ICR Review
Operations Evaluation Department

Report Number : ICRR11564

1. Project Data:		Date Posted :	08/14/2003	
PROJ ID :	P074968		Appraisal	Actual
Project Name :	Structural Adjustment Credit Ii	Project Costs (US$M)	500	500
Country:	Pakistan	Loan/Credit (US$M)	500	500
Sector(s):	Board: EP - General industry and trade sector (25%), Sub-national government administration (20%), Oil and gas (20%), Power (20%), Health (15%)	Cofinancing (US$M)		
L/C Number:	C3655			
		Board Approval (FY)		02
Partners involved :		Closing Date	12/31/2002	12/31/2002

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2. Project Objectives and Components

a. Objectives

To support Pakistan's Poverty Reduction Strategy by supporting implementation of the components enumerated in section 2.b.

b. Components

1. Engendering **growth** through: (a) addressing the debt problem through fiscal consolidation and building the basis for more rapid and stable export growth; (b) increasing revenue mobilization and changing the composition of expenditures to create fiscal space for the social sectors and critical infrastructure; and (c) strengthening the business environment by improving the credibility and stability of government policies, providing a level playing field to all areas of business, removing distortions, reducing the cost of doing business, and implementing power sector reforms to improve efficiency and promote macroeconomic stability .

2. Improving **governance** through: (a) tax administration reforms; (b) devolution of powers to newly established local governments; (c) improved public finance management; and (d) civil service reforms.

3. Improving **human development** through enhancing the delivery system of basic education, preventive health care, and family planning while gradually increasing expenditures as fiscal space is created through stronger growth, improved tax administration, and continued donor support .

4. Improving **social protection and employment opportunities** through access to credit, redistribution of public lands, implementation of community-based infrastructure programs, and direct cash transfers to the most needy .

c. Comments on Project Cost, Financing and Dates

The project cost US$500 million financed by an IDA credit for US$500 million. The loan was appraised in May, 2002, approved by the Board on June 11, 2002, made effective on June 12, 2002, and closed on schedule on December 31, 2002.

3. Achievement of Relevant Objectives:

1. Engendering **growth**: (a) Federal Revenues increased from 19.0 percent of GDP for 2001/02 to (a revised projection of) 20.2 percent of GDP in 2002/03 although according to Table 2 of the ICR they are projected (without explanation) to decline to 17.6 percent of GDP in 2003/2004; (b) The United Bank Limited (UBL) was privatized, and Pakistan State Oil Corporation has completed due diligence in preparation for privatization and attracted three bids The maximum tariff rate was reduced from 35 percent to 25 percent (although the ICR gives no analysis of the real impact of this reduction in terms of average tariff levels or reductions in effective protection). The Committee on Deregulation has proposed a number of improvements (but see shortfalls below). A new pricing system was

implemented in the gas and petroleum sectors (but see comment in section 5 below). 2. Improving **governance** : (a) Resource Mobilization. The Central Board of Revenue (CBR) has developed a new reform strategy and action plan (but the ICR is silent on implementation) and has increased the transparency and speed of refunds of the General Sales Tax and duty drawbacks to exporters. CBR has established a Large Taxpayer Unit in Karachi and a Medium Taxpayer unit in Lahore. (c) Financial reporting and auditing were improved and reconciliations of government financial expenditures improved from almost nil a few years ago to between 50 and 100 percent (Balochistan at the low end of the range, the Federal reconciliations at the high end). The provincial ad hoc Public Accounts Committees opened up their proceedings to the press. (d) Civil Service Reforms included revision of pay scales and rationalization of pension benefits. The Cabinet approved establishment of a contributory pension fund for new entrants and the monetization of a number of allowances into salaries. Pay scales were de-compressed. A new capacity-building program for civil servants has been launched. 3. Improving **human development** : (a) Budget allocations for FY2001/2002 were increased in federal, provincial, and local budgets to 4 percent of GDP, and the federal and provincial governments have established a clear fiscal framework to finance the district governments and ensure a regular flow of funds. A national poverty line and methodology has been established. A program has been initiated to improve monitoring of health and education intermediate and outcome indicators. An expanded immunization program for children has been launched and 10,000 additional Lady Health Workers have been hired. 4. Improving **income generating opportunities and social protection** . Traditional programs such as "Zakat" and Kushal" have been strengthened with additional financing (though the ICR does not say by how much) and microcredit was expanded to 30 districts (but the ICR does not say how many districts participated before) and the government has moved to strengthen the legal and regulatory environment for microfinance institutions and expand coverage of existing programs.

4. Significant Outcomes/Impacts:

GDP growth increased from 2.7 percent in 2000/01 to 5.1 percent in 2002/3 while inflation remained low and net public debt was reduced by the equivalent of 10 percent of GDP.

5. Significant Shortcomings (including non-compliance with safeguard policies):

General Issues . Poverty increased to 32.1% according to HIES-01, which is the latest available data on poverty as reported in the ICR. Federal Revenues are shown in Table 2 to decline in 2003/04 to 17.6 percent of GDP from 20.2 percent of GDP in 2002/03, but without explanation or any discussion. Federal taxes are less than 14 percent of GDP (according to the IMF) which appears quite low by international standards. Since the IDA credit provided budget financing (and the balance of payments financing aspect was less important as reserves were in excess of the equivalent of 6 months of imports), this raises an issue of relevance, since the SAC might have confronted the revenue issue more directly. **Program-Specific Issues** . 1.c. four of the largest public enterprises (Karachi Electric (KESC), Pakistan Telecommunications (PTCL), the Oil and Gas Development Corporation (OGDC) and Habib Bank were not privatized as foreseen. Progress on deregulation has been slower than foreseen as noted in the ICR, which states that this is due to continuous change in project coordinators and weak ownership by the government. The new pricing system for gas has not been implemented as foreseen, and gas price adjustments have been delayed or skipped during the past year. Power Sector reform was unsatisfactory since the core problems with WAPDA's finances (including major issues such as poor collections rates, particularly from public sector consumers) have not been remedied. The corporatized public sector entities were not functioning as planned by December 2002 and are unlikely to do so until the end of calendar 2003. The electricity price increase passed by the NEPRA was scaled back by the government by about 20 percent which has undermined NEPRA's role as regulator of electricity prices, according to the ICR. 2.b. The ICR is silent on devolution of powers to the newly established local powers. 2.c. Concerning procurement, there is still a need to develop one general set of new rules applicable to all federal agencies, with add-ons/supplementary rules for certain agencies to take special aspects of procurement into account. Progress has been slow and it appears unlikely that the new draft law will be finalized and submitted to Parliament this fiscal year. 2.d. Civil Service Reforms were undermined to at least some extent by the reversal of recruitment procedures for middle grades when the Federal Cabinet decided that grades 11-16 could be recruited without involving the Federal Public Service Commission. 4. The ICR makes no mention of distribution of public lands or implementation of community-based infrastructure programs. Finally, there is some inconsistency in the way the loan conditions are stated in the Development Credit Agreement, the President's Report, the ICR, and the Letter of Development Policy.

6. Ratings:	ICR	OED Review	Reason for Disagreement /Comments
Outcome:	Satisfactory	Moderately Satisfactory	A large number of objectives were not achieved (see section 5 above), and the fourth pillar disappeared almost entirely during implementation. Despite this, the project merits a rating of "moderately satisfactory" rather than "moderately unsatisfactory" because of a number of important achievements. Finally,

			since this is only the first in a series of Programmatic Loans, important components only set out conditions for future implementation, and these will need to be more fully evaluated in the context of those follow-on operations.
Institutional Dev .:	Modest	Modest	
Sustainability :	Likely	Likely	
Bank Performance :	Satisfactory	Satisfactory	While a rating of satisfactory appears warranted, there are a number of concerns.The fourth pillar almost disappeared during implementation, which suggests that quality at entry, preparation and ownership were inadequate.
Borrower Perf .:	Satisfactory	Satisfactory	Despite weak support for a number of components, a rating of Satisfactory appears to be barely warranted.
Quality of ICR :		Satisfactory	

NOTE: ICR rating values flagged with ' * ' don't comply with OP/BP 13.55, but are listed for completeness.

7. Lessons of Broad Applicability:

1. ICRs for complex programmatic loans such as this should develop and present a more integrative methodology for assessing overall progress in a reasonably systematic way . 2. A broad program may be useful in empowering reformers, even if only selected portions of the program are implemented . Care has to be taken that a critical minimum implementation is feasible.

8. Assessment Recommended? ● Yes ○ No

Why? This is a broad-ranging SAC which tries to tackle many issues with mixed results . An audit would be helpful in clarifying many of the outstanding issues noted in Section 5 above, and evaluating progress based on an indepth review.

9. Comments on Quality of ICR:

Some of the ratings given the ICR do not appear to be justified . For example, Petroleum and Gas Sector Reform is rated "Highly Satisfactory" despite the fact that, as stated in the ICR, there is " a serious concern over the gas pricing framework and delayed or skipped gas price adjustments, and that the lifeline rate applies to 66 percent of domestic consumption. The ICR does cover the wide purview of the project in reasonable detail . At the same time, more attention could have been paid to integrating the results and placing them more carefully in the programmatic setting, as for example, set out in Annex B of the Program Document . Finally, the ICR notes that net public debt fell by the equivalent of 10 percentage points of GDP from 2001/02 to 2002/03, without giving an explanation of how this substantial improvement was achieved leaving the reader to guess whether this was a result of debt rescheduling/reduction by creditors.