Statement by Jan Piercy  
Date of Meeting: June 12, 2001

**Pakistan: Country Assistance Strategy Progress Report and IDA Credits**

**Overview**

First, we thank staff for a very timely and informative briefing in advance of today’s Board discussion. We consider this Progress Report a thorough and candid assessment of the numerous challenges facing Pakistan. The authorities are taking appropriate steps and promulgating the necessary laws to guide the economy on a path of stabilization and growth. The key, however, will be continued **implementation** of the very significant reform agenda that lies ahead to build the crucial investor confidence needed to promote growth and poverty reduction in Pakistan.

We concur with the thrust of the Bank’s program: improving the quality of public expenditures; enhancing human development; building an enabling environment for private investment and sustained growth; and strengthening governance. That said, the agenda is a large one and we hope that the full CAS will lay out a bit more clearly the efforts to build capacity – particularly at the local and district levels – to ensure that good intentions actually deliver real positive outcomes.

**Macroeconomic Situation**

We are pleased to see that Pakistan’s macroeconomic situation has improved over the past year. However, both exogenous factors, such as high oil prices and severe drought, and endogenous factors, including tax revenue shortfalls and delays in privatization, highlight the fragility of the economic outlook. Economic growth is now projected to be below 3% this year as the drought reduces agricultural output. Given an average population growth rate of 2.5% per year, Pakistan needs to achieve a much higher level of economic growth if it is to raise the standard of living and reduce poverty substantially.

We urge the authorities to redouble their efforts and implement key structural changes sooner rather than later. In addition to strengthening tax administration, the authorities must accelerate their plans to reform and privatize the largest of the state-owned enterprises. Subsidies and payments to these companies account for almost 12% of GDP, a clearly unsustainable level for a country struggling with fiscal consolidation and expenditure rationalization. We note that the fragile external financing picture assumes a 10% annual increase in export revenues. **Could staff**
elaborate the underpinnings of such an ambitious assumption?

Growth/ Investor Confidence

Pakistan’s goals of spurring growth and reducing poverty hinge on building investor confidence. Such confidence will be based on governance and regulatory reforms and progress toward privatizing key entities. Investor confidence will also depend upon respecting the sanctity of contracts and implementing and strengthening laws to protect and promote foreign investment. As part of the recently completed CPAR, the government’s plans for a National Procurement Authority and introduction of a new procurement law are positive developments. Similarly, we welcome IFC’s engagement, notably its support for the ongoing Private Sector Assessment, but also its plans to more actively support SMEs.

Diagnostics

We welcome the Bank’s plans to deepen its knowledge base through a variety of assessments. Prudent public expenditure management is key to Pakistan’s plans to reduce poverty and spur sustained growth. While we note plans for a PER in Punjab in FY ’01, we question why there are no plans for a national-level Public Expenditure Review. Eventually, to the extent that financial devolution proceeds, we would also expect all of Pakistan’s provinces to undergo a PER.

We share staff’s concern that the high level of military spending (4.7% of GDP) diverts resources from critical social sector spending. As such, the government’s plans to reduce military spending and reallocate part of the savings to “double current spending on social sectors” are indeed welcome. Similarly, we see that spending allocations on anti-poverty programs are “the largest since 1995”. Increased spending, in theory, would be welcome. However, we agree that the overall results of efforts to improve human development “remain disappointing.” The level of spending is not nearly as important as the effectiveness of government outlays and measurable outcomes.

The Progress Report calls for an array of non-lending services that are well-targeted at the most pressing governance issues. These studies, supported by a frank policy dialogue with the authorities and acted upon through decisive implementation, will lay the groundwork for macroeconomic stabilization and sustainable growth.

Social Sector Issues

We very much welcome increases in the budgetary allocations for social services but much more will be needed and every effort must be taken to protect these expenditures from cut-backs when revenue shortfalls arise. In the Structural Adjustment Credit document, we noticed that the education expenditures were increasing much less than the off-budget “Zadak disbursement” and “Khushai Pakistan Program.” Could staff elaborate how these programs can absorb and implement what appears to be very large increased expenditures and how they will inter-relate with ongoing education programs?
We share staff’s concerns about the gender gap in Pakistan, particularly the violence against women. In this regard, we welcome the government’s declaration that all “honor killings” will be treated as murders. And while we very much welcome the focus on primary education and the recognition of the gender gap, we were puzzled by the fact that the agenda outlined in the Structural Adjustment Credit did not mention how to address the education gender gap. Could staff explain?

We are also wondering why we do not see land reform addressed in the planned agenda. It is clear—based on substantial analytical work done in other agriculturally-dependent societies—that more equitable growth in rural agriculture, achieved through market-based policies, rather than monopolistic behavior, have a significant impact on alleviating rural poverty and improving access to primary education. In this regard, we encourage the Bank to do more analytical work on how the rural agricultural sector in Pakistan can be reformed to be more market-oriented and more responsive to the human development and educational needs of the people.

We are also troubled by statistics that one-half of Pakistan’s children do not attend school and that gains in access to clean water in rural areas have been limited. We regret that this document includes no discussion of core labor standards in Pakistan, notably the serious problem of child labor. The forthcoming CAS needs to stress the link between eliminating harmful child labor and access to free, mandatory and universal primary education.

The authorities’ plans to improve access to basic health care appear to be well thought out. We remain concerned, however, about the lack of attention to the link between rural poverty—a result of inequitable growth in rural agriculture—and the prevalence of opportunistic diseases that thrive on conditions of poor sanitation, inadequate preventive care and poor quality of diagnostics. We encourage the Bank to take a multi-pronged approach to its health sector reform activities in Pakistan, taking into account the linkages between rural poverty and prevalence of disease.

We welcome the Bank’s plans to support the government in implementing an HIV/AIDS prevention strategy. Can staff tell us more about the future HIV/AIDS project as well as additional details on the current incidence and prevalence rates in Pakistan?

The government’s new environment strategy calls for “mainstreaming the environment to contribute to poverty reduction.” We agree that it is critical to mitigate the health impacts of pollution and improve economic opportunities by conserving the nation’s natural resources. We expect the forthcoming CAS to provide clear information on the government’s environmental and safeguard policies and its ability to mitigate environmental risks and safeguard against negative impacts.

Portfolio Performance

The Bank’s portfolio improvement strategy appears to be bearing fruit. The enhanced supervision, selectivity, and oversight should improve the effectiveness of the Bank’s lending.
The Progress Report makes only passing reference to donor coordination, but we noticed more discussion of this important issue in the Structural Adjustment Credit. It is essential that the forthcoming CAS reflect the coordination between donors and effective divisions of labor, so that Pakistan can benefit from the synergies of each institution and that the lending program draws upon lessons learned and best practice. Toward that end, we would welcome a matrix of donor activities that clarifies the role and sector focus of each institution in the forthcoming CAS. This is certainly consistent with the emphasis on effective partnerships which the CDF promotes.

Lending Program / IDA Credits

The $350-million Structural Adjustment Credit that is being presented along with this CAS Progress Report supports the implementation of the government's reform agenda. We concur with the Bank's objective of "extending and deepening reforms in governance and power" and welcome the positive progress that the GOP has made in carrying out the reforms under the Structural Adjustment Credit in difficult circumstances.

However, we do not support the notion that this credit marks the start of a series of one-tranche adjustment operations. As we have noted on a number of occasions, we would not support a rapid shift to growing reliance on programmatic adjustment lending without important caveats. A thorough understanding of the national fiduciary and social/environmental safeguard framework is necessary to justify the effective and accountable use of any PAL. More demonstrated experience that this instrument yields greater development impact should be developed before they are widely used.

We recognize that private sector development of oil and gas represent real prospects for growth in Pakistan. However, any rapid development begs the question of both the potential environmental impacts and the authorities' regulatory capacity to monitor them. In this light, we think the Bank missed an opportunity to reflect more consideration and discussion of indirect environmental impacts and their potential mitigation. In our view, the new PRSC guidelines are relevant: PRSCs that cover policy or institutional issues in key sectors are governed by operational policies for sectoral adjustment credits and OP 4.01 Environmental Assessment also applies. While this program is a SAC, it would seem that this same conceptual distinction should apply here as well.

Due to legislation regarding sanctions against countries detonating nuclear explosive devices, which applies to Pakistan, this chair would like to recorded as abstaining on this Structural Adjustment Credit. However, because we consider the NWFP On-Farm Water Management Project to address basic human needs, we can support that project.

Conclusion

We welcome the Bank's efforts to assist the authorities in implementing the kind of irreversible structural reforms that can establish the kind of sustainable private sector-led economic growth that can significantly reduce poverty in Pakistan. We wish the Pakistan authorities every success.