Board Meeting of Thursday, April 10, 1997  
Statement by Mr. Godfrey Gaoseb  

**Pakistan: Country Assistance Strategy**

1. We find the CAS document candid and it provides clear diagnostic analysis to the challenges confronting the Pakistan authorities. We endorse the proposed strategy and commend staff for the high quality of their work.

2. It is clearly evident that addressing the country's economic woes requires bold and far-reaching reform programs. Stringent corrective measures are needed on a number of fronts, particularly in the fiscal, taxation, monetary and banking fields, as well as in the area of poverty reduction. The governance issue also clearly features in the areas where more needs to be done.

3. The comprehensive program developed by the interim government under the leadership of Mr. Shahid Burki lays a solid foundation on which the newly elected government can rely to put the economy back on track. The measures announced by Prime Minister Nawaz Sharif immediately after taking office, are welcome and we hope they will be strengthened in the context of the on-going dialogue between the government and the Fund to reactivate the December 1995 Stand-by-arrangement (SAB).

4. Fiscal reform should be the centerpiece for the reform program as most of the ills the country is suffering from emanate from the serious internal imbalance. In this regard, we are pleased with the emphasis of the CAS on revamping the tax system and the federal/provincial revenue arrangements. It is also imperative that besides reforming the tax system, exemptions and non-economic expenditures should be reduced and strictly controlled. Closely related to this is the issue of reforming the banking system which is beset by political interference, mounting non-performing loans and negative rates of interest. In this respect, we welcome the commitment of the new government to banking reform and strongly support IBRD's involvement in reforming the banking sector. We are also pleased to note that an ordinance has already been issued by the new government to strengthen the autonomy of the Central Bank by giving it the sole authority to regulate the banks.

5. Reforming the agricultural sector, which is one of the major problem areas, is critical to the success of the policy reforms. Besides shifting management responsibilities to the farmers' groups, appropriate mechanisms for taxing this sector need to be developed. Given the
importance of this sector to growth and poverty reduction, we believe that IDA’s project to support the National Drainage Program and the envisaged IBRD’s Agricultural Sector Investment Project are well in place.

6. We note with satisfaction the progress made in the area of privatization and encourage the government to strengthen the process through the measures cited in paragraphs 17 and 18. As for the infrastructure sector, while we endorse IBRD/IDA’s catalytic role in mobilizing private investment, we note that no mention has been made of rural infrastructure which is critical for rural development and poverty reduction. We would appreciate some clarification from staff on the envisaged role of the Bank Group in this area.

7. On portfolio management, the doubling of the number of projects rated unsatisfactory during the last two years, is a cause of serious concern. We feel that the Bank should intensify its dialogue with the authorities to correct the situation. In this regard, while we welcome the Resident Mission’s increased role, we believe that Bank Management should also have a proactive role, given the political dimension surrounding the performance of these projects.

8. In terms of the lending scenario, we have no difficulties with the proposed level of lending cited in paragraph 24 nor with the triggers.

9. In conclusion, we hope that the government will take some bold measures to allay the fears about the high risks of faltering in implementing the reform program developed by the caretaker government. We feel that adherence to that program will avert any possible fiscal, balance of payment and banking crises. We wish the Pakistan authorities all the success in their endeavors to put the economy back on track and regain investors’ confidence.