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**Report No.: 20123**

**PERFORMANCE AUDIT REPORT**

**PAKISTAN**

**FOURTH HIGHWAY PROJECT  
(LOAN 2814-PAK)**

**TRANSPORT SECTOR PROJECT  
(LOAN 3241-PK)**

**KARACHI PORT MODERNIZATION PROJECT  
(LOAN 3335-PAK)**

**January 6, 2000**

*Sector and Thematic Evaluations Group  
Operations Evaluation Department*

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## **CURRENCY EQUIVALENTS (annual averages)**

Currency Unit = Pakistan Rupee (Rs)

Appraisal year, 1990	US\$1.00	=	Rs. 21.5 (at appraisal)
Original closing year, 1996	US\$1.00	=	Rs. 36.1 (annual average)
Completion year, 1998	US\$1.00	=	Rs. 45.8 (annual average)

## **WEIGHTS AND MEASURES**

Metric System

## **FISCAL YEAR**

July 1 – June 30

## **ABBREVIATIONS AND ACRONYMS**

CIMP	=	Core Investment and Maintenance Program
GDP	=	Gross Domestic Product
GOP	=	Government of Pakistan
ICB	=	International Competitive Bidding
ICR	=	Implementation Completion Report
MBRP	=	Maintenance Backlog Reduction Program
MIL	=	Maintenance Intervention Level
MOC	=	Ministry of Communications
MOF	=	Ministry of Finance
MOR	=	Ministry of Railways
NHA	=	National Highway Authority
NHB	=	National Highway Board
NLC	=	National Logistics Cell
NTRC	=	National Transport Research Centre
PR	=	Pakistan Railways
PSO	=	Public Service Obligation
RECO	=	Rail Equipment Company
RSP	=	Resurfacing and Strengthening Program
SAR	=	Staff Appraisal Report

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February 9, 2000

**MEMORANDUM TO THE EXECUTIVE DIRECTORS AND THE PRESIDENT**

**SUBJECT: Pakistan: Performance Audit Report  
Fourth Highway Project (Loan 2814-PAK);  
Transport Sector Project (Loan 3241-PK); and  
Karachi Port Modernization Project (Loan 3335-PAK).**

Attached is the Performance Audit Report (PAR) on three Pakistan transport projects: Fourth Highway project (Loan 2814-PAK, approved FY88); Transport Sector project (Loan 3241-PK, approved FY90); and Karachi Port Modernization project (Loan 3335-PAK, approved FY91). The Operations Evaluation Department (OED) prepared the PAR. The Bank commitment to the three projects was US\$427.4 million, of which US\$49.8 million was canceled.

The physical objectives of the Fourth Highway project and of the highway component in the Transport Sector project aimed to rehabilitate the main highways, especially the very important Karachi-Peshawar corridor; improve maintenance planning and operations; improve traffic safety; and develop domestic private construction industry. The foremost objective of railway component of the Transport Sector project was to implement a program of improvements in Pakistan Railways management and organization that would culminate in the privatization of the railways' operations, and also to rehabilitate and modernize rolling stock and improve telecommunications. The main port project objectives were to modernize and expand physical facilities, improve port management to reduce port costs and improve productivity, and help develop port sector strategy for Pakistan. To achieve these objectives, the projects had civil works, technical assistance, and institutional and policy development components.

The main roads were rehabilitated and maintained as planned. In the Fourth Highway project the ERR at completion was 30.5 percent versus 27 percent at appraisal; in the Transport Sector project the ERR for the highway components was 50 percent versus 51 percent at appraisal, although the scope of the ERR was 60 percent larger than at appraisal. For the railway components the ERR at completion was 35 percent versus 25 percent at appraisal, but the scope of the ERR was 70 percent less. In the Port Modernization project, the ERR at completion was estimated to be 22 percent, versus 34 at appraisal. The reduction is solely due to the barges that have not yet been delivered, making the use of small barges mandatory and causing the dredger to operate below its capacity.

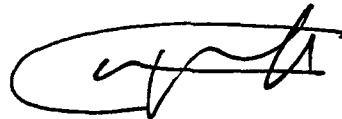
The audit rates the Fourth Highway project as in the ICR; outcome is rated as satisfactory; institutional development is rated as substantial; and sustainability as likely. Bank performance in the project is rated as satisfactory.

The outcome of the Transport Sector project is upgraded to marginally satisfactory (marginally unsatisfactory in the ICR), and institutional development is rated as substantial (as in the ICR) on the strength of the project's large and successful highway component. No tangible institutional development took place in the Pakistan Railways because of the lack of government commitment, changing priorities, and management resistance; however, many useful studies on institutional restructuring were undertaken. Sustainability is rated as likely on the strength of the highway component and because road maintenance funding has been secured. The most important highway (N-5) has been recently concessioned with toll financing and the Government formally approved Road Maintenance Fund and Roads Board at the National Level in July, 1999. However, the railway component's sustainability is uncertain at best. Bank performance in the Transport Sector project is rated as satisfactory (as in the ICR).

The audit rates the outcome of the Karachi Port Modernization project as satisfactory and sustainability as likely (as in the ICR). Institutional development is upgraded to substantial because of post-project privatization of container terminal operations and the other steps taken toward converting KPT to a "landlord port," including improvements in its accounting procedures and asset revaluation. The Bank's performance in the port project was satisfactory.

The audit also raises the broader issue of why, taken individually, projects are satisfactory, but when looked at as a program they leave much to be desired? The paradox that projects are satisfactory but the program fails to achieve desired outcomes applies in Pakistan. Thus, while the Bank-supported projects have been worthwhile and task managed conscientiously and well, there is the larger question of whether the Bank should have been involved in those projects in the way it was involved. The audit suggests that the Bank evolve and codify a new way of working with the client in institutional change processes, and that the Bank-client relationship—itself an intervention—be structured in a way that involves the client in defining the problem, studying it, and developing interventions that are genuinely relevant to the client's needs.

The audit recommends that the Bank more clearly articulate its work on institutional capacity and policy development, and on reducing rent-seeking. The Bank should continue helping the GOP to begin to manage its transport sector on commercial principles and improve decentralized accountability for road maintenance, and evolve an improved institutional framework for the entire transport sector. For the port and railways, the Bank now has global experience that it should use to help commercialize the Pakistan Railways operations, improve trade facilitation and competition at the ports and railways, and focus the investments in the physical plants.

A handwritten signature in black ink, consisting of a large, stylized 'C' followed by a series of loops and a final vertical stroke.

Attachment

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Mr. Antti Talvitie (Task Manager), who prepared this report, audited the projects in August 1999. William B. Hurlbut edited the report. Ms. Romayne D. Pereira provided administrative support.
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## Principal Ratings

### *Transport Sector Project (Ln. 3241-PK)*

	ICR	OED	PAR
Outcome	(Marginally) unsatisfactory	Marginally unsatisfactory	Marginally Satisfactory
Sustainability	Uncertain	Uncertain	Likely
Institutional Development	Substantial	Substantial	Substantial
Bank Performance	Satisfactory	Satisfactory	Satisfactory
Borrower Performance	Satisfactory	Satisfactory	Satisfactory

### *Fourth Highway Project (Ln. 2814-PAK)*

	ICR	OED	PAR
Outcome	Satisfactory	Satisfactory	Satisfactory
Sustainability	Likely	Likely	Likely
Institutional Development	Substantial	Substantial	Substantial
Bank Performance	Satisfactory	Satisfactory	Satisfactory
Borrower Performance	Satisfactory	Satisfactory	Satisfactory

### *Karachi Port Modernization Project (Ln. 3335-PAK)*

	ICR	OED	PAR
Outcome	Satisfactory	Satisfactory	Satisfactory
Sustainability	Likely	Likely	Likely
Institutional Development	Partial	Modest	Substantial
Bank Performance	Satisfactory	Satisfactory	Satisfactory
Borrower Performance	Satisfactory	Satisfactory	Satisfactory

## Key Staff Responsible

### *Transport Sector Project (Ln. 3241-PK)*

	Task Manager	Division Chief	Country Director
Appraisal	J. Tillman	P. Ljung	N.A.
Completion	J. Tillman/N. Qureshi	F. Leautier	S. Ahmed

### *Fourth Highway Project (Ln. 2814-PAK)*

	Task Manager	Division Chief	Country Director
Appraisal	J. Tillman	Y. Abe	N.A.
Completion	N. Qureshi	M. Robinson	S. Ahmed

### *Karachi Port Modernization Project (Ln. 3335-PAK)*

	Task Manager	Division Chief	Country Director
Appraisal	E. Vernigora	P. Ljung	N.A.
Completion	I. Mubarek	F. Leautier	S. Ahmed

## Preface

This is a Performance Audit Report (PAR) of Fourth Highway Project (Loan 2814-PAK), Transport Sector Project (Loan 3241-PK), and Karachi Port Modernization Project (Loan 3335-PAK). The Fourth Highway project loan of US\$152 million was fully disbursed. The Transport Sector project loan was for US\$184 million of which US\$150.24 million was disbursed. The Karachi Port Modernization Project loan was for US\$91.4 million of which US\$16 million was canceled.

Implementation Completion Reports (ICRs) for these projects were issued in April 1997 (Report No. 16504 for Loan 2814-PAK), June 1999 (Report No. 19402 for Loan 3241-PK), and December 1998 (Report No. 18766 for Loan 3335-PAK).

The PAR was prepared by the Operations Evaluation Department (OED) based on a review of the President's Reports, Staff Appraisal Reports (SARs), ICRs, transcripts of Board proceedings, project correspondence files, Bank documents on other transport projects, and other Bank material. In August 1999, an OED mission to Pakistan discussed the projects with representatives of the Ministry of Communications (MOC), Ministry of Railways (MOR), Karachi Port Trust (KPT), National Highway Authority (NHA), Pakistan Railways (PR), the Privatization Commission, and several nongovernmental and private organizations, including the Small and Medium Enterprise Development Authority, Federation of Pakistan Chambers of Commerce & Industry, Association of Road Users, Karachi International Container Terminal, Qasim International Container Terminal, the All Pakistan Contractors Association, and several private contractors and consultants. OED also consulted Bank staff in charge of the projects.

The objective of the PAR was to examine several issues important to developing a well-functioning transport sector and competent transport sector organizations. In the road sector these issues were: (i) organization and policy framework in the transport sector, (ii) performance on institutional development, (iii) policy dialogue with the Bank, (iv) views of the transport users, (v) the rationale for continued Bank involvement. In the railroad and port sectors the audit concentrated on the following issues: (a) the implementation process of the projects, (b) institutional and organizational aspects, and (c) the role of the Bank.

Following standard OED procedures, copies of the PAR were sent to the relevant government officials and agencies for their review and comments. Two comments were received and are attached as Annex B.

# 1. Introduction and Background

## Country Context

1.1 The economy of Pakistan is growing slowly and, although social and economic progress has been made in past decades, the country is burdened with difficult social problems. Fifty-nine percent of Pakistan's population of 132 million is illiterate and 34 percent live below the poverty line.<sup>1,2</sup> The majority of the population and the labor force is rural and works in agriculture. The growth in foodgrain production has been moderately low, and about 40 percent of children under 5 are malnourished.<sup>3</sup> The share of industry and manufacturing value added from the GDP has been stagnant for two decades and a transformation to industrial economy is yet to take place. Real GDP growth has averaged about 5 percent per year over the past several decades, but in recent years the growth has been much slower. Likewise, the real per capita income growth has averaged slightly over 3 percent annually over the past several decades, but again, lately it has been just over 1 percent annually. The growth in industrial value added is lower than the growth of the real per capita income. Adding to these negatives are the long-standing fiscal and export/import imbalances, and the increase in pollution and environmental degradation. By contrast, all infrastructure sectors—energy consumption, electricity generation, the supply of roads and road transport, and telecommunications—have increased substantially if not dramatically.<sup>4</sup>

1.2 Associated with this stagnation are three persistent transport sector maladies. First, the capacity and quality of the main national artery, the N-5 corridor, is insufficient, or road capacity is provided at great cost at the wrong place. The latter symptom, in the presence of reasonably competent local construction and consulting industry, and a competent technical core in the National Highways Agency (NHA), is of institutional origin. Second, the potential of the railways has not been captured and the railways remain a drain on the national budget. The railways' share of the freight market is only about 10 percent. Its services are inefficient and unreliable. The prime source of this inefficiency, known for years, is the organization of Pakistan Railways (PR), which essentially is a government department with negative incentives for performance. The privatization of PR has experienced many promising false starts, but no change has taken place. The utilization of the ports' available capacity and quality are negatively affected by the exceedingly slow and possibly corrupt customs procedures, by slow ship-to-shore movement of break-bulk cargo, and by poor access from the hinterland to ports, including from India, especially by rail but also by truck.

1.3 Since 1952 the Bank has had substantial involvement in the transport sector of Pakistan through credits and loans. There have been eight railway projects (for a nominal total of US\$232 million), four highway projects (US\$254 million), five port projects (US\$137.3 million), and the recently closed transport sector project (US\$150 million—roads US\$87 million, and railways US\$63 million). There also have been three or four projects with transport sector components

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1. Pakistan 2010, Ministry of Planning and Development

2. World Resources, 1998-99

3. World Development Report, 1997

4. Pakistan 2010, *ibid.*



(for flood damage repair, urban transport, and technical assistance). The three audited projects were identified and appraised in the late 1980s or early 1990s and closed in the past three years. Institutional development was a central theme in all of them.

## **Surface Transport in Pakistan**

1.4 Federal ministries and provincial governments share responsibility for the transport sector in Pakistan. The Bank transport credits and loans have mostly supported federal government projects, save a small but failed “regional balance” component to improve provincial road management in Balochistan in the Fourth Highway Project, and assistance to the provincial road network under the 1992 Flood Damage Restoration Project (Cr. 2648-PAK). The organization of Pakistan’s transport sector is fragmented: five ministries (Ministry of Communications, Ministry of Railways, Ministry of Defense, Ministry of Local Government and Rural Development, and the Home Department) and the Office of the Prime Minister have overlapping responsibilities for transportation matters. These ministries have several central departments, offices, and state-owned enterprises (SOEs) and trusts. The portfolio of the Ministry of Communication (MOC) includes several important entities: the NHA, Karachi Port Trust (KPT), Port Qasim Authority (PQA), Post and Telecommunications, and Shipping. The NHA also reports to the National Highway Council (NHC), headed by the Prime Minister. The Ministry of Railways (MOR) is the parent ministry of PR and the Ministry of Defense has oversight of Civil Aviation and the National Logistics Cell (NLC). The Home Department is responsible for police, traffic safety, and driver and vehicle licensing. The provincial governments are responsible for rural and provincial roads, and the district and municipal governments for rural and urban roads, respectively. The Ministry of Local Government and Rural Development supports provincial, rural, and district roads.

1.5 At the federal level, inter-sectoral, inter-modal resource allocation and priorities, and comprehensive reviews of transport policies are organized outside the sectoral ministries. The Ministry of Planning and Development prepares the five-year development plans and annual Public Sector Development Programs, and reviews individual investment proposals. The Ministry of Finance is responsible for annual sectoral allocations for operations and maintenance from the recurrent budget. Daily coordination is through cabinet committees.

1.6 Road transport is private and unregulated in Pakistan. Private buses account for over 90 percent of the service and provincial government bus companies provide the rest. The private trucking industry carries approximately 95 percent of the road freight traffic. The army-based trucking operation, the NLC, created in 1978 for emergency transport of wheat and fertilizer from the port, carries the remaining 5 percent. Individual owners, supported by numerous terminals and freight agents, operate both the buses and trucks. Enforcement and regulation of truck overloading and safety is problematic. Casual observations suggest that truck overloading is unchecked, and trucking in Pakistan is more a “way of life” expressed in the colorful design of trucks than a market-driven proposition to meet demand at least cost.

1.7 The classification of roads is an important means of road management because it establishes both the ownership and the functional role of the road—mobility, access, or both—and has, or should have, an important bearing on how the costs of roads are shared and how they are financed. Pakistan only has an administrative classification of roads. There are five classes of roads: national highways (approximately 7,000 km), provincial roads (approximately 90,000 km), district roads (approximately 48,000 km), municipal roads (approximately 10,000 km), and other

roads (approximately 20,000 km).<sup>5</sup> The first class is the responsibility of the NHA, the implementing agency of the highway components. There is no functional classification of the roads—there should be—or it is the same as the administrative classification (a classification system for the provincial road network has recently been proposed under an ongoing project assisted by the Asian Development Bank). The roads are also classified by pavement type (paved, unpaved). Some of these roads are tolled and, in the future, all NHA roads may be tolled; currently the financing and prioritization of roads, including maintenance, is not transparent.

1.8 Prior projects, several studies, and substantial dialogue between the Bank and Pakistani authorities preceded all the audited projects. For reasons of organization and clarity, this audit treats the Fourth Highway Project and the highway component in the Transport Sector Project together because they had overlapping objectives; the railway component of the Sector Project is dealt with separately, as is the Port Modernization Project.

### **Bank Role**

1.9 The Bank prepared a *Transport Sector Report* in 1986 to help the GOP develop a coherent sector reform program. The report's reform program was designed to support the (government's) *Policy Framework Paper* and the *Seventh Plan* (1988–92) that were adopted to deal with the macroeconomic problems of the late 1980s. The main goals in the 1986 report are:

- Infrastructure. Rehabilitated, well-maintained highways of adequate capacity. Rehabilitated railway system between Karachi and Punjab.
- Freight transport. Specialized heavy-duty truck fleet and modern freight terminals. Unit freight trains for bulk commodities and containers. Modern cargo-handling equipment for ports. Improved trade logistics.
- Passenger transport. Quality bus services and terminals. Improved long-distance railway service on high-density routes.

1.10 The report lists numerous actions that should be undertaken and that became components in the Bank projects. These include: improve highway planning and project prioritization; introduce modern methods in construction and maintenance; restructure the railways to reduce losses and better compete with roads; adjust user charges to mobilize resources for roads; improve effectiveness of trucking; and undertake quantitative assessment of provincial and rural roads' improvements and their maintenance organization.

1.11 The reform-minded 1986 report covered the sector problems in detail. It and past project experience provided the guidance for the co-operation between the Bank and the Pakistan government. The prior Bank-supported projects (until mid 1980s) were investment oriented and, save the Third Highway project, had pursued insubstantial institutional development objectives. The outcomes of the past projects were satisfactory in the highway and port subsectors, but there was a string of unsatisfactory railway projects. The three audited projects had a strong institutional focus that investments complemented. During negotiations, the GOP agreed on action plans for transport sector reform, NHA institutional strengthening and maintenance program implementation, fundamental railway restructuring, and a broad range of studies on port organization and operations.

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5. It has not been possible to establish the ownership of these roads.

## 2. Project Objectives and Preparation

2.1 The ministries and implementing agencies had the experience to implement Bank projects, although the performance of several previous Bank railways projects had been rated unsatisfactory. NHA had executed three Bank road projects, PR had implemented eight rail projects, and KPT had carried out five port projects. The 1986 sector report and the *Seventh Plan* were the underpinning for the audited projects, whose objectives and components are shown in Table 2.1.

### Highway Component Coherence and Relevance

2.2 The highway components in the loans form a continuum. They focus on developing NHA human resources (to establish NHA as a competent caretaker and developer of the NHS); on physical investments identified in the *Seventh Plan* (the rehabilitation or maintenance of the most important sections of Pakistan's most important corridor, the N-5 from Karachi to Peshawar); and on improving traffic safety.

2.3 The objectives and components for the highways coincide with the priorities identified in the Bank's Transport Sector Report. Components dealing with urban, provincial, and rural roads are absent. This omission was conscious. ADB and USAID were assisting provincial roads and urban transport issues were included in ongoing and proposed urban projects.

2.4 At the time of preparation, in the late 1980s, the institutional issues troubling the NHA were known. Much less was known about the provincial and district roads. It was agreed in the negotiations of the Fourth Highway Project that a study would "review the management and execution of maintenance in each province and would identify and recommend reorganization alternatives and a technical improvement package."<sup>6</sup> This study was later canceled and the Transport Sector Project made no attempt to follow up, and the "institutional problems" in the provincial Communications and Works Department cited in the project appraisal report (SAR) remain neglected and unresolved.<sup>7</sup>

### Railway Component Coherence and Relevance

2.5 After several unsatisfactory railway projects to improve PR's operational efficiency and capacity, economic viability, and financial results were unsatisfactory. The Bank decided to focus on commercializing PR. There also were selected, urgent improvements in the efficiency of PR's rolling stock and operations. Institutional difficulties besetting PR were to be addressed head-on and the SAR contains a detailed timetable and action plans. The loan objectives and covenants were consistent with the problems identified in the Transport Sector Report and the SAR, and experienced in the completed railway projects. There was a strong determination by the Bank to commercialize PR; procurement of diverse goods supported that objective of the project.

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6 SAR, Fourth Highway project, p. 18.

7. For unknown reasons that should have been investigated, the provincial governments and road administrations had little interest in carrying through with this work. The Bank had made a conscious decision to be selective and maintained focus on the NHA/federal network, while letting other donors (notably ADB and OECF) assist with the development of provincial roads.

### **Port Project Coherence and Relevance**

2.6 The port project was consistent with the Transport Sector Report and Bank strategy. The objectives and components were realistic. The appraisal of the project was delayed in order to obtain consensus and government commitment. The concept of the “landlord port” was not fully conceptualized by the Bank at the time of project preparation and the project objectives were driven by numerous studies and covenants. The results of the studies affected implementation and were incorporated into the operational concepts for the port. Overall, the port project adjusted to remain relevant in the changing port policy environment during the implementation.

### **Borrower Participation and Ownership**

2.7 Borrower participation was strong in the preparation and design of all the projects. The highway components, being investment-oriented and having a strong grounding in the *Seventh Plan*, had broad political and private sector support and, naturally therefore, effective borrower participation for the objectives and components. The railway’s institutional component met with borrower resistance and held up the project’s appraisal. The project was appraised only after gaining superficial political ownership (at the cabinet level). The rail component began experiencing difficulties immediately after effectiveness. The port project was prepared with KPT’s full co-operation and enjoyed its support on the investment side; the “landlord port” concept, articulated toward the end of the project, was not embraced at preparation.

Table 2.1. Objectives, Components, Credit Amounts, and Outcome Ratings of the Three Audited Projects in Pakistan

<i>Project Name (Loan No.)</i>	<i>Objectives</i>	<i>Components</i>	<i>Loan Disbursement (US\$, million)</i>	<i>ICR Ratings Outcome Sustainability Inst dev't</i>
<b>Fourth Highway Project (2814-PAK)</b>	<p>Lower transport costs on the Karachi-Peshawar N-5 Highway.</p> <p>Develop NHA capacity to plan and manage highway maintenance and operation using modern management practices.</p> <p>Improve traffic safety on the NHS.</p> <p>Develop Pakistani contractors in road maintenance and rehabilitation for using modern techniques, materials and equipment.</p> <p>Continue to mobilize revenues from road users for the maintenance of the NHS.</p>	<p>Rehabilitation of 650 km of the N-5 Highway, including bridges.</p> <p>Improvements to maintenance and traffic engineering on NHS.</p> <p>Establishment of a pilot-scale highway patrol.</p> <p>Expansion of the national driver instructor training school</p> <p>Institutional improvements in Balochistan provincial highway department.</p> <p>Studies for future highway and road projects.</p> <p>Training and technical assistance.</p>	\$152 (\$152)	Satisfactory Likely Substantial
<b>Transport Sector Project (highways) (3241-PK)</b>	<p>Bring NHA a level of professional competence that reflects its responsibilities.</p> <p>Institute a sustainable core investment and maintenance program (CIMP) for NHS.</p> <p>Remove a substantial portion of the maintenance, rehabilitation and resurfacing backlog in order to establish a sustainable maintenance program.</p>	<p>Technical assistance and training for the reorganization of NHB.</p> <p>Maintenance Backlog Reduction Program (MBRP).</p> <p>Pavement Resurfacing and Strengthening Program (RSP).</p>	\$184 (\$150.2)	Unsatisfactory Uncertain Substantial
<b>Transport Sector Project (railways) (3241-PK)</b>	<p>Restructure the railways and establish commercial orientation in railway management.</p> <p>Implement an improvement program and support it with selective investments.</p> <p>Ensure adequate locomotive utilization by removing the maintenance backlog.</p>	<p>Institutional development: establish a strong business department and develop commercially oriented management.</p> <p>Operational improvement program with selective investments to increase effectiveness</p> <p>Locomotive maintenance backlog reduction program.</p>		
<b>Port Modernization Project (3335-PAK)</b>	<p>Assist with the development of a strategy for the medium/long-term development of the port sector.</p> <p>Reduce port costs at Karachi through improvements in cargo handling productivity, accelerated cargo and document clearance, and improved landside access to the port.</p> <p>Strengthen the Karachi Port organization through changes in institutional, managerial and financial structures, and expand liquid cargo handling facilities.</p>	<p>Civil Works. Liquid products marine terminal; the Jinnah Bridge Phase II, Quayside pavements; and the Keamari Groyne Access Road.</p> <p>Equipment. Dredging plant, computers and software, environmental protection equipment, radar system and spare parts.</p> <p>Trade facilitation improvements.</p> <p>Institutional strengthening in administration, port security, economics, marketing, and environment. Studies, technical assistance, and training.</p>	\$91.4 (\$71.5)	Satisfactory Likely Partial

### 3. Project Implementation

#### ICR Findings

3.1 The implementation of the highway components was satisfactory. Delays and cost overruns occurred, as they can occur anywhere, because of unsatisfactory initial designs and lack of sufficient scrutiny of contractors at prequalification. But overall, the choice, final design, and execution of the loans' road projects were done satisfactorily and a competent local construction industry developed as a planned side product. The Transport Sector Project was restructured two years before closing and US\$11.5 million was transferred from the rail component to the highway component.

3.2 Technical assistance in the highway/road projects was also successful. The change from National Highway Board to National Highway Authority, with attendant changes in accounting and contracting practices, was accomplished. NHA was decentralized and is in the process of creating a state-of-the-art maintenance management system and quality assurance process. The purpose of the system is to help NHA management to ensure that its proposals have a proper balance between maintenance, rehabilitation, and capacity expansion. There continues to be uncertainty in securing stable funding for the NHA.

3.3 The railway component in the Transport Sector Project was an ambitious project aimed at the immediate needs of PR, to commercialize it and improve its operational efficiency. None of the railway components were successfully implemented. The lack of political will to proceed and the resistance by PR management were not overcome and resolved. On paper, institutional restructuring into three business groups—freight, passenger, and infrastructure—has taken place, and an open-access policy for private rail equipment companies (RECOs) to operate (unit) trains on PR lines has been formulated. The operational and physical improvements—locomotive utilization, equipping freight wagons with roller bearings, and a management information system—were not fully implemented because of the lack of counterpart funds.

3.4 The port project's physical components were implemented satisfactorily. Improved physical facilities and technical assistance improved ship-to-shore port performance, but the shore-to-gate component did not improve appreciably. Land access to the port was improved through the construction of the Jinnah Bridge. Labor issues and political instability negatively affected project implementation. Subsequent to loan closing, KPT has concessioned a container terminal and improved the efficiency of port operations. However, the trade facilitation component still lags behind and is to be addressed in a follow-on project now under preparation.

3.5 The ICR ratings of these projects are shown in Table 2.1. They were not changed in the OED review of the ICRs.

#### Outstanding Issues in the Projects

3.6 All the projects suffered from shortcomings. In all modes—highways, railways, and ports—there is an unfinished change process; for the railways this process of change has been mostly on paper rather on the ground. It is difficult to pinpoint what the Bank might have done differently in the projects in order to achieve full success. The ICRs indicate that shortcomings in

prequalification, procurement, accounting, design, and other technical issues were dealt with once their negative effects on the project were observed. While it cannot be expected that these issues fade soon, the indications are that a legitimate process of change is taking place to correct them. A review of the implementation experience and the discussions during the audit suggest that technical assistance and the way of working with the client for institutional change is the critical issue, and holds the key for a more broad-based and sustained success. The problems confronting the Bank in Pakistan are difficult. Several types of interventions have been tried to correct dysfunctions, and they have been partially successful for highways and more so for the port, although a direct comparison is inappropriate. For the railways no success can be reported. This section focuses on technical assistance, as the physical components were successfully implemented, when they were not, the cause had an institutional origin.

3.7 Edgar Schein<sup>8</sup> has proposed three consultation models that nicely match the practices in the audited projects. Schein's models of consultation are: the consultant as content expert; the consultant as 'doctor'; and process consultant. [Quotations are from (Schein 1990 p.264-7)].

- As a content expert the consultant activities consist of information gathering, analysis, and teaching. According to Schein, for the interventions based on these activities to work, three assumptions must be met. First, the client knows what kind of information is needed and who can provide it; second, the client is able to communicate these needs to the consultant; and third, the client understands what the consultant has provided and is able to act on it.
- As a 'doctor', the consultant will "figure out what the problem is and what to do about it...[and the client] only gets involved in implementing the prescription." MacMillan (1999) enumerates the assumptions that have to be met for 'doctoring' to succeed. These are: first, the diagnostic process is not disruptive; second, the client has preliminarily identified the location of the "sickness"; third, the people in this location agree to cooperate; fourth, the client will understand the diagnosis or at least comply with the prescription; and fifth, the client can overcome dependency on the consultant and begins to function independently.
- Process consultation is employed as a way of diagnosing and intervening when the above conditions cannot be met, and when the organization's culture or goals are not well known, to avoid interventions incongruent with the organization's culture.

3.8 These three models were applied for NHA, PR, and KPT, respectively. According to Schein, the critical difference between the last model and the other two "is that the consultant's expertise lies in his or her ability to involve the client in defining the problem, and in structuring the relationship such that the help provided is genuinely relevant to the client's needs. This model rests on the central presupposition that problems in organizations are so complex, and the information relevant to their diagnosis is so concealed, that a correct diagnosis can only be achieved if the client is fully involved in the diagnosis process itself."

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8. Edgar Schein; (i) *Process Consultation*. Reading, MA: Addison-Wesley (1969); (ii) *Process Consultation, Volume II: Lessons for Managers and Consultants*. Reading, MA: Addison-Wesley (1987); and (iii) "Models of consultation: What do organizations of the 1990s need?", *Consultation: An International Journal*, 9 (4), pp. 261-275 (1990). Carol MacMillan has done a comprehensive literature review of organizational consultation in her dissertation: *The Role of the Organizational Consultant: A Model for Clinicians*, Massachusetts School of Professional Psychology (1999).

## Technical Assistance for Roads: Content Consultation

3.9 Technical assistance to NHA was successful. It focused on three things: (i) to establish a competent and decentralized National Highway Administration with detailed job descriptions and train the staff accordingly; (ii) to develop a maintenance management system and a systematic method for maintenance interventions; and (iii) to revise and implement authority-wide financial accounting system. All these tasks were successfully carried out. In addition, a traffic engineering unit was established in the NHA to improve traffic engineering of roads and to address traffic safety issues. There is a concern, however, regarding the maintenance management system because a sustained road data collection system is not in place. The know-how exists, but the appropriate organizational structure with reasonable funding does not. There also was the intention, in the Fourth Highway Project, to establish a driver training and a highway patrol on a pilot basis, and to undertake a Provincial Maintenance Study. These were not implemented because of inter-agency conflict. Instead, funds budgeted for traffic safety were used for identification and removal of 'black-spots' on the N-5.

3.10 The content-oriented technical assistance was successful. This was because there was a competent client who met all the requirements for the content consultants to be successful: the client knew what information was needed, communicated those needs to the consultant, and understood what the consultant provided and was able to act on it. On the other hand, content-oriented technical assistance to issues requiring process consultation was not successful. The cultures of the organizations involved with traffic safety or provincial road management were not well known. The problems could not be diagnosed correctly and the planned interventions failed.

3.11 A somewhat similar failure of technical assistance occurred with NHA, but outside the scope of the project's (content-oriented) TA program. The six-lane Islamabad-Lahore motorway was decided and built during the highway projects. Traffic on this road is low, predictably, and it is hard to articulate any justification for building the motorway then, or now.<sup>9</sup> The decision was blatantly political and wasted monies sorely needed for modernizing the highly trafficked N-5. Thus, professional competence in NHA, with its road management systems, could not prevent a bad decision. The reason for the uninformed decision rests with the lack of autonomy and financial accountability of NHA, as it reports to the NHC, which is chaired by the Prime Minister and is funded from the general budget. The upper management in NHA has little power, which is concentrated in the chairman. Decisionmaking and decentralization of functions are not transparent in NHA and continued institutional development is indicated. But the reasons go deeper. Content-oriented consultation was unable to address—let alone rectify—a dysfunctional sector organization and decisionmaking process. That should be on the agenda of a future project.

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9. The reason articulated for building the motorway was the need to open another corridor for traffic to alleviate the development needs and congestion on the N-5 corridor. But, that did not require a six-lane motorway. Both N-5 modernization and a scaled-down access-controlled new corridor—with right-of-way to expand later—would have been possible with the budget now spent for the unused motorway; a position the Bank held. However, Pakistan needs access-controlled roads that are designed for incremental upgrading to motorway standards. Culturally—given the encroachment of land uses on new roads, the use of the better half of a dual carriageway for two way traffic, and so on—this will be a demanding task. Experience in other countries indicates that access control, and not only through grade separation and motorways, is difficult. Access management has to be learned; it is at heart of good functional classification of the road network.



### Technical Assistance for Railways: Doctor Consultation

3.12 The central idea of the railway component, rooted in prior unsatisfactory railway projects and a 1985 project concept mission, was technical assistance for PR restructuring. Project preparation was delayed because of uncertainty regarding GOP commitment for it. The project concept was changed at the last minute from a sector SAL to a sector investment project. The green light to proceed was given in early 1990, once there was a feeling for GOP commitment to PR restructuring. Several agreements, based on cabinet-approved recommendations, were reached at negotiations to make PR an efficient and financially viable organization. The goal was to change PR from a government department to a public corporation within a 5-year transition period.<sup>10</sup> A comprehensive and detailed program was mapped out.<sup>11</sup> The commitment for change evaporated once the loan became effective. In the project's other components, through vigorous efforts by the Bank's project staff, TA succeeded in counteracting most negative spillover effects from procurement, which affected the trust between the Bank and the borrower.

3.13 As mentioned, a detailed Bank-led program for restructuring PR for commercial orientation was made. The restructuring had several false starts because there was no real GOP commitment for commercializing PR. During implementation, the railways component was in default on many covenants. Contrary to project staff advice, the Bank did not stop lending for the railway nor did it try to use threats or the covenants as leverage for privatizing the railways. Many of those interviewed for this audit believed that the railways continued to be used as a vehicle to "privatize" the benefits and money involved in the operation of the railway or procuring its equipment. The private stories of the (proximate) causes and events surrounding the failure of the railway privatization are intriguing and quite likely more true than untrue.<sup>12</sup> Late in the project, the new government made a new decision to privatize PR. A high-level expert seminar on railway privatization was held. A specific model of commercialization/privatization was chosen. New studies with Bank-sanctioned terms of reference were commissioned, but nothing happened; the studies—and most likely also the railway organization model chosen—simply were a convenient excuse and failed to address the real problems. Reasons for this lack of commitment were not studied in an appropriate way. For this purpose, the process consulting model would have been more appropriate, which, to quote Schein, "rests on the central presupposition that problems in organizations are so complex, and the information relevant to their diagnosis is so concealed, that a correct diagnosis can only be achieved if the client is fully

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10. SAR pp. 12-16; 18-21; and 24-25

11. SAR, Annexes 2.2; 2.4; 2.7; 2.8; 3.4; 3.5; 3.6; and 5.1.

12. A product line of PR was almost concessioned. According to some accounts, an Oil RECO, strongly supported by the Bank, was about to be finalized when the Bhutto government collapsed. The concession papers were ready for signature but no one in the government who could have signed the papers was willing to do it, fearing arrest on corruption charges. The concession simply faded away. One could easily imagine the following scenario if the Oil RECO concession came about. After establishing the operation, the concessionaire would have gone to the ports and made a multi-year contract with the container terminal operators for running container trains from Punjab to the ports at Qasim and Karachi. This process could have continued until the entire freight and also the rail infrastructure would have been in the hands of the concessionaire. He could then have agreed with the government to run the passenger trains on a contract basis and dealt with the rail workshops and garages in the process. Incidentally, the threat to the operation of the passenger service may explain why no one, contrary to public pronouncements, really had interest in privatizing the railways. A computerized ticketing and reservation system was developed under the loan. Its use was, however, discontinued because it prevented corrupting the passenger fares. It was suggested that the ticket sales persons had to buy their jobs from powerful politicians or managers. Other counteracting factors were also mentioned in discussions: housing, partial support for the utility bill and other perks to high-level (PR) managers; and, the high cost of locomotives, half of which is believed to be rent-seeking.

involved in the diagnosis process itself” and “the consultant’s expertise lies in his or her ability to involve the client in defining the problem, and in structuring the relationship such that the help provided is genuinely relevant to the client’s needs.” It is not suggested that the process consulting need not have substantive content; the issue rather is what is the substantive content.

### **Technical Assistance for KPT: Process Consultation**

3.14 The project successfully implemented technical assistance to KPT principally through covenanted studies. Activities and studies, some funded by the loan, were required concerning tariffs; international trade procedures and facilitation; KPT productivity targets; repair and replacement of KPT’s equipment; asset revaluation; computerization; KPT master plan; private participation in general and bulk cargo handling; transfer of such operations to the private sector; KPT staff training in marketing, computer use, operations and maintenance; environment protection and pollution control in the port; and so on, altogether over 20 of them. While the wisdom of having the studies as loan covenants may be questioned, because they have rarely worked, they worked with KPT. Unintentionally, it seems, the client and the consultant used the studies together. The objective or the intervention was not known beforehand—the concept of the landlord port took hold in the Bank later—and by not knowing the answer or specific objective, and taking the study route, the Bank avoided incongruous interventions and fully involved the client because all the studies were client-led.

3.15 Interestingly, there seemed to be no specific logical sequence in the studies, except that an action plan was not scheduled before study; no detailed Bank-approved terms of reference was written; many of the studies were not completed on time; and few actions were taken on them during the project. After project completion, KPT put things together: it adopted the landlord port concept, concessioned a container terminal and is advertising another, improved port productivity (at completion there were 13 moves/hr in the container terminal, now the figure is over 20), established container freight stations (CFS) at the port and inland, is improving port land access, has the physical facilities in good order, is pushing forward the ‘shore-to-gate’ agenda, and so on. Finally, and most important, KPT is financially profitable and can self-finance a large share of its investment needs; its debt equity ratio is only 0.11 and the working ratio is approximately 0.65.<sup>13</sup> The ICR infers that these changes were due to competition from the Port of Qasim, but that is conjecture. To wit, road transport has long competed with rail; improved competition and service, and gains in the freight market share were within PR’s reach; many other ‘carrots and sticks’ were present. Nothing happened. A strong case can be made that the causal difference between KPT and PR projects lies in the mode of TA: in KPT it resulted in increased management ownership and greater absorption of content; in PR, TA was unable to open management and operations to restructuring and commercialization.<sup>14</sup>

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13. See, however, Annex 1 in the SAR. The Annex and the SAR indicate that there were thorough discussions at appraisal and in a post-appraisal mission that framed the dimensions of the overall “action plan”. The details were left for KPT and its consultants to define. Also, KPT was profitable before the project and the covenanted tariff increases helped solidify its financial position. It is possible that the tariffs could be used to reduce the storage and the ‘shore to gate’ time.

14. In fairness, the two cannot be directly compared since the extent of problems at PR were substantially deeper than those at KPT, the institutional structure more fossilized and the reforms proposed more disruptive to entrenched management interests at PR than at KPT.

3.16 This is not to say that all is well at KPT. First, the container dwell time remains high (on average 12 days at KPT vs. 4 days at Qasim) and nearly half of the KPT revenue comes from storage charges. This issue is being addressed, but with little success because the high storage time stems from contested goods that customs is not processing. Reasons, including dysfunctional relationships and rent-seeking, behind laggard 'shore-to-gate' productivity must be found and corrective actions taken.<sup>15</sup> Second, although significant steps have been taken to reduce labor at KPT, it still is responsible for an excessively large labor force, and the Dock Labor Board at KPT is a powerful organization. Within reason, continued labor reductions are needed to improve productivity at KPT, including corporatization of port services. And third, the biggest problem at KPT (and at Qasim) is the lack of traffic. Port traffic has not grown at the anticipated rate and, furthermore, both KPT and Qasim indicated they could double their capacity on short notice. Although the lack of traffic, deriving from the lack of industrial production, does have a transport dimension—involving rail and road—it does not include the capacity or performance of Pakistan's ports. While storage is a significant source of revenue for KPT, there also are costs, and storage appears to crowd out other revenue earning activities, notably the CFS and traffic.

## 4. Achievement of Project Objectives

### Physical Objectives

4.1 The objectives relating to maintenance and rehabilitation of national roads were achieved. The ERR for the Fourth Highway Project was estimated to be 30.5 percent, vs. 27 at appraisal; for the highway components in the Transport Sector Project the ERR was estimated to be 50 percent, vs. 51 at appraisal (the scope of the *ex-post* ERR is 60 percent larger than at appraisal); for the railway components the respective figures were 35 and 25 (the scope of the *ex-post* ERR is 70 percent smaller than at appraisal). In the Port Modernization project, the ERR was estimated to be 22 percent, vs. 34 at appraisal. The reduction is solely due to the barges that have not been delivered, making the use of small barges mandatory and causing the dredger to operate below its capacity.

### Institutional Development

4.2 Institutional development has been discussed at length in the previous section. To reiterate, the technical assistance programs, except the railway TA, were successful. With the qualifications already discussed, tangible progress was made **toward the achievement of the projects' institutional development and policy objectives** with respect to organization, management systems, staff training, local contractor development, and privatization in roads and ports. There were delays, but the issues were difficult. Little to no progress was made in traffic safety and management of provincial roads, and in trade facilitation.

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15. Trade facilitation was a covenanted component in the port project. Because of turf issues in the Bank, customs operations were removed from it and as there also was client resistance, and not much was accomplished. Trade facilitation is the centerpiece of a recently negotiated TA Credit. The port facilitation and custom reform component will be included in the proposed follow-on 'Karachi Port Development Project'.

## Sustainability

4.3 The highway projects have contributed to the development of Pakistan's road network. The quality has been satisfactory and the ERRs high. The NHA is a professional organization that has been able to benefit from TA. Without doubt, the main roads built, rehabilitated or maintained in the highway and transport sector projects will yield sustained benefits. After the closing of the Sector project, GOP approved the creation of a Road Maintenance Fund and the Roads Board at the national level, in July 1999. More recently, NHA has also signed or is in the process of signing toll-financed long-term maintenance and rehabilitation concession agreements for the entire N-5 corridor—the main north-south arterial corridor. Three concerns remain: first, management autonomy and decentralization to bring in local knowledge to improve decisionmaking; second, the skill and will to maintain the road management system and its associated databases and use them in annual and day-to-day decisionmaking; and third, funding to maintain all the roads, not only the main roads. (However, see footnotes 7 and 18 on selectivity).

4.4 In the railways component the goods procured are in service, but only 60 percent of the original plan was completed. The faltered implementation of both the physical and technical assistance components has meant that PR remains a drain on the GOP budget and is not fulfilling its role. Because of political influence in PR financing and operations, tariffs and service, management and institutional development, and the effects of the postponed investments—ostensibly because of the impending privatization—sustainability of the benefits of the railway component are uncertain at best.

4.5 The port project's investments and technical assistance are of high quality, have achieved their expected ERRs, and are being sustained. KPT has competent core staff and improved port performance. There are two concerns: the large labor force supported by the port and the performance from shore to gate, and that essentially means customs and tariffs. Both of these concerns may be addressed in the Karachi Port Development project under preparation.

## General

4.6 If the projects' objectives are looked at from the perspective of the *Seventh Plan* and the Bank's *Transport Sector Report* and the implementing agency's responsibility, they were appropriate and the projects were well executed, save the railway component in the Transport Sector Project. Again, there were delays and shortcomings in the initial highway designs and prequalification of contractors, and there was non-performance with the railways restructuring. The railway issues addressed were deep and broad and expectations for the implementation schedule regarding them were too optimistic. Improvements in the process of change and mode of TA delivery, that is process consulting (as defined by Schein), even using covenants when appropriate, could have promoted deeper institutional change and helped achieve the objectives better. It was inferred that reasonably good TA practice did evolve in the port and also the highway projects to begin to solve the problems as observed.<sup>16</sup> The highway sector would benefit

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<sup>16</sup> Experiences elsewhere suggest that TA in the port project may provide a good model to follow. It functioned as follows. Sensing resistance or lack of direction from KPT, and in absence of agreed upon concepts of how to effect organizational changes, productivity increases, environmental and safety considerations, greater private sector role, and other worthwhile improvements in port operations, the Bank project staff included several client-led and defined studies in the loan. These studies were diligently carried out in consultation with the Bank. KPT was then well prepared to take advantage of the study results, and loan-financed new equipment and better access, to face

from further institutional development consulting and the ports from improved trade facilitation, including customs.

4.7 However, a broader issue can also be raised: Why is it that, taken individually, projects are satisfactory, but when looked at as a program they leave much to be desired? In most cases, including the Pakistan projects, supporting the Bank's overarching mission involves institutional and policy development<sup>17</sup>—not merely building capital facilities, not merely getting the “prices right,” not merely privatizing or commercializing, but rather “getting the institutions right” in order to continually address the “right” issues nation wide and allocate government resources accordingly. Evaluating development also involves measures that may include, but go beyond standard cost-based economic measures like the ERR. These measures may be less “hard-wired” compared to the ERR, but they are nonetheless valid and significant. Among these measures are contribution to poverty reduction, contribution to sustained policy environment, contribution to physical environment, and others. This audit argues that the policy environment has not improved substantially in Pakistan's transport sector. Expensive road projects—without Bank support—with no economic return have been implemented; the tremendous economic potential of the railways remains unexplored and consequently they are a drain to taxpayers; ports with modern facilities are underutilized because of lack of access, rent-seeking customs procedures, excessive labor force, and sluggish private sector development in the economy. Thus, while the Bank-supported projects have been worthwhile and task managed conscientiously and well, there is the larger (managerial) question of whether the Bank should have been involved in those projects in the way it was involved.

4.8 Two concrete examples help describe this. After the open train access policy was formulated, and presumably after the high-level seminar where it was decided to pursue an organization model whereby infrastructure and train operations were to be separated into different business groups, PR sent letters to potential interests to operate trains on PR tracks. More than one private actor said—showing the letter—that the day the government is not involved in rail infrastructure, they will invest in running trains but not before. Another group, representing several industries, made a convincing presentation of the costs infrequent and unreliable container train service has to them, and how this has led to abandoning the railway service in favor of more expensive trucks. So, in a nutshell, the issue is how to modernize government departments to provide responsive, high-quality service to customers, maintain and expand the infrastructure, and provide value for money.

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competition from Qasim. A concessionaire is now operating a container terminal at KPT with apparent success. And, KPT is planning another container terminal concession and has decided to finance the Karachi northern by-pass to improve access to port from the main Karachi-Hyderabad highway (The News, Karachi Edition, Sept 8. 1999). — This model is the same that worked well in Yemen (Performance Audit Report of Five Highway Projects, Report No. 15752) and what I articulated in “International Experiences in Restructuring the Road Sector.” *TRB Record No. 1558*, pp. 99-116. (1997) National Academy Press. Also see, DFID (Parkman C., K. Madelin and R. Robinson, 1999) *Improving the delivery of road maintenance* (Unpublished report, August 1999), TRL Ltd, UK. For successes and failures of content-expert and ‘doctoring’ consultation models, see PAR, Thailand (four roads and one railways project), Report No. 16733, and PAR, Indonesia, Report No. 19099 (two road, two urban transport, and one railways project).

17. Institutional and policy framework refers to organization of sector institutions; decentralization and central-local decisionmaking/responsibility arrangements; private sector role, including concessioning and contracting; road classification and ownership; financing and cost-recovery, including allocation of funds between road classes; citizen and user participation; sector investment and development strategy; and, codified ways of dealing with environment, traffic safety, nonmotorized transport and equity.

## 5. Project Performance — The Ratings

### Ratings

5.1 The audit's ratings for the three projects are shown in Table 5.1 along with the ratings in ICR self-evaluation and OED ICR review. The changes in ratings are indicated in boldface type. The audit rates outcomes as satisfactory for the Fourth Highway and Port Modernization projects and marginally satisfactory for the Transport Sector project. Sustainability is rated as likely and institutional development as substantial for all the projects. As mentioned earlier institutional development was negligible for the railways component of the Transport Sector project, although many useful studies were undertaken. Bank and borrower performances are rated satisfactory.

5.2 The changes the ICR ratings and the reasons for them are as follows. The outcome of the Transport Sector Project is upgraded to marginally satisfactory because, after restructuring, the successful highway component used the majority of the loan funds. This is not to say that the outcome of the railway component was not unsatisfactory. It was. The port project's institutional development is upgraded to substantial because of post-project privatization of container terminal operations and the other steps taken toward converting KPT to a "landlord port," including improvements in its accounting procedures and asset revaluation.

### Bank Performance

5.3 The performance of Bank project staff in the projects was satisfactory. The highway and port projects were implemented with satisfactory quality. Local construction industry was developed. Technical development programs for organizing the NHA and for road management systems, and port planning and port concessioning—all time-consuming and complex tasks—have progressed satisfactorily, and the Bank's capacity to assist in these programs is beneficial to the borrower. However, there were disappointments: traffic safety program did not materialize; assistance to provincial roads met with resistance and failure; railway commercialization did not progress although useful and necessary studies were undertaken and the Bank's project staff was useful and established a meaningful rapport in railway technical assistance.

5.4 There is a question, however, whether the Bank succeeded in formulating the highway and railway projects' concepts so that they befitted the institutional and governance issues, the problems on the ground, and the Bank's overarching objective of poverty reduction within a sustainable governance framework. To take just one example, the Fourth Highway Project planned to study the maintenance and institutional issues on Provincial Road Administrations. No such study could be undertaken because of local resistance. The sources of this resistance were not followed up in the subsequent Transport Sector Project that provided the appropriate sectoral context. No partnering with USAID and ADB—both active with provincial roads—was pursued. Addressing the institutional and policy framework for lower-class roads is difficult anywhere. Undoubtedly the choices regarding the management and financing of provincial and rural roads presented to the Pakistan government were difficult, not only because they involved different levels of government but also because they involved different ministries at the federal level and would have required confronting pork-barrel decisions, such as spending money on an

uneconomic motorway. The loan provided a means to keep the institutional and partnering agenda alive; however, that was not pursued.<sup>18</sup>

5.5 Policy dialogue with the GOP on the railway issues was ineffective. Undoubtedly this was due to the changes in governments and policies, but instead of embracing railway policy issues broadly in all their ramifications, the project correspondence limited the dialogue to the Bank-defined agenda. There are no references to GOP defined agenda or sector-wide policy discussions other than complying with the covenants.<sup>19</sup> Even that was ineffective. Without a doubt, there was disagreement between management and Bank project staff of how to deal with the railways, non-compliant with the financial performance and recurrent budget covenants. Staff favored suspension of disbursements and “get tough” attitude, while management pursued a more lenient approach and permitted continued disbursement. The result was that the staff had little leverage in pursuing the action plans that constituted the policy agenda. No success followed. It might have been possible for Bank management to have explored the issues with GOP without confrontation, used covenants as leverage, and engaged GOP in multimodal context on incremental restructuring plans (footnote 12) not only for railways, but also for sector superstructure above the modal agencies, decentralization and governance, provincial and local roads, and private sector development, including rent-seeking.

### **Borrower Performance**

5.6 Borrower performance was satisfactory in the projects. Overall, the borrower worked with the Bank and complied with most covenants, excepting the railways’ covenants. There is a large unfinished agenda in reorganizing the railways, improve trade facilitation, and possibly the provincial and local roads. The borrower faltered seriously in the railway component of the Transport Sector Project; the status quo situation in PR continues. There was little progress to streamline the trade facilitation procedures from shore to gate. And no significant progress was made to restructure the transport sector organizations to permit effective inter-modal and inter-sectoral policy considerations and tradeoffs.<sup>20</sup> It is likely that without addressing the superstructure and decisionmaking practices above the modal agencies, strong but narrow political interests will continue to affect negatively the transport sector performance.

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18. Note, however, the earlier comment on selectivity. Also, sector work on ‘Road maintenance management and financing reform’ using project TA did cover both federal and provincial roads – and was shared with ADB for use in reforming provincial road sector agencies. The partnership with ADB in the road sector has been reactivated in late 1999, but, of course, no results can yet be reported. Nonetheless, this is a very positive development.

19. On policy, the project had conditionalities for financial performance only. PR was successful in arguing against compliance on grounds of weakened competitive position against road transport while at the same time stonewalling PR’s commercialization. It might have been more useful to have study-related conditionalities as in the port project.

20. The creation of the Ministry of Transport was announced at least twice during implementation, but it was not done.

**Table 5.1. Ratings for Outcome, Sustainability, Institutional Development, and Bank and Borrower Performance for the Three Audited Pakistan Transport Projects (changed ratings in bold)**

<i>Project Implementing Agency</i>	<i>Fourth Highway NHA</i>	<i>Transport Sector NHA, PR</i>	<i>Port Modernization KPT</i>
<i>Outcome</i>			
ICR	Satisfactory	Marginally unsatisfactory**	Satisfactory
OED/ICR	Satisfactory	Marginally unsatisfactory	Satisfactory
PAR	Satisfactory	<b>Marginally satisfactory</b>	Satisfactory
<i>Sustainability</i>			
ICR	Likely	Uncertain	Likely
OED/ICR	Likely	Uncertain	Likely
PAR	Likely	<b>Likely</b>	Likely
<i>Institutional Development*</i>			
ICR	Substantial	Substantial	Partial
OED/ICR	Substantial	Substantial	Modest
PAR	Substantial	Substantial	<b>Substantial</b>
<i>Bank Performance</i>			
ICR	Satisfactory	Satisfactory	Satisfactory
OED/ICR	Satisfactory	Satisfactory	Satisfactory
PAR	Satisfactory	Satisfactory	Satisfactory
<i>Borrower Performance</i>			
ICR	Satisfactory	Satisfactory	Satisfactory
OED/ICR	Satisfactory	Satisfactory	Satisfactory
PAR	Satisfactory	Satisfactory	Satisfactory

\*The possible ICR ratings for this dimension are: Substantial, Partial, Negligible. The possible OED ratings for this dimension are: High, Substantial, Moderate, Negligible.

\*\*The ICR self-rates the project as "marginally satisfactory" in the text, but in the rating table no such option exists. The possible ICR self-ratings are: Highly satisfactory, Satisfactory, Unsatisfactory, Highly unsatisfactory.



## 6. Lessons Learned and Recommendations

### Lessons Learned: Technical Assistance

**6.1 Approach to TA.** When the implementing organization is competent and has freedom to act, a content-oriented approach to technical assistance can be effective on well-defined institutional issues. For example, institutional development took place in NHA, but the gains were limited to the problems tackled and important issues went ignored. When issues are complex, as they nearly always are, and even if the organization is competent, process consulting is indicated in TA because the relevant information, a correct diagnosis, and appropriate interventions can only be achieved if the client is fully involved. This was approximately the case with KPT. 'Doctor' consulting failed regardless of client capacity and is, therefore, rarely indicated.

**6.2 Theory of technique.** Looking at TA and country's development needs broadly, the Bank needs to evolve and codify a new way of working with the client in change process. This could be called '*theory of technique*'.<sup>21</sup> The delays with the action plans, ineffectiveness of TA, or undesired effects and side-effects due to errors of omission and commission, are indicative of insufficient understanding of the client's problems (also by the client) or of conceiving them too narrowly. It is necessary to structure the Bank-client relationship—itsself an intervention—in a way that involves the client in defining the problem, studying it, and developing interventions that are genuinely relevant to the client's needs.<sup>22</sup>

**6.3 Project concept.** Approaches to improving service delivery organizations as government departments do not work. The extensive efforts in this and predecessor projects, and numerous projects elsewhere, demonstrate that improving the performance of a parastatal organization needs to culminate in its privatization—the quicker the better.<sup>23</sup> Sustainability is ensured only when there is competition, accountability, and incentives to go after, be responsible for and keep the benefits from productivity improvements. NHA, KPT, and PR are concrete examples.

### Recommendations

**6.4 Roads are still unsatisfactory in Pakistan.** NHA is a competent agency, but the institutional and policy framework (for definition see footnote 17) within which it operates prevents it from making good decisions. PR infrastructure, operations, services, and planning are affected by misaligned institutional incentive structures, unclear contractual relationships, lack of

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21. In a recent Bank-sponsored seminar, Douglass North named learning about and understanding of the 'change process' to be at the cutting edge of development theory. 'Theory of technique' is a more appropriate term because it runs through all the activities from data collection to monitoring results and implies that change process is not only observable but also can be influenced.

22. It is suggested here that working with the client using correct *theory of technique* is the critical factor in development and change, and for scaling up. Quick fixes such as "new instruments" [from innovation market place] to eradicate poverty or cause behavior changes will not work alone.

23. The 'end game' would need to be different for individual sectors: full privatization for railways; a landlord port role for Karachi and Qasim; and an autonomous NHA (and provincial road agencies) with private sector service delivery for most operations.

managerial independence, and unfunded service obligations. Trade facilitation, including customs, excess labor, and private sector participation persist as concerns for KPT. The Bank should continue to work with the GOP in the road and port sectors and begin anew in rail and provincial and rural roads. Among the priority issues to be addressed in the transport sector are:

- *Definition of the roles of the sectoral institutions.* Several entities—MOC, NHC, NHA, MLG, C&WD, MOR, PR—have an important but overlapping roles, or cooperation between them is arranged through ministerial committees. The institutional responsibilities need to be thoroughly studied and intersectoral decisionmaking clarified.
- *Sectoral performance indicators.* The paradox that projects are satisfactory but the program fails to achieve desired outcomes applies in Pakistan. It must be faced squarely. One important way to do so is to develop sectoral performance indicators, both quantitative and qualitative, that can be used to identify needs, evolve project concepts, and broadly gauge movement toward desirable ends. The indicators should have a view toward the sector's "graduation," that is, to overcome dependency on aid and begin independent functioning.
- *Privatization and "pruning" of PR, now.* The matter has been studied sufficiently. Progress consulting is indicated to involve the government, the private sector, PR, other affected interests, and civil society to register and monitor their points of view and concerns so that a realistic privatization model and rail track abandonment can be pursued.
- *Development of a policy framework for roads, and progressive commercialization of road administrations' service delivery.* There should be a management umbrella, with appropriate road-user representation, on the roads managed by the five organizations, MOC, NHC (if its existence is justified), NHA, C&WD, and MLG so that investment decisions are consistent, regionally fair, adequate resources are allocated to construction, maintenance and operation, and that intersectoral and equity considerations are taken into account.
- *Further commercialization of KPT.* KPT management should vigorously pursue the "landlord port" concept and adopt commercial management principles in all its operations and asset management—the container and bulk cargo ports, real estate assets, and so forth, and revalue assets continuously. With regard to labor, KPT should continue to improve its labor productivity without abandoning social responsibility.
- *Shared power.* Current transport sector institutions lack sufficient communication with important sectoral actors. Increased partnering should be sought with the Ministry of Petroleum and with government and nongovernmental environment bodies on clean fuels and other environmental matters; with local universities and research institutes (e.g., in pollution control, traffic safety, management systems, data analysis, and training courses for these activities, etc.); with user groups (e.g., regular meetings and joint training activities with the trucking association, other road users, the shippers council, the police regarding enforcement and traffic safety, axle-load control, regulation, etc.); and with the private sector (land use, economic development, trade facilitation, contracting and consulting industry practices, etc.).

6.5 Four technical content issues require urgent attention:

- *Development of data services and completing the management systems.* The availability and application of compatible data and road management systems in NHA and C&DW is necessary. There also is a need to improve current data services, with regard to traffic counting, axle loads, road condition, and cost and price information.
- *Human resources development.* NHA, KPT, and PR have capable professionals. These technical skills must be maintained and updated by continuous training and by creation of an institutional environment and practices that value and reward technical and professional excellence. A twinning partner would be highly desirable for NHA and KPT. Training of management at all levels is also important. This probably is best done in the context of eventual studies on sectoral organizations and the policy framework because the evolving partnerships and organizations require interpersonal skills and decisionmaking capability.
- *Environment and traffic safety.* Comprehensive programs in environmental protection and pollution control, traffic safety, and axle-load control need to be developed in NHA and C&DW.
- *Functional and administrative classification of roads. Size of the network.* The modernization and expansion of the NHS and of the provincial road network necessitates a review of the classification of the entire road network. The size of the network is also an important issue. Some suggest that Pakistan's road network length is adequate and focus should now be on maintenance. This claim should be examined carefully. Resolution of this issue has implications for funding of all the roads.

## Basic Data Sheet

### KARACHI PORT MODERNIZATION PROJECT (LOAN-3335-PAK)

#### Key Project Data (amounts in US\$ million)

	<i>Appraisal estimate</i>	<i>Actual or Current estimate</i>
Total project costs	91.4	71.5
Loan amount	91.4	91.4
Cofinancing		
Cancellation		16.0
Date physical components completed		
Economic rate of return	22%	34%

#### Cumulative Estimated and Actual Disbursements

	<i>FY92</i>	<i>FY93</i>	<i>FY94</i>	<i>FY95</i>	<i>FY96</i>	<i>FY97</i>	<i>FY98</i>	<i>FY99</i>
Annual Appraisal Estimate	14.9	50.4	77.0	89.0	91.4			
Actual	1.3	12.4	28.7	40.3	47.1	49.9	61.7	71.5
Actual as % of Estimate	8.7%	24.6%	37.3%	45.3%	51.5%	54.6%	67.5%	74.0%
Date of Final Disbursement	Dec 1998							

NOTE. US\$16.0 million was cancelled in mid-1998

#### Project Dates

<i>Steps in project cycle</i>	<i>Date planned</i>	<i>Date actual</i>
Identification (Executive Project Summary)	January 1988	January 1988
Preparation	May 1987 – June 1988	May 1987 – June 1988
Appraisal	June 1988	June 1988
Post-Appraisal		December 1990
Negotiations		April 1991
Board presentation	January 1989	May 1991
Signing		November 1991
Effectiveness		February 6, 1992
Project completion	December 1996	January 31, 1999
Loan Closing	June 30 1997	June 30, 1998

#### Staff Inputs (staff weeks)

<i>Stage of project cycle</i>	<i>Actual</i>	
	<i>Weeks</i>	<i>US\$</i>
Through appraisal	54.5	128.9
Appraisal-Board	119.5	323.9
Negotiations through Board Approval	16.9	48.5
Supervision	148.9	416.6
Completion	12.1	46.5
Total	351.9	964.4

## Mission Data

Stage of project cycle	Month/year	No. of persons	Staff days in field	Specialization skills represented	Performance rating		Types of problems
					Implementation status	Development Objectivest	
Through Appraisal	11/75	3	8	TE,FA,TN	-	-	-
	3/76	1	4	TE	-	-	-
	10/87	2	17	PE,TE	-	-	-
	3/88	7	26	PE, TE, EN, CS, TN, FA, CH	-	-	-
Appraisal through Board Approval	6/88	6	27	PE,TE,TN,FA,ER,TF	-	-	-
	5/89	2	16	PE,TE	-	-	-
	10/89	2	10	PE, TE	-	-	-
	6/90	1	8	PE	-	-	-
	11/90	4	30	PE,FA,TE,PO	-	-	-
Supervision	12/91	1	6	FA	2	1	M,P,S.
	10/92	2	17	PE, PO	2	1	C,M,P,S,E
	3/93	2	14	PE,PO	2	1	C,M,P,S,E
	3/93	2	14	PE,PO	2	1	C,M,P,S,E
	7/93	1	8	FA	-	-	-
	11/93	2	14	PE,PO	1	1	-
	5/94	1	15	PE	2	1	M,P,T,T,A,S,E
	7/95	2	5	PS,TE	S	S	M,P,T,T,A,S,E
	3/96	4	14	PE,TE,PD,TN	S	S	M,P,T,T,A,S,E
	3/97	1	4	PE	S	S	-

## Notes:

Ratings:	Minor Problem: 1; Moderate Problem: 2; Major Problem: 3 Highly Satisfactory: HS; Satisfactory: S; Unsatisfactory: U; Highly Unsatisfactory: HU
Specialization:	Port Engineer (PE); Transport Economist; (TE); Cargo Handling Specialist (CH); Environmentalist (EN); Computer Specialist (CS); Transport Engineer (TN); Financial Analyst (FA); Trade Facilitation Expert (TF); Equipment Repair Specialist (ER); Project Officer (PO); Port Specialist (PS); Private Sector Development (PD)
Problems:	Covenant Compliance: C; Management Performance: M; Procurement process: P; Environment Aspects: E; Studies Progress: S; Training Progress: T; Technical Assistance Progress: TA.

## Basic Data Sheet

### TRANSPORT SECTOR PROJECT (LOAN 3241-PK)

#### Key Project Data (amounts in US\$ million)

	Appraisal estimate	Actual or Current estimate
Total project costs	184.0	150.2
Loan amount	184.0	150.2
Cofinancing		
Cancellation		
Date physical components completed		
Economic rate of return		54%

#### Cumulative Estimated and Actual Disbursements

	FY91	FY92	FY93	FY94	FY95	FY96	FY97	FY98	FY98
Annual Appraisal Estimate	7.40	33.10	71.80	106.70	149.00	184.00	-	-	-
Formally Revised	-	-	-	-	-	126.47	141.48	161.34	-
Annual Actual	0.00	31.86	47.25	76.88	108.73	126.45	140.65	148.72	150.24
Actual as % of Estimate	0	96	66	72	73	69	76	81	82
Actual as % of Revised	-	-	-	-	-	100	99	92	93

#### Project Dates

Steps in project cycle	Date planned	Date actual
Identification (Executive Project Summary)		February 9, 1990
Preparation		
Appraisal	February 21, 1990	February 21, 1990
Negotiations	May 25, 1990	May 29, 1990
Board presentation	June 28, 1990	June 28, 1990
Signing		July 27, 1990
Effectiveness		February 26, 1991
Mid-term review – railway component	October 1992	October 1992
Mid-term review – highway component	October 1992	February 1993
Project Closing	June 30, 1996	June 30, 1998
Loan Closing	June 30, 1996	June 30, 1998

#### Staff Inputs (staff weeks)

Stage of project cycle	Actual	
	Weeks	US\$
Through appraisal	247.3	462.9
Appraisal-Board	47.4	111.5
Negotiations through Board Approval	8.2	19.6
Supervision	292.4	598.4
Completion	22.3	56.4
Total	617.6	1248.8

## Mission Data

Stage of project cycle	Component Addressed	Month/year	No. of Persons	Staff days in field	Specialized Skills Represented	Performance rating			Types of problems	Remarks
						Implementation status	Development Objectives	Covenants		
Through appraisal	A	February 1985	2	15	EC					
	A	March 1986	4	18	EC					
	A	August 1986	2	3	FA, PE					
	A	April 1988	3	18	EC, RS					
	A	July 1988	2	5	EC, RS					
	A	December 1988	7	20	EC, RS, LOC, WCS, TS, MIS					
	A	May 1989	6	18	EC, RS, PA, HE, PE, PO					
Appraisal through Board Approval	A	March 1989	1	3	EC					
	A	October 1989	6	15	EC,RS,HE,PE					
	A	February-March 1990	9	16	EC,RS,HS,PE,HE					
	A	September-October 1990	4	30	EC(tm) RS,HE, PA	1	1	1	1	AM#1
	A	April-May 1992	6	40	EC(tm), RS(2), PA, FA, HE	2	2	2	1	AM#2
	A	November-December 1991	6	20	EC (tm), PA, FA, HA, HE, PO	2	2	3	I,F,C,	AM#3
	A	April-May 1992	5	30	EC (tm), RS, PS, HE (2)	2	2	3	I,P,F,T, C	AM#4
	TS	June-July 1992	5	11	EC,RS,TS,A	not available	not available	Not available	I	AM#5
	R	October-November 1992	6		EC(ml), RS(2), FA, TS, PS	not available	not available	not available	I,F	Mid-Term Review Railway Component, AM#6, 590 with AM#7
	H	January-February 1993	4	10	EC,PA,HE(2)	2	1	2	I,P,T	Mid-Term Review Highway Component, AM#7
	R	October 1993	1	13	RS	2	2	3	I,F,C	AM#8
	A	December 1994	5	3	RE,PA,HE,RS				I,F	
	H	February 1994	3	18	PA,EC,HS	2			I,P,F	No BTO

Stage of project cycle	Component Addressed	Month/year	No. of Persons	Staff days in field	Specialized Skills Represented	Performance Rating			Types of problems	Remarks
						Implementation status	Development Objectives	Covenants		
	R	May-June 1994	3	13	EC,RS,FA	S	S	3	C	AM#10 Told in default on two covenants
	H	December 1994	3	9	ENG,HE (2)	S	S	3	I,T	Labelled as AM#10, really is AM#11
	R	March-April 1995	3	12	FA,EC,RS	S	S	3	I,F	Labelled as AM#11, really is AM#12



## Basic Data Sheet

### FOURTH HIGHWAY PROJECT (LOAN 2814-PAK)

#### Key Project Data (amounts in US\$ million)

	<i>Appraisal estimate</i>	<i>Actual or Current estimate</i>
Total project costs	284.7	280.7
Loan amount	152.0	152.0
Cofinancing		
Cancellation	-	1.9
Date physical components completed		
Economic rate of return		30.5%

#### Cumulative Estimated and Actual Disbursements

	<i>FY88</i>	<i>FY89</i>	<i>FY90</i>	<i>FY91</i>	<i>FY92</i>	<i>FY93</i>	<i>FY94</i>	<i>FY95</i>	<i>FY96</i>
Annual Appraisal Estimate	10.6	33.4	63.8	94.2	120.1	138.3	149.0	152.0	152.0
Annual Actual	9.4	17.6	30.8	43.7	72.9	96.4	120.5	142.3	152.0
Cum. Actual as % of Estimate	89%	53%	48%	46%	61%	70%	81%	94%	100%
Date of Final Disbursement	May 14, 1996								

#### Project Dates

<i>Steps in project cycle</i>	<i>Date planned</i>	<i>Date actual</i>
Identification	June 1984	August 1986
Preparation	-	-
Appraisal	-	October 1986
Negotiations	January 1987	March 1987
Board presentation	March 31, 1987	May 14, 1987
Signing	July 1987	September 10, 1987
Effectiveness	July 1987	November 16, 1987
Project completion	December 31, 1994	December 31, 1995
Loan closing	December 31, 1994	December 31, 1995

**Staff Inputs (staff weeks) (not completed in the ICR)**

<i>Stage of project cycle</i>	<i>Actual</i>
Through appraisal	
Appraisal-Board	
Board-Effectiveness	
Supervision	
Completion	
Total	

**Mission Data**

<i>Stage of project cycle</i>	<i>Month/year</i>	<i>No. of persons</i>	<i>Staff days in field</i>	<i>Specialized staff skills represented</i>	<i>Performance rating</i>		
					<i>Implementation status</i>	<i>Development Objectives</i>	<i>Types of problems</i>
Through appraisal	Sep-Oct 86	2	24	T,E			
Appraisal through Board approval							
Board approval thru' effectiveness							
Supervision 1							
2	Oct 87	1	14	T	1		I, P, F
3	Jan-Feb 88	1	12	T	1		I, P, F
4	May-Jun 88	1	16	T	1		I,P,F,T
5	Oct 88	1	16	T	2		I,P,F,T
6	Feb 89	1	18	T	2		I,P,F,T
7							
8	Sept-Oct 90	3	14	T,E,F	3		I,P,F,T
9	Apr-May91	2	15	T,E	3		I,P,F,T
10							
11	Apr-May 92	3	18	T	2		P,T
12							
13	Feb 94	4	18	T,E	2		I,F,T
14	Dec 94	3	12	T	1		I,F
Completion	Oct-Nov 95	5	18	T,A			I,F

**Key: Staff Skills Represented:**

T = Technical    E = Economist  
F = Finance    A = Administrative

**Type of Problems:**

I = Institutional    F = Financial  
P = Physical    T = Technical

Comments from the Borrower



SECRETARY

**Privatization Commission**  
Government of Pakistan

No. F.20(36)PR-97

Islamabad, January 31, 2000

Subject: Draft Performance Audit Report – Transport Sector Project (Loan 3241-Pak)

Dear Mr. Ingram:

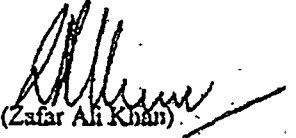
This is with reference to your letter dated January 6, 2000, enclosing the draft Performance Audit Report on the subject project.

2. Following are the comments of Privatisation Commission with regard to the Railway component of the Transport Sector Project, with which it was associated:

- a. Privatisation Commission believes that the institutional reform, corporatisation and privatisation of Pakistan Railways (PR) was not conceived adequately, resulting in lack of commitment on the part of the Government;
- b. There should have been clear upfront actions and milestone events, which should have been the basis for steering the progress on the project; and
- c. In projects where the future events or outcomes could not be precisely predictable, "process consultation" approach is clearly preferable.

Kind regards.

Yours Sincerely,

  
(Zafar Ali Khan)

Mr. Gregory K. Ingram, Manager  
Sector and Thematic Evaluations Group  
Operations Evaluation Department  
The World Bank  
Washington DC  
Fax: (202) 477-6391

PAKISTAN RAILWAYS

HEADQUARTERS

OFFICE  
LAHORE.

NO. 10-DGM/Privatization/2000. Lahore dated 31-1-2000.


The Manager,  
Sector and the Matice.  
Evaluation Group Operations  
Evaluation Department,  
1818 H Street N.W.  
Washington D. C. 20433  
U. S. A.

SUB: REG PAKISTAN: FOURTH HIGHWAY  
PROJECT ( LOAN 2814-PAK ) TRANSPORT  
SECTOR PROJECT ( LOAN 3241-PAK ) KARACHI  
PORT MODERNIZATION PROJECT ( LOAN 3335-PAK )  
DRAFT PERFORMANCE AUDIT REPORT.

Ref: Your letter dated 6-1-2000.

Comments on the Draft Performance audit report received  
vide your above mentioned letter are sent herewith.

DA/A: me

  
( MISBAH-UL-AZIZ )  
Deputy General Manager.

Following main issues have been raised and commented upon by the Auditors in the subject report. Comments on each issue/area are offered against each.-

# 1. OVER ALL SUCCESS OF THE PROGRAMME.

As far technical assistance and institutional development most of the World Bank funded programmes are said to have been implemented successfully. However, the other main areas of World Bank programme which lacked from the point of view of World Bank are commercialisation of railway operations, competition in the railway operations and its privatisation, all of which concern GOP as these are policy issues for which decision can only be taken at the highest level of the government.

Although the Auditors have declared the Transport Sector Project (of which railway component was to 2<sup>nd</sup> major part) an overall success yet they have expressed dis-satisfaction over success of the of the Railway Programme mainly on account of insufficient progress (as they put it) in the area of Institutional Development on Railways. However, there are many contradictions in the report. For instance inspite of the fact that ERR at appraisal stage was 25% but actually turned out to be 35%. Inspite of this, the project is being labelled as un-successful. Further more, the lack of success in Institutional Development has been attributed to "resistance to change by Pakistan Railway management". At the same time, the Auditors have stated that Pakistan Railways have capable professionals and have further recommended that "their technical skills must be maintained and updated by continuous training and by creation of an Institutional environment and practices that value and reward technical and professional excellence." (reference

para-20 of the report). In fact, the real cause of lack of success in the Institutional Development as identified by the Auditors was the one-sided approach of the World Bank appointed consultant on Institutional Development.

### INSTITUTIONAL DEVELOPMENT

The Auditors have generally declared the Transport Sector Project as a success except for Institutional Development in the Railway Sector. Although they have blamed 3 main factors for this failure i.e. lack of government commitment, changing policies and priorities and management resistance. Again, there is a contradiction in the report when it states that legitimate process of change is taking place (reference para 3.6 page-8) On the other hand, the Auditors have themselves blamed the "get tough attitude of the World Bank" for failure in this area. They have rightly suggested that for such matters the bank should evolve and codify a new way of working with the clients in Institutional Change Process which should be structured in a way that involve the client in defining problems, developing environments that are genuinely relevant to the clients needs (refer page2 para 3)

The core investment programme of the World Bank was formulated by them without involving the borrowers, so much so, that in the initial stages, projects like introduction of AC-AC traction in the Diesel Electric locomotives (which had not even been sufficiently tried out ) in the developed railways at that time were being forced on the Railways. The main requirement at the time of starting this Transport Sector Project(railway component was new locomotives) which was also initially agreed by the World Bank, but once the AC-AC traction was opposed by the Railway on technical grounds already stated above, the World Bank did not support our new locomotive programme with the result that induction of 30 new locomotives of 3000 HP got delayed by almost 5 years and the railway in the meantime lost at least 2 billion tons of freight traffic every year during this period.

As for institutional development, the completion report says that "no tangible institutional development took place in the Pakistan Railways" because of the lack of Government Commitment, changing priorities of GOP and management resistance. These remarks appear to be contradictory because 130 years old railway organization was re-structured completely on the advice of the World Bank consultants on Institutional Development and new system also worked for 15 months but did not deliver the goods. Serious operational difficulties were experienced due to defective organization prepared by the consultants which could have been avoided, had the said consultants gave weightage to the views of the senior railway officers at the time of preparing the new organization. The auditors have also pointed towards this failing and suggested that the World Bank should prepare the projects by fully involving the borrowers at preparation stage so that these suit the requirements of the borrowers and also implemented smoothly. Same goes true for institutional development as any change can only be brought about if the recipient understands its benefits and is willing to implement.

The recommendations of Auditors that bank more clearly attribute its work on Institutional capacity and policy development and on "reducing rent-seeking". It may be mentioned here that the all tenders of World Bank programme were approved at the level of Railway Board which was the highest forum of the Railways. All tenders of high value were then also approved by the Bank itself. So the remarks regarding rent-seeking appears to be uncalled for.

### **3. GOODS AND SERVICES PROCURED**

Only 60% of the goods and services could be procured under the project mainly on account of diverting US\$ 11.5 million from the Railway component to other components and lack of matching funds from GOP. Railway Administration could not be held responsible for either of these. This of course affected seriously

in some of the important areas of Railway Development, such as induction of high capacity wagons and MIS. Inspite of this a reasonable ERR was achieved.

### PRIVATISATION OF RAILWAY.

The Auditors have rightly pointed out that expensive road projects have been implemented in the past with no economic return ignoring tremendous potential of the railways thereby putting the burden on the tax payers. Presently, railway is using only about 50 to 60% of its existing infrastructural capacity, mainly on account of the constraints of locomotives, rolling stock and funds needed for its operation. The un-utilized capacity can be used with advantage (specially in the freight sector) through RECO concept by involving private operators who can be asked to run their own trains by paying "track access charge" to the railways. This will not only provide modernized and efficient services (though these are likely to be at a higher premium due to extra investment) but will also enable additional earnings to the Railways which will bring down P.R's cost of operation. International tenders in this regard were issued in 1996 and very attractive offers were also received but these could not be finalized for the reasons best known to PPIB/Privatization commission who were dealing with the matter. One of the reasons was lack of "specialist expertise on the matter either with PPIB or Privatization Commission. Any re-initiation of RECO would not only improve availability of efficient rail services but also improve financial problems of railways.