bilateral and multilateral disbursements for nonhumanitarian purposes. The Government took several measures to contain the threat of imminent balance of payments difficulties and to sustain domestic economic activity. But the economy has remained extremely vulnerable. In the first months of FY1998/99, there was a substantial compression in imports, official external reserves declined to US$ 450 million (three weeks of imports) by end-October, and external payments arrears accumulated to US$ 1.4 billion on both current and capital accounts. Economic prospects have visibly declined; growth is stagnating. If this state of decline persists further, it would have a most adverse impact on the condition of the poor. Social tensions can be greatly aggravated, posing unimaginable dangers to the social fabric.

As to the current status of commitment of my authorities, I would like to invite attention to prior action taken by the GOP despite a most unfavorable conjunction of circumstances.
As aptly pointed out by my Russian colleague in his written statement, “Even when financing for the structural reform program dried up, the Government remained committed to the reform course, and, notwithstanding setbacks, the progress achieved in implementation of the current CAS placed Pakistan in the High Base Case lending scenario.”

My authorities fully recognize that a sustainable improvement in Pakistan’s economic performance would require vigorous efforts to contain the impact of the recent adverse external developments and to overcome the key structural impediments to growth. In response to these challenges, the Government’s economic strategy has emphasized an acceleration and broadening of the structural reforms, in particular in the areas of agricultural policy, tax administration and tax policy, government and public enterprise restructuring, containment of nonessential expenditures, austerity, and self-reliance, promotion of exports, and providing a congenial environment for private investment, specifically including a credible and orderly framework for resolution of disputes with IPPs. The Government also accords a very high priority to the issue of governance and is fully committed to governmental probity. Mr. Nawaz Sharif, the Prime Minister of Pakistan and his economic team headed by Mr. Ishaq Dar, the Finance Minister are firmly, completely and unequivocally behind this reform strategy.

Now, as to the strategy of the Bank, it remains focused on reducing poverty in Pakistan by investing in people, raising productivity, and promoting sustainable economic growth. The key elements of the ongoing strategy remain valid, and are to:

- achieve macro stability, improve resource allocation and raise the quality of public expenditure;
- improve human development;
- build a competitive environment for private investment and sustainable growth; and
- strengthen governance and institutional development.

There can be no two opinions about the validity and relevance of this assistance strategy. It merits an unequivocal reiteration and confirmation by the Board.

Now to the question: why help Pakistan?

I cannot overemphasize the obvious need of doing so. I have already described how difficult things are at this juncture. I note that my colleagues are fully aware of the current precarious situation. I cannot present the case better that what my Swiss colleague has observed in his statement: “The social and economic vulnerability of the country is such, that in the absence of the Bank’s support and in the context of the international creditors’ and investors’ lack of confidence, it might embark on a rapid downward spiral with potentially serious consequences.”

As regards the magnitude of financing proposed in the SAL, the Bank Management has advanced very cogent arguments and shown the merits of keeping this as a single tranche operation. I fully endorse these views. Further, I would like to submit that while it is true that recent approval of the package in the IMF of ESAF/EFF and CCF has come as much needed relief, it is but a part of the process of rescue and certainly not enough by itself. Our external balance has been in an extremely precarious situation. Reserves prior to recent accretions from the Fund, receipt of partial refund of aircraft price and bridge financing at very high rates, have been hovering around US 400-500 billion. We are likely to experience an exceedingly stringent cash flow situation over the next 2-3 months. It is needless to emphasize that it is essential to clear up arrears built up on current account transactions and private debt over the last six months. The proposed single tranche assistance package will give Pakistan slightly more elbow room. It will help augment Pakistan’s capacity to implement the reform program. Making this a multi-tranche operation will be counterproductive. If you really want Pakistan to recover quickly, there should be no change in the nature of the proposed package. Today, my country is like a patient in the ICU (Intensive Care Unit) of a hospital. If this is turned into a multi-tranche operation, the patient will not be discharged
from the hospital, but will merely be shifted to an outer ward. We should send the patient out of hospital in a healthy state, so that he may not be a constant drain on resources. For achieving this objective, the nature and magnitude of the program as proposed by Bank Management should not change.

Further, this is not the end of the lending of the Bank to Pakistan. Feel free to impose stringent standards when the next program comes before you.

Finally, I would like to thank Bank Staff and Management for an excellent CAS update, and a very appropriate, well thought out and sound SAL program.

Under the leadership of Ms. Mieko Nishimizu and Sadiq Ahmed, Country Director, the Bank team has worked with commendable competence and dedication. They have been very forthright, very tough, but invariably fair. They have shown empathy without compromising even an iota of their professionalism and objectivity.

No client can hope for a better team and the Bank cannot expect to be represented by a more committed and professional team.

In the end, I simply want to emphasize that my Government is determined to implementing sound structural policies to achieve growth and poverty alleviation. What my Government requests is the understanding and patience of the donor community, to give it time for its policies to take root and bear fruitful results.