Statement by Andrei Bugrov  
Date of Meeting: June 12, 2001

**Pakistan: Country Assistance Strategy Progress Report**

We commend staff on the CAS Progress Report for Pakistan. We appreciate the clarity and conciseness of the document. At the same time we find the paper to be quite comprehensive in terms of providing a broad political, economic and social context within which the Bank is going to scale up its assistance.

Pakistan is a country of great development potential. The ability to realize this potential will depend critically on strong commitment to sustainable and consistent reforms, and also effective donor coordination and support for Pakistan's long-term vision for poverty reduction.

As we know Pakistan's past reform track record was uneven. Although progress was made in a number of areas, particularly on trade liberalization and banking sector reform, and reversal of reforms has been extremely rare, the country did not achieve several of its structural reform goals. Overall results in the area of human development (for instance, in primary education, primary health, family planning, and community infrastructure) remain disappointing despite the significant government and donor investments. There were also repeated balance of payments crises and continuous deterioration of external debt indicators which currently exceed those of the highly indebted poor countries.

Developments in Pakistan since October 1999 have been very promising. The new government has been quite successful in its initial efforts to stabilize the economy. However growth prospects and macroeconomic situation remain fragile, particularly because the mid-term macroeconomic framework depends on significant financing (of about US$1.5 billion per year) from the IMF, the Bank, and the AsDB and the Paris Club rescheduling.

Significant progress has been made in implementing the new government’s agenda to revive the economy, arrest and eradicate endemic corruption, depoliticize state institutions, devolve power to the grass-root level, and improve checks and balances and democratic processes in society. We are pleased to note in particular that poverty reduction and good governance have been put at the core of the national development strategy.

Also, there has been a substantial improvement in Bank portfolio performance. The number of “projects at risk” went down from 52 percent in FY98 to 19 percent in FY00, while commitments at risk decreased from 54 percent in FY98 to 20 percent in FY00. This highly commendable portfolio performance turnaround has been achieved as a result of the joint efforts of the Bank and the central and provincial governments.

All in all, we see a clear “break from the past” and “getting back on track” which provide a basis for the
Bank to review its assistance strategy for Pakistan and increase its operational engagement according to high base case scenario. We support the proposed program of assistance under this CAS Progress Report which will support the reforms and help strengthen Pakistan's creditworthiness. We also note that the proposed lending levels are within the IDA12 allocation for Pakistan.

We endorse the proposed Structural Adjustment Credit (SAC) which accompanies this Progress Report and will support up-front implementation of reforms and provide the flexibility needed to manage risk in an uncertain environment, while establishing the basis for long term engagement that will be discussed in the upcoming full CAS.