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The World Bank

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IMPLEMENTATION COMPLETION AND RESULTS REPORT

(IDA-5861, IDA-5862 and IBRD G-2410)

ON A

CREDIT

IN THE AMOUNT OF SDR 352.8 MILLION
(US$500 MILLION EQUIVALENT)

AND

A POLICY-BASED GUARANTEE

IN THE AMOUNT OF UP TO US$420 MILLION

TO THE

ISLAMIC REPUBLIC OF PAKISTAN

FOR THE

COMPETITIVENESS AND GROWTH DEVELOPMENT POLICY FINANCING

December 10, 2018

Macroeconomics, Trade and Investment Global Practice
Pakistan Country Management Unit
South Asia Region

CURRENCY EQUIVALENTS
(Exchange Rate Effective as of December 10, 2018)
Currency Unit = Pakistani Rupee
US$1.00 = PKR 138.094

FISCAL YEAR
1 July – 30 June

ABBREVIATIONS AND ACRONYMS

ATM	Automated teller machine
BISP	Benazir Income Support Program
CGDPF	Competitiveness and Growth Development Policy Financing
DB	Doing Business
DFID	Department for International Development
DPC	Development policy credit
DPCO	Debt Policy Co-ordination Office
DTF	Distance to frontier
EFF	Extended Fund Facility
EM	Emerging market
EMBI	Emerging Market Bond Index
FBR	Federal Board of Revenue
FSAP	Financial Sector Assessment Program
FSIG	Fiscally Sustainable and Inclusive Growth
FY	Fiscal year
GDP	Gross domestic product
GoP	Government of Pakistan
HIES	Household Income and Expenditure Surveys
IBRD	International Bank for Reconstruction and Development
ICR	Implementation Completion Report
IDA	International Development Association
IEG	Internal Evaluation Group
IMF	International Monetary Fund
IOSCO	International Organization of Securities Commissions
ISR	Implementation Status and Results Report
MoF	Ministry of Finance
NSER	National Socio-Economic Registry
PBG	Policy-based guarantee
PDO	Project Development Objective
PKR	Pakistan Rupees
QAG	Quality Assurance Group
RfP	Request for Proposals
SBP	State Bank of Pakistan

SC	Standard Chartered Bank
SDR	Special Drawing Rights
SECP	Security and Exchange Commission of Pakistan
SLIC	State Life Insurance Company
SOE	State-owned enterprise
SRO	Statutory Regulatory Order
TAGR	Trust Fund for Accelerated Growth and Reforms
USD	United States dollars
USAID	United States Agency for International Development
WAPDA	Water and Power Development Authority
WB	World Bank

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ISLAMIC REPUBLIC OF PAKISTAN
Competitiveness and Growth Development Policy Financing
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A. Basic Information			
Program 1			
Country	Pakistan	Program Name	Competitiveness and Growth Development Policy Financing
Program ID	P157207 and P159839	L/C/TF Number(s)	IDA 5862, IDA-5861 and IBRD G-2410
ICR Date	31-Oct-18	ICR Type	Core ICR
Lending Instrument	DPL	Borrower	ISLAMIC REPUBLIC OF PAKISTAN
Original Total Commitment	SDR 352.8M	Disbursed Amount	SDR 352.8M
Implementing Agencies -- Ministry of Finance, Government of Pakistan			

B. Key Dates

Competitiveness and Growth Development Policy Financing - Credit – P157207

Process	Date	Process	Original Date	Revised / Actual Date(s)
Concept Review	30-Nov-2015	Effectiveness	31-Dec-2017	28-Jun-2016
Appraisal	27-Apr-2016	Restructuring(s)		
Approval	21-Jun-2016	Midterm Review		
		Closing	31-Dec-2017	31-Dec-2017

Competitiveness and Growth Development Policy Financing – Guarantee P159839

Process	Date	Process	Original Date	Revised / Actual Date(s)
Concept Review	7-Apr-2016	Effectiveness	31-Dec-2017	23-Jun-2017
Appraisal	27-Apr-2016	Restructuring(s)		
Approval	21-Jun-2016	Midterm Review		
		Closing	31-Dec-2017	31-Dec-2017

C. Ratings Summary

C.1 Performance Rating by ICR

Overall Program Rating

Outcomes	Moderately Satisfactory
Risk to Development Outcome	Significant
Bank Performance	Moderately Satisfactory
Borrower Performance	Moderately Satisfactory

C.2 Detailed Ratings of Bank and Borrower Performance (by ICR)

Overall Program Rating

Bank	Ratings	Borrower	Ratings
Quality at Entry	Moderately Satisfactory	Government	Moderately Satisfactory
Quality of Supervision	Satisfactory	Implementing Agency/Agencies	Moderately Satisfactory
Overall Bank Performance	Moderately Satisfactory	Overall Borrower Performance	Moderately Satisfactory

C.3 Quality at Entry and Implementation Performance Indicators			
Competitiveness and Growth Development Policy Financing – P157207, P159839			
Implementation Performance	**Indicators**	**QAG Assessments (if any)**	**Rating:**
Potential Problem Program at any time (Yes/No):	No	Quality at Entry (QEA)	None
Problem Program at any time (Yes/No):	No	Quality of Supervision (QSA)	None
DO rating before Closing/Inactive status	Moderately Satisfactory		

D. Sector and Theme Codes		
Competitiveness and Growth Development Policy Financing – P157207, P159839		
	Original	**Actual**
Sector Code (as % of total Bank financing)		
Other Public Administration	60	60
Other Industry, Trade and Services	30	30
Other Non-Bank Financial Institutions	10	10
Theme Code (as % of total Bank financing)		
Social Protection	10	10
Public Financial Management	25	25
Financial Stability	20	20
Trade	20	20
Fiscal Policy	25	25

E. Bank Staff		
Competitiveness and Growth Development Policy Financing – P157207, P159839		
Positions	**At ICR**	**At Approval**
Vice President:	Hartwig Schafer	Annette Dixon
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F. Results Framework Analysis

Program Development Objectives

The Competitiveness and Growth Development Policy Financing is structured around two development objectives: (i) improving the business environment, and (ii) enhancing fiscal management through improving revenue management and making public spending more pro-poor.

Indicator(s)

Competitiveness and Growth Development Policy Financing – P157207				
Indicator	**Baseline Value**	**Original Target Values (from approval documents)**	**Formally Revised Target Values**	**Actual Value Achieved at Completion or Target Years**
Pillar 1: Improving the Business Environment				
Indicator 1:	**Doing Business Distance to Frontier Indicators for Getting Credit**			
Value	30.0	50.0		45.0
Date achieved	DB 16	DB 18		DB 18
Comments	*Achieved.* Doing Business distance to frontier indicator for getting credit improved to 50 in 2017 World Bank Doing Business ranking (DB 17) before dropping slightly to 45 in 2018 ranking.			
Indicator 2:	**Increase in the number of taxpayers who submit a tax return online by end-March the following year**			
Value	419,910	773,000		900,403
Date achieved	March 2015	March 2017		March 2017
Comments	*Achieved.* The number of taxpayers who submit tax return online rose to 900,403 in March 2017 and to 1,013,254 in December 2017 for a percentage increase of 140 percent (by December 2017).			

Indicator 3:	**Increased listed capital in capital markets**			
Value	Listed capital PKR 1.18 trillion	Listed capital PKR 1.46 trillion		Listed capital PKR 1.28 trillion
Date achieved	June 2015	June 2017		June 2017
Comments	*Not achieved.* Listed capital on Pakistan Stock Exchange was relatively unchanged at 1.28 trillion PKR in 2017.			
Indicator 4:	**Housing finance market as a percentage of private sector credit**			
Value	1.6 percent	2 percent		1.5 percent
Date achieved	2014	2017		2017
Comments	*Not achieved.* Housing finance rose from 54.4 billion PKR in 2015 to 75.4 billion PKR in 2017 (38 percent in two years), but private sector credit rose also and the share of housing capital in private capital was 1.5 percent.			
Indicator 5:	**Availability of consolidated SOE financial information**			
Value	Not available	Published		Published
Date achieved	June 2015	Dec 2017		June 2017
Comments	*Achieved.* The Ministry of Finance has published SOE financial information for fiscal years 13/14, 14/15 and 15/16.			
Indicator 6:	**State Life Insurance Corporation (SLIC) is subject to same rules as other corporate insurance companies**			
Value	SLIC is not required to follow Companies Ordinance 1984	SLIC complies with Companies Ordinance 1984		SLIC is not required to follow Companies Ordinance 1984
Date achieved	June 2015	June 2017		April 2018
Comments	*Not achieved.* The SLIC (Reorganization and Conversion) Bill passed the National Assembly but not the Senate so is not enacted.			
Pillar 2: Enhancing Fiscal Management				
Indicator 7/8:	**Tax/GDP ratio**			
Value	11 percent	12.2 percent		12.5
Date achieved	FY 14/15	FY 16/17		FY 16/17
Comments	*Achieved.* The authorities continued to curtail SROs (and other exemptions) while introducing risk-based audit, and the tax/GDP ratio reached 12.5 percent in FY 16/17.			
Indicator 9:	**Share of foreign debt as percentage of total public debt**			
Value	28 percent	20-35 percent, in line with medium-term debt strategy		28.6 percent
Date achieved	2015	FY 16/17		FY 16/17
Comments	*Achieved.* The share of foreign debt as percentage of total public debt was maintained in the corridor laid out in the medium-term debt strategy.			
Indicator 10:	**Number of households with updated poverty scorecard information registered in the National Socio-Economic Registry**			

Value	0	2.5 million		2.46 million
Date achieved	2015	June 2017		June 2017
Comments	*Achieved.* The number of households with updated scorecards rose to 2.46 million during the first phase of updating, and stood at approximately 3.8 million households in February 2018.			
Indicator 11:	**Adoption of a new poverty line**			
Value	None since 2005-06	Published		Published
Date achieved	2015	Published from latest data 2013/14 with trend in poverty on old line		April 2016
Comments	*Achieved.* The new poverty line, based on the cost of basic needs, was announced in April 2016, and poverty trends back to 2005/06 were published at the same time. The 2015/16 poverty rates were released in April 2018.			

G. Ratings of Program Performance in ISRs

Competitiveness and Growth Development Policy Financing – P157207				
No.	**Date ISR Archived**	**DO**	**IP**	**Actual Disbursements (SDR millions)**
1	06/23/2017	Moderately Satisfactory	Moderately Satisfactory	352.80

1. Program Context, Development Objectives, and Design

This Implementation Completion and Results Report assesses the results of the Competitiveness and Growth Development Policy Financing. The operation aims to improve the business environment and enhance fiscal management. The US$500 million IDA credit and the US$420 million Policy Based Guarantee to the Islamic Republic of Pakistan were approved by the Board of Directors on 21 June 2016.

1.1. Context at Appraisal

By end-FY 15/16, Pakistan had weathered its earlier crisis and after two and a half years of reforms the IMF program was approaching its end. Growth had picked up, inflation was down, reserves were strengthening, and fiscal accounts were significantly improved. The diagnosis of the World Bank's Country Economic Memorandum (June 2013)—highlighting a shortfall in both public and private investment and a poor growth performance—remained correct. Pakistan remained focused on its 4E reform strategy: Energy, the Economy, the elimination of Extremism, and Education (annex 6). The longer-term economic focus included an emphasis on stabilization (fiscal consolidation and the build-up of reserves) and structural measures in the power sector, reform of state-owned enterprises (SOEs), improved trade competitiveness, an enhanced investment climate, and expanded access to finance.

In support of the Government's agenda, and building on its analysis, the World Bank Country Partnership Strategy 2015-2019 (extended to 2020 in the Performance and Learning Review) focuses on supporting growth-enhancing reforms through (i) transforming the energy sector; (ii) developing the private sector; (iii) reaching out to the underserved, neglected, and poor (including micro, small, and medium enterprises); and (iv) improving service delivery (reduce vulnerability to income shocks, accelerate improvements in services, increase revenue to fund service delivery).

Within this broader strategy, the Bank's support for economic reforms was to be provided through increased development policy lending and guarantees to leverage private sector investment. A two-operation development policy credit (DPC) series (the Fiscally Sustainable and Inclusive Growth (FSIG) DPC I and II, operations approved in April 2014 and May 2015, respectively) were part of this agenda, as was a series of DPCs in the power sector. A stand-alone operation, the Competitiveness and Growth Development Policy Financing (CGDPF) followed the FSIG series in 2016. It is aligned with the Country Partnership Strategy pillars. Private-sector-led growth is supported through CGDPF measures related to SOE reform and corporatization, an improved business environment, and access to finance. The measures to improve fiscal management would increase fiscal space. Inclusion is supported through improved pro-poor policies, including the update of the National Socio-Economic Registry, the development of a revised poverty line that better reflects poverty dynamics in Pakistan, and the publication of poverty rates that had not been published since 2005/06. Finally, the inclusion of a policy-based guarantee (PBG) addressed both World Bank and government objectives on the need to increase and diversify private sources of finance.

By mid-2016, the IMF Extended Fund Facility (EFF) program was approaching its end, and the Bank had successfully executed parallel series of DPCs supporting (i) fiscal/ private sector reforms and (ii) energy sector reform. In total these operations provided US$2 billion in budget support over three fiscal years. Pakistan's reform program, while fragile, was paying off. On the basis of the success of the earlier programs in contributing to reform momentum, the government and the Bank agreed to a US$500 million IDA development policy credit. The IDA credit was complemented with a World Bank guarantee of US$420 million to facilitate access to international market finance.

The macroeconomic picture had improved substantially. Economic growth had recovered to the mid-4 percent range, and inflation was contained at 3 percent. The fiscal situation had improved, with the deficit at 4.4 percent of GDP, and the Bank's debt sustainability analysis suggested a declining trend over the medium term (with risks around the exchange rate and contingent liabilities). The current account deficit was stable at slightly above 1 percent of GDP, and reserves had been rebuilt to over 4 months of imports. Less positively, investment was only modestly higher at 15 percent of GDP. Further, while private credit was growing, the growth was less than hoped for as bank credit continued to be constrained by government borrowing (as the government shifted from borrowing from the central bank under the IMF program). Exports continued to stagnate.

Supported by the DPCs, the structural reform agenda had had some successes. Tax revenue was performing well: against a target of 11.5 percent of GDP, in early 2016 tax revenues were well over 12 percent of GDP as tax concessions granted through the Statutory Regulatory Orders (SROs) had been reduced and, more importantly, the power of the Federal Board of Revenue (FBR) to issue SROs had been curtailed. With the change in policy, SROs would have to be approved by Parliament (although there was still a provision to do this retroactively), curtailing the FBR's discretion and improving transparency and governance. The improvements to the Benazir Income Support Program (BISP), an unconditional cash transfer program, were successful in expanding the number of beneficiaries, the size of benefits, and the reliability of benefit payments.

Reform progress in other areas was more limited. Efforts to improve the performance of public sector enterprises, including through privatization, were relatively unsuccessful because of political resistance and a lack of capacity in the privatization agency. The average statutory tariff was minimally reduced, but new measures expanded the list of imports subject to additional regulatory duties, affecting competitiveness and access to imports and continuing the anti-export bias of the tariff regime.

The CGDPF was developed as a stand-alone operation in 2016. Anticipating that reform momentum would slow down in the run up to the 2018 elections, no operation was initially planned for 2017. And while the CGDPF built on the reform areas and institutional relationships of the previous DPCs, it adjusted them in line with reform progress (e.g., focusing on improving the overall regulatory environment for SOEs rather than privatization transactions) and the evolving situation. Finally, it anticipated the end of the IMF-EFF program and a more complex policy environment after the IMF program.

A PBG in the amount of US$420 million was added to the operation to raise the total financing provided. In addition to financing, the guarantee supports the GoP in reducing pressure on domestic financing, diversifying financing sources, and extending maturities. The improvement in Pakistan's fiscal position and faster growth, made this an opportune time to introduce this innovation (see detailed discussion on the PBG in section 1.5).

1.2. Original Program Development Objectives (PDOs) and Key Indicators

Program Development Objectives

The proposed operation was structured around two development objectives: (i) improving the business environment, and (ii) enhancing fiscal management through improving revenue management and making public spending more pro-poor.

Key Results Indicators

Pillar 1: Improving the Business Environment

- Improve from 30 to 50 the Doing Business "distance to the frontier" indicator for getting credit.
- Increase the number of taxpayers who submit a tax return online from 419,910 to 773,000.
- Increase listed capital from PKR 1.18 trillion to PKR 1.46 trillion.
- Increase the housing finance market from 1.6 percent to 2 percent of private sector credit.
- Make consolidated SOE financial information publicly available.
- The State Life Insurance Company, like all corporate insurance companies, is required to follow the Companies Ordinance 1984.

Pillar 2: Enhancing fiscal management through improving revenue management and making public spending more pro-poor

- Increase tax revenues from 11 percent of GDP in FY 2014/15 to 12.2 percent in FY 16/17.
- Share of public debt in foreign currency remains at 20-35 percent in line with the Government's Medium-Term Debt Strategy.
- Number of households with updated poverty scorecard information registered with National Socio-Economic Registry increases from zero to 2.5 million.
- New poverty rate published using latest data (2013-14), and poverty trend on old line, which had not been released since 2006, is publicly released.

1.3. Revised PDO and Key Indicators, and Reasons/Justification

N/A

1.4. Original Policy Areas Supported by the Program (as approved)

Improving the business environment

Enhancing the investment climate

- Building on Pakistan's National Financial Inclusion strategy and a Financial Sector Assessment Program (FSAP), the first two financial sector measures were aimed at improving institutions and deepening markets through legislative action. The first, a *Financial Institutions (Secured Transactions) Bill*, facilitates the use of inventories and receivables as collateral. This would allow small and medium enterprises and others (not necessarily companies) to gain improved access to financial markets. It also improves lenders' claims on collateral, and thus their willingness to extend credit based on collateral. The second measure was an *Amendment to the Credit Bureau Act* (a prior action under the FSIG DPC series). Improved credit bureau services improve creditors' ability to verify borrowers' creditworthiness and allow consumers to review, dispute, and verify their credit records. The initial Credit Bureau Act included a provision that the central bank had to verify all credit reports. This provision was unworkable, given the capacity of the State Bank of Pakistan (SBP), and it would have forestalled the development of the private sector in this area; an amendment was supported through this operation.
- A second reform was aimed at reducing the compliance burden on private firms paying taxes. To improve the ease of paying taxes, the FBR introduced simplified and streamlined tax payment processes and posted these procedures online. This is an element of a comprehensive reform process that is under way at the FBR; it will also include incentives for e-filing and e-payment, taxpayer registration, and redesigned tax forms and processes.

Capital market development

- Two measures were aimed at deepening capital markets. First, Pakistan amended the *Securities and Exchange Commission of Pakistan (SECP) Act* to reflect a review by the International Organization of Securities Commissions (IOSCO) in July 2015. The SECP's mandate had grown steadily since the passage of the Act in 1997. However, the commission's Policy Board was not as effective as desired because of its inability to act as an integrated regulator, its lack of enforcement powers, its lack of disciplinary processes over regulated entities, the lack of an alternative dispute resolution mechanism, and its inability to recover dues and penalties. The Amendment addresses these issues by (i) ensuring the independence of the SECP, (ii) improving the governance of the Policy Board, (iii) strengthening the Board's investigative, supervisory, and punitive powers, (iv) allowing for the establishment of self-regulatory bodies, and (v) facilitating cooperation with international regulators.
- In a second measure (also reflecting the IOSCO review and the FSAP), the SECP integrated the three Pakistan stock exchanges into a single exchange (August 2015). This measure consolidates listing and trading to (i) foster competition, which should improve pricing, execution, and market outreach; and (ii) increase strategic investment (domestic and foreign).

Enhancing financial inclusion

- Increasing housing finance, an underserved area with potential for significant growth and investment, was another measure drawn from Pakistan's National Financial Inclusion Strategy. This is done through the National Assembly's passage of a *Financial Institutions (Recovery of Finances) Amendment*. The original Act (2001) had provisions for foreclosure, but these measures were held to be unconstitutional in 2013. The long-standing uncertainty in this area was deterring the development of the housing finance market. Amendments to the Act, in 2016, introduced the concept of willful default and changed foreclosure procedures, including ensuring that borrower rights were safeguarded in the sale of foreclosed property.

Corporate governance, SOE reform, and privatization

- Two measures were aimed at improving corporate governance among SOEs. The first was designed to increase the transparency of SOEs. The privatization of SOEs had been a major focus of the Government's earlier reform program, but this effort had not advanced very much because of, among other things, decentralized management by line ministries that appointed SOEs board members and managers. However, the Ministry of Finance (MoF) has the authority to monitor SOEs' audited statements as SOE dividends are a source of income, and SOEs receive operating subsidies, loans, guarantees, and capital injections. As a result, SOEs remain a major contributor to Pakistan's deficit and their contingent liabilities a major risk, especially as more than three-quarters of SOE debt liabilities are guaranteed by the federal government. To maintain SOE reform momentum, the MoF has collected data and published reports detailing the consolidated financial and nonfinancial information on all federal SOEs. The MoF directive that requires SOEs and their supervising departments to provide the required data indicates that the report will be updated annually and specifies the information to be included.
- A second measure focused on the insurance market. The insurance market in Pakistan is underdeveloped, in part because of the dominance of the State Life Insurance Company (SLIC). To address governance issues at SLIC and attract investment into the life insurance sector, the National Assembly passed a *SLIC Reorganization and Conversion Act (Presidential Ordinance 2016)*, which would transform SLIC into a public limited company. At the time of this ICR this piece of legislation has not been enacted.

Enhancing fiscal management through improving revenue management and making public spending more pro-poor

Mobilizing revenue

- Two policy measures aimed at improving revenue mobilization built on a successful engagement in this area under the two previous DPCs. Large, sustained deficits had led to high domestic borrowing, which crowded out private credit and contributed to Pakistan's low savings/investment rate and growth. These low revenues also created macro-fiscal risks and limited spending on priority areas. Pakistan's tax base is

relatively small (less than 10% of employed persons registered), and its tax systems are inefficient, complex, non-transparent, and riddled with ad-hoc exemptions/concessions that facilitate corruption and tax evasion

- The first revenue measure was, as part of the FY16/17 budget submission, the third and final phase of eliminating discriminatory tax concessions granted through SROs. SROs had been estimated at 1.5 percent of GDP (Pakistan Economic Survey for 2014/15) and most were eliminated over a 3-year period (FY14/15 to FY16/17).
- The second measure was aimed at improving tax compliance, and specifically audit, as part of a longer-term strategy. While the FBR had been significantly increasing the number of audits carried out, these audits were typically desk-based and random. Under this measure the FBR would undertake a risk-based system and initiate audits of 40 large taxpayers. As these audits can take some time, this action focuses on getting this process started.

Improving debt management

- Pakistan's public-debt-to-GDP ratio is above the 60 percent limit prescribed in the Fiscal Responsibility and Debt Limitation Act. Fragmented debt management (mostly within the MoF) has led to poor borrowing choices, limited development of the domestic debt market, inordinate exposure to market risks, limited control of funding costs, and a shortened maturity structure. To improve debt management, the MoF issued a notification to strengthen the middle office mandate of the Debt Policy Co-ordination Office (DPCO). The mandate includes the production of a Medium-Term Debt Management Strategy (see below) and responsibility for the management of market, credit, and operational risk.
- The DPCO had developed and published the first-ever Medium-Term Debt Management Strategy in FY14. This strategy put excessive weight on cost versus diversification and maturity and did not include an assessment of the capacity of the market to absorb debt issuance. In FY16, the DPCO developed and published an updated Medium-Term Debt Management Strategy that shows substantive improvement regarding the clarity of the targets the debt manager should pursue over the medium-term.

Improved pro-poor policy-making

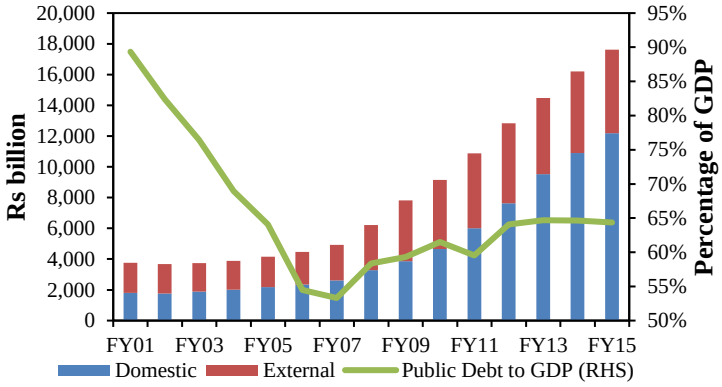
- The last set of measures picks up the pro-poor focus in the previous DPC series but shifts the emphasis to institutional and analytical issues. Under the previous DPC series, improving pro-poor spending focused on increasing the coverage, efficiency, and amount of payments under the BISP. In CGDPF the focus shifted to reforming and updating the National Socio-Economic Registry (NSER) used to identify the poor for social safety net interventions. The previous version of the NSER was done in 2010 and required updating, given the rate at which people move into and out of poverty. The first phase of the updating included 16 districts in 2016. However, in an important improvement, BISP worked with the National Database and Registration Authority to develop and evaluate an on-demand system that could be used for dynamic updating

(as opposed to a new census every five years) to improve targeting in subsequent NSER rounds.

- A second measure publishes Pakistan's poverty rate going back to 2005. Poverty numbers had been collected through successive rounds of the Household Income and Expenditure Surveys (HIES), but for political reasons they were not published, even though they showed declining poverty at the existing poverty rate. In the absence of official poverty figures, other, unfounded measures were used, increasing uncertainty around progress on reducing poverty and limiting the ability to measure the outcomes of pro-poor programs. A new series (calculated on the existing verified HIES) based on the cost of basic needs (broadening the criteria beyond food energy intake) established a new (higher and more appropriate) poverty line and published the poverty trend line.

1.5. Enhancing the Design of the Operation: The Policy-based Guarantee

Pakistan: Evolution of Public Debt



Source: State Bank of *Pakistan*

The design of the PBG set clear objectives to support the Government's medium-term debt strategy and featured innovative measures to maximize impact and provide execution flexibility to respond to market conditions. Because low-rated sovereigns had difficulty in accessing bond markets during Q3 2016 to Q1 2017, the PBG was designed to act like an insurance policy and enable the Government to borrow from the international loan or bond markets at competitive terms. It thus supported the Government in reducing pressure on domestic financing and in diversifying financing sources. In particular, it was important to reduce the public sector borrowing in the domestic market, which crowded out the private credit expansion needed to increase investment and growth.

The PBG was designed to expand Pakistan's options for raising private financing by accessing different market segments, such as bonds, loans, or Islamic financing. It could either open a credible new channel for the Government or improve existing ones. Additionally, the PBG presented an opportunity to expand the country's investor base on favorable terms, and it would have positive spillover effects for future sovereign and corporate borrowing. The PBG was also expected to leverage financing significantly above its face value. At the point of the DPC approval, there was a market for Pakistan bonds, but it had only recently opened up and was still volatile. International banks had limited interest in lending to the GoP.

The Bank team and the Government worked closely during the execution phase to time the launch and select the best market segment to exercise the PBG. Following the Board

approval of the DPC in June 2016, the overall emerging market (EM) bond market performed well, with strong investor appetite for EM risks pushing down yields. Pakistan's existing bonds were strongly correlated with the overall EM market (see annex 8). As investors' appetite for EM risks grew, the yield of Pakistan's 10-year bond fell to below 400 bps in June 2017 from over 600 bps just a year before. In this context, there was no significant value to applying the PBG as an insurance policy against bond market volatility. At the same time, the Government indicated its difficulties in securing long-term international loan financing, and leading banks in the market were not comfortable about holding Pakistan risk for more than 3 years. Thus the discussions between the Government and the Bank shifted to the international loan market.

In January 2017, a World Bank guarantee operation supporting another Pakistan project (the Dasu hydro project implemented by a public utility company - Water and Power Development Authority (WAPDA)) was reaching the final stage of negotiations. For different reasons, the Dasu project financing also focused on the loan market, and the Government, WAPDA, and the Bank were in intense negotiations with several banks. Some of the banks involved also had strong interests in the lending supported by PBG. To prevent cannibalization between the two guarantee projects, a decision was made to sequence the two operations.

By early Q2 2017, with the support of an IDA guarantee, WAPDA secured underwritten commitments from banks and concluded its Request for Proposals (RfP) process. Shortly after—in April 2017—a consensus was reached to use a competitive process to procure a medium-term loan from international lenders with the support of the PBG. To maximize competition, it was decided to reach out to a large and diverse number of banks. Four banks—Standard Chartered Bank (SC), Credit Suisse, Deutsche Bank, and Dubai Islamic Bank—submitted their final proposals in May 2017. A robust and transparent evaluation process was carried out by the Government and supported by the Bank.

In June 2017, the Government successfully used the PBG to borrow US$700 million from SC, and also achieved the desired outcomes of tenor extension, competitive borrowing rate, speed of closing, and other improved terms and conditions. The SC loan was guaranteed by the IBRD with a 60 percent rolling guarantee structure. Initially only the principal repayments of the loan are covered under the guarantee. After the amortizing loan's outstanding principal is reduced to less than US$420 million, the interest payments will also be covered. In any case, the maximum guaranteed amount will not exceed US$420 million.

The execution of the guaranteed loan took three months and achieved highly satisfying results.

- *The PBG-backed loan achieved a lower cost than equivalent-tenor bonds or loans available to Pakistan*

Before the PBG loan, Pakistan was able to access international loan markets only for limited tenors of 18 months to 3 years. This was one of the main reasons the PBG was

deployed in the loan market—to expand the international lender base and achieve longer tenors. Pakistan raised a US$700 million 10-year amortizing loan (6.5-year average life) with a 60 percent guarantee cover. At the time, the closest comparable in the loan market was a 3-year loan extended by China, priced at over US$ LIBOR +300 bps. Despite the short tenor and possibly subsidized nature of the China loan, the PBG loan was still considerably cheaper.

Pakistan had previously accessed the bond market with longer tenors matching that of the PBG loan. An analysis of secondary trading levels of Pakistan bonds shows that the PBG loan can be compared to the cost of Pakistan accessing bond markets for a new issue. On that basis, Pakistan has saved about 165 bps each year, thanks to the PBG. Over the life of the PBG loan, we estimate that this equates to some US$70 million of net savings.

The team also ran a discounted cash flow analysis of the PBG loan, using the methodology outlined in the paper "Pricing Partially Guaranteed Bonds."[1] Depending on theoretical assumptions around when a Pakistan default occurs and the IBRD guarantee is drawn, the analysis showed that the illiquidity/ underwriting/ funding premium charged by the lender ranged from 0 to 75 bps on top of IBRD and Pakistan market spreads for relevant tenors at the time of the lender's underwritten commitment. This is at the lowest end of the range.

The PBG extended the loan tenor to an unprecedented 10 years (with a 3-year grace period and 10-year maturity, resulting in a weighted average maturity of 6.5 years).

- *The leverage effect of PBG allows the Government to reach the desired level of funding*

The PBG also allows the Government to use a smaller amount of IBRD resources to achieve US$700 million financing—that is, only US$420 million in IBRD resources (60% of the face value of the loan), implying a leverage factor of 1.6.

- *The first IBRD guarantee-backed Islamic finance tranche was part of the financing package*

The loan includes a conventional tranche and an Islamic finance tranche, which has effectively the same pricing and conditions; both benefit equally from the PBG. This marked the first-ever use of the World Bank guarantee instrument to directly support an Islamic finance loan. This Shariah-compliant tranche was targeted at Middle Eastern investors and played an important role in expanding the investor base.

- *The effect of diversification and expansion of the investor base for Pakistan risks*

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[1] http://documents.worldbank.org/curated/en/723281467998238063/pdf/103282-v1-WP-Occasional-Paper-001-Partially-guaranteed-bond-valuation-final-Box394864B-PUBLIC-Volume-1.pdf

The loan was syndicated to different banks that are first-time lenders to a partially WB-guaranteed sovereign loan. Through the syndication process, these investors became comfortable with taking a combination of Pakistan and IBRD risks (partial guarantee), which paved the way for them to offer long-term loans to Pakistan in the future.

- *Efficient documentation and closing process*

The loan negotiation, documentation, and closing took less than two months, as a result of using the standard Loan Market Association format for the financing document and because of close collaboration among the lender (SC), the borrower (the Government), and the guarantor (the IBRD).

- *Other terms favorable to the Government*

The Government is not obliged to pay all guarantee fees up-front. Instead, the guarantee fees payment is aligned with the timing of the interest payment (semiannually), which saves the Government from reserving a significant amount of the guarantee fee payment up front for the loan's life cycle. Another important feature of the loan concerns prepayment: the Government is not required to pay penalties for voluntary early repayment, an improvement over some earlier transactions.

2. Key Factors Affecting Implementation and Outcomes

2.1. Program Performance

DPC	Amount	Expected Release Date	Actual Release Date	Release
CGDPF - Credit	SDR 352.8 M	23-Jun-2016	23-Jun-2016	Regular
CGDPF - PBG	Up to US$420 M	23-Jun-2016	23-Jun-2016	Regular

All prior actions were met.

List Prior Actions from Legal Agreement

The actions taken by the Recipient under the program include the following:

Improving the Business Environment

1. In order to improve the private sector's access to credit,
   (a) The National Assembly has passed the Financial Institutions Secured Transactions Bill *[approved National Assembly Thursday 17, March 2016; approved Senate Friday July 1, 2016; Law: XXXI/2016]*; and
   (b) Amended the Credit Bureau Act *[approved National Assembly Wednesday May 11, 2016; approved Senate August 1, 2016; Law: XXXIV/2016]*.

2. The Recipient has posted improved processes to simplify and streamline the payment of taxes on the website of the Federal Board of Revenue [*http://download1.fbr.gov.pk/Docs/2016482144744132MeasuresforFacilitationinPayingTaxes.pdf*].

3. In order to improve governance and transparency of capital markets:

(a) The National Assembly has passed an amendment to the SECP Act *[approved National Assembly August 3, 2016; approved Senate August 6, 2016; Law: XXXVI/2016]* in May 2016 to ensure compliance of the provisions applying to securities regulators with international norms and standards and to strengthen the enforcement powers of SECP; and
(b) the SECP has issued an order *[Pursuant to Section 18(3) of Stock Exchanges (Corporatization, Demutualization and Integration Amendment) Act; Law XXII/2015]* in the matter of the integration of the three stock exchanges.

4. The National Assembly has passed the Financial Institutions (Recovery of Finances Amendment) Bill [*approved National Assembly August 12, 2016; approved Senate August 15, 2016; Law/Act XXXVIII/2016*].

5. The Recipient's Ministry of Finance has implemented a new *directive [F. No.2(7) DS(IERU-I)2016*] requiring the annual collection and publication of key financial information on all State Owned Entities by publishing the first report on the Ministry of Finance's website:

- http://www.finance.gov.pk/publications/State_Owned_Entities_FY_2013_14.pdf
- http://www.finance.gov.pk/publications/State_Owned_Entities_FY_2014_15.pdf.

6. To attract private sector investment and remove entry barriers in the insurance sector, the National Assembly has passed the State Life Insurance Corporation (Re-organization and Conversion) Bill in March 2016.

Improving fiscal management

7. The Federal Government has submitted to the National Assembly the Finance Bill FY16/17, which includes the third and final phasing-out of discriminatory concessions granted through Statutory Regulatory Orders [*Gazette of June 24, 2016]*.

8. The Recipient's Federal Board of Revenue has started to implement a new audit policy that includes risk profiling of taxpayers for improved tax compliance by initiating 40 comprehensive audits of large taxpayers [*Audit Policy 2015 and Notices u/s 177(1) for Tax Year 2014 to Companies (notice date on or after January 1, 2016).]*

9. The Recipient's Ministry of Finance has improved debt management coordination through:

(a) Ministerial notification *[F. No. 14(12)/HR-IV/2010, Government of Pakistan, Finance Division, Islamabad March 17, 2016]* expanding the existing functions of the Recipient's Debt Policy Co-ordination office, and
(b) Publication of the approved medium-term debt management strategy FY 2015/16-2018/19 *[http://www.finance.gov.pk/dpco_publications.html]*.

10. In order to strengthen targeting of safety net programs, the Recipient's Federal Government, through its Ministry of Finance, has authorized BISP *[Finance Division's U.O._No.F.2('l)Exp-lV/2016-196 dated 1843-2016]* to update the National Socio-Economic Registry with dynamic updating of the registry going forward, in line with the plan submitted by BISP *[M&E Wing's U.O. No. 1 (14)DG/(R/E/MIS)/BISP/2014 dated 16-02-2016*].

11. The Recipient's Federal Government has published a new poverty rate series going back to 2005-06, using the cost-of-basic-needs method and the most recent survey data (2013/14*) [Meeting of Ministry of Planning and Finance April 2016]*.

2.2. Major Factors Affecting Implementation

Soundness of Background Analysis

The CGDPF operation continued the focus of the FSIG DPC series. While the macro situation had improved, a focus on improving the business environment (including an underdeveloped financial sector) and fiscal management (low revenues and more/better pro-poor spending) was important to address underlying structural problems. The lack of depth of the financial sector (savings roughly 15 percent of GDP, far less than comparators) prompted the IMF's Article IV (2017) to note, "Empirical findings suggest that raising the level of development of Pakistani financial institutions to emerging markets' average could yield annual economic growth gain of about 1 percent." Fiscal problems remained equally pressing. While deficits had declined to 4-5 percent of GDP by the time of the CGDPF, the Government's financing needs were crowding out private credit, reducing savings/investment and growth. Thus, the Fund Article IV (2017) noted that "Revenue mobilization should be the main driver underpinning medium-term fiscal consolidation."

The CGDPF built on a rapidly increasing body of analytical work, especially in the financial sector (see Annex 5), and the number of financial sector prior actions increased. Virtually all of these actions were aimed at improving the legal foundations of the financial sector, representing a maturing reform program. They also benefitted from the Government's National Financial Inclusion Strategy and an ongoing FSAP.

Operation Design

The CGDPF took advantage of lessons learned in the FSIG DCP series. The focus on privatization transactions, which had been problematic and had not achieved substantial results, was shifted to improving transparency and awareness of, and building consensus on, SOE reforms with the periodic publication of SOE financial statements (including their fiscal support). The success of BISP interventions allowed the operation to shift to improving the institutional and analytical foundations for pro-poor programming through support for an updated and dynamic NSER and the long-delayed publication of poverty rates. Finally, while the operation continued to focus on the elimination of tax-distorting SROs, revenue reforms added a focus on risk-based audit and on improving taxpayers' experience through simplified forms and e-filing.

The CGDPF innovated by introducing the PBG and complementary actions to (i) strengthen the MoF's debt management coordination, and (ii) develop a medium-term debt strategy. Given the extent of Pakistan's financing needs, it was important to diversify and to lengthen the maturity of financing, reflecting the Internal Evaluation Group (IEG) guidance on PBGs,[2] an improving macroeconomic environment, sustainable external financing, and a debt strategy.

Finally, learning from the implementation of the FSIG DPC series, in which there were a number of misunderstandings about the completion of prior actions, the CGDPF emphasized having clear prior actions with clearly identified evidence to assess completion.

[2] IEG, 2016, *Findings from Evaluations of Policy-Based Guarantees*.

The CDGPF matrix is simple and easy to understand, with fewer subordinate clauses than in the past.

All these design features/adjustments contributed to CGDPF's effectiveness, but in some areas the CDGPF operation could have been better designed. First, it excluded important reform agendas, and second, it was a stand-alone operation.

The CGDPF excluded measures on trade and public spending (budget reporting) that had been in the FSIG DPC series. Thus, it lost the focus on what have been until very recently relatively stagnant exports, and on the widening current account deficit. This resulted in pressure on reserves (in the absence of exchange rate flexibility) and is now threatening stability. While under the FSIG series the tariff reduction outcome, like privatization, was not a success, prior actions focused on less contentious measures (perhaps logistics) or consensus building would have been warranted.

The FSIG focus on budget reporting was also dropped. At the time the CGDPF was prepared, the deficit was still over 4 percent of GDP. This suggests that a focus on revenue alone might not be sufficient to deal with Pakistan's fiscal position. In any event, progress on deficit reduction has stagnated over the past two fiscal years. Thus, while much of the fiscal discretionary spending is at the provincial level, a federal-level engagement, possibly around elements of the recent public financial management strategy, would have been warranted.

The decision to make CGDPF a stand-alone operation anticipated the election in 2018 and concerns that it would be difficult to deliver a reform agenda beyond mid-2016. However, the Bank successfully prepared and delivered a Finance for Growth DPC in FY17. Instead of a being a stand-alone operation, the CGDPF could have formed the start of a new series focused on the business environment, trade, and fiscal concerns, including a number of reforms in the financial sector. Creating these discrete stand-alone operations allowed the Bank to move deeper on financial sector reform but at the expense of continuity on private sector (beyond the financial sector) and fiscal reforms. More importantly, the lack of continuity reduced the Bank's role on the macro dialogue post-IMF EFF, when reform momentum could be expected to slip, as it did. A series of combined operations across a broader set of reform objectives would have allowed a better sequencing by creating more time to strengthen relations, develop a series of prior actions of differing ambition, and exploit synergies.

Adequacy of Government's Commitment

In 2016 as the CGDPF was being prepared, the Government seemed in a position to drive reform up to and through an election in 2018 (although this was, as noted, a risk). However, the political situation shifted with the publication of the Panama Papers as a result of which, a case was brought in November 2016, and by July 2017 the Prime Minister was declared unqualified to hold office by a unanimous decision of the Supreme Court.

The political tensions leading up to the disqualification of the Prime Minister contributed to a loss of reform momentum. Economic policy-making suffered, and the Government had increased difficulties delivering a reform agenda for which consensus with other political parties was needed. Relations with other branches of the state also suffered. A weakened Government relaxed fiscal discipline and showed an increasing reluctance to address a misaligned exchange rate. These events were exacerbated by the end of the IMF EFF program which, had it been followed by a new program, might have provided a stronger policy anchor. The net effect of the political tensions, the end of the IMF program (and its constraints), and the approaching election sapped the strength and ambition of the Government reform program, and this played out in a deteriorating macroeconomic situation. It also affected the implementation of the program—for example, in the inability to get the SLIC Law enacted, or in fiscal slippages that affected the achievement of results in other areas, such as revenue or debt management.

Relevance of risks identified

The CGDPF program document highlighted the following risks:

- Political (*high*) –
    - The general political situation, including loss of political power in Parliament
    - Resistance to specific reforms, tax/SRO, privatization (including in court)
- Macro (*substantial*)
    - This included exogenous shocks, such as natural disasters and terrorism, global weakness, and low oil prices
    - Reform momentum slips, affecting investment
    - Macro policy deterioration
        - End of IMF program
        - Dollar appreciation with limited exchange rate flexibility
- Institutional capacity, stakeholders, and judicial (*substantial*) –
    - Weak coordination, staff turnover, counterpart capacity
- Technical – focuses on PBG (*moderate*)
- Fiduciary – includes public financial management system (*substantial*)

The risk matrix was well thought through and comprehensive. On the positive side there was no substantial natural disaster, the global economy and oil prices were largely supportive, and the security situation was generally improved. However, the highlighting of political risks as High and of the macro risks as Substantial was prescient. With the combination of political tensions, the end of the IMF program, and an approaching election, political risks played out in macro risk and economic stability. Nonetheless, Senate approval of legislation passed by the National Assembly was, except for the SLIC corporatization, successfully shepherded through, and reform of the financial sector has maintained momentum. Other ministries, including the MoF, the FBR, BISP, and Planning, were also able to deliver reforms in their respective areas.

Institutional capacity, including staff turnover, continues to be a significant problem in almost every area. While the Bank (and other donors) are providing technical assistance to reforming institutions, the capacity needs are large, institutional rigidities severe, and the

turnover of trained competent staff high. The risks to the PBG, beyond the problem of staff turnover, did not turn out to be severe, and the PBG is itself a risk mitigation tool, allowing the Government to diversify funding sources while extending maturity.

In retrospect there was probably little that could have been done to mitigate the political risks that spilled over into macroeconomic instability. A continued focus on increasing exports was warranted, but it was unlikely to have changed the outcome substantially, given the long-standing resistance to addressing an overvalued exchange rate. Technical assistance delivered through trust funds (or by other development partners) is building capacity (and relationships with counterparts); however, a long-term effort will be needed to change institutional capacity and culture.

2.3. Monitoring and Evaluation Design, Implementation, and Utilization

Design

The lessons learned from the FSIG DPC series included the need to simplify and clarify the prior actions and to better monitor their completion and the follow-on actions needed to make them meaningful.

The simplification of prior actions, largely a reduction in subordinate clauses, was noted above. However, an improved understanding and appreciation of what is involved in achieving reforms was also facilitated by a Prior Actions Monitoring Matrix developed for CGDPF at the time of the negotiations for the loan. For each of the prior actions the matrix listed the steps to be completed by the date of negotiations and the follow-up actions needed to make actions meaningful. These were in turn explicitly noted in the Government's Letter of Development Policy.

While the focus areas were well chosen and prior actions logical in some cases, the intended results could have been better selected. In particular, timelines for results chains were often too short for a stand-alone operation, as they did not anticipate the needed follow-on actions. For example, to be effective, the Secured Transactions Act would need an institution to register and check the collateral pledged. Such an institution would require its own processes (which would be developed after passage of the Act), including institutional design, budget, and hiring of staff, and then selling/marketing the concept before there could be an impact on the ease of getting credit (in Doing Business). Similarly, while the Credit Bureau Amendment passed both the National Assembly and Senate, it suffered a delay in implementation as the central bank set the amount of paid-up capital excessively high, limiting the private sector response. It was only in December 2017 that the level of paid-up capital required was overturned by the Sindh High Court and only after that might we see private credit bureaus being put in place. In these cases, the lags between legal reform and the outcome of increased credit (or its measure in Doing Business) were longer than the results matrix allowed for. Similarly, empowering the SECP to improve compliance with IOSCO international standards was time-consuming and unlikely to result in a rapid change in listed capital. Conversely, the integration of the stock market happened quickly and could be plausibly linked to the capitalization of the stock market.

In other cases, the results/outcomes indicators were too broad or not feasible. For example, the capitalization of the stock market and the tax/GDP indicator were affected by other factors. A large share of taxes is obtained at the border and is not linked to either prior action. In this case the measurement of income taxes would have been a better choice—although this measure, like capitalization in the stock market, would be subject to the overall macro situation, with attribution hard to disentangle. A better choice in most of these areas, given a stand-alone operation and the time frame implied, would have been indicators further up the results chain (even output indicators). Finally, while improving the legal framework of the housing market is important to expanding housing finance, setting an increase in private credit of 1.6 to 2 percent seems overly ambitious. Given the increase in total private credit, an increase of 91 percent in housing credit would have been required in 2 years for the result to be achieved. Private housing credit increased by 38 percent, which is a very positive result, but it did not achieve the selected target.

Implementation

The agreement on necessary follow-up actions in the Monitoring Matrix provided the opportunity to remain engaged on the SLIC Act, for which follow-up was not as agreed in the monitoring matrix. The SLIC Act required Senate approval as a follow-up. The SLIC Act passed the National Assembly with Government support, but objections in the Senate prevented passage there. While the SLIC Act focused on improving the governance structure of SLIC (and not privatization per se), concerns were raised that this was a precursor to privatization, and the measure was delayed in the Senate. The corporatization of SLIC remains elusive two years later.

In summary, the areas of focus were correct, the choice of prior actions generally good, and the system for follow-up very much improved. However, the results chosen were not always realistic, clearly attributable, or relevant.

2.4. Expected Next Phase/Follow-up Operation

Formally, CGDPF was a stand-alone operation and no next phase was anticipated. That said, a Finance for Growth DPC in FY17 continued to support a number of financial sector reforms. The reform areas supported in this operation are likely to feature in future operations supporting economic reforms in Pakistan, since the reforms are unfinished and the issues central.

3. Assessment of Outcomes

3.1. Relevance of Objectives, Design and Implementation

(a) Relevance of objectives: Satisfactory

The overall objectives of the CGDPF were in line with the GoP's reform agenda and the World Bank's strategy when the loan was approved, and they remain well aligned at the time of the ICR. Pakistan will struggle to sustain an economic growth rate of even 5 percent if savings/investment remain at past (and current) levels. Improving the ease of doing

business (Pakistan ranks 147/190 in Doing Business 2018) and addressing an underdeveloped financial sector remain critical reform areas. It is also a central concern to improve the poor revenue effort that has created large deficits, crowded out private capital, and limited infrastructure and social spending. Finally, with an improvement in growth outcomes, equity and sustainability concerns suggest that expanding social protection and improved services to Pakistan's poor is critical. Thus, improving the institutional and analytic foundations for pro-poor spending remains essential. A multipronged approach was followed to address Pakistan's overreliance on domestic deficit financing, including debt coordination, a medium-term debt strategy, and an innovative policy-based guarantee, but challenges remain.

(b) Relevance of design: Moderately Satisfactory

The design of the CGDPF improved the clarity of the prior actions and of the needed follow-up. The sum of financial sector measures (secured transactions, credit bureau, a more efficient stock market, and improved legal clarity in the housing market) should, over time, improve and deepen Pakistan's financial markets. Likewise, continuing to push on eliminating the FBR's discretion on SROs and other tax-related exemptions/concessions will improve revenue collection. The shifting of focus from privatization to improving the transparency of SOEs was appropriate, given the difficulties in this area and limited results achieved in the privatization effort. The SLIC prior action under CGDPF focused on improving governance (and not privatization per se), but this is the area in which agreed follow-up actions did not occur as suspicions remained that this might involve privatization.

However, the CGDPF might have focused more on shortfalls in trade policy, because an improved growth performance and accompanying imports were and are creating risks. In addition, a fiscal strategy focused entirely on the revenue side is not likely to be sufficient to address the magnitude of Pakistan's fiscal problem, given typical revenue reform timelines. A better balance of the number and focus of prior actions with the challenges that the economy is facing may have been warranted. Finally, adding the PBG was a strength of the design of this operation, and especially linking it to the coordination of debt and a debt strategy. However, given the size of the financing involved, there may have been an opportunity for a more ambitious reform of debt management to address the fragmentation of debt management across a number of institutions.

(c) Relevance of implementation: Moderately Satisfactory

The MoF and those driving reforms in other ministries used the CGDPF to deliver long-stalled reforms, including major legislation in the financial sector, the publication of comprehensive SOE accounts, improved coordination of debt management, improved pro-poor targeting, and a long overdue publication of poverty outcomes. Virtually everyone interviewed testified to the usefulness of the program, and to the role of the MoF in delivering these agendas.

However, there seems to be a disconnect between the reform ambition in the results framework and the timeframe of this operation. As noted previously, a number of measures—among others, the secured transactions registry/institution, the actions with the SECP, the DPCO, SLIC (if the reform had happened), and the FBR (both tax simplification and audit)—required substantially more time and follow-on activities than anticipated to achieve the specified results and to minimize the risks of reform reversal or limited implementation.

3.2. Achievement of Program Development Objectives

PDO 1: Improving the business environment: Moderately Unsatisfactory

Results indicators for "Improving the Business Environment" included measurable changes in Pakistan's Doing Business Getting Credit indicator, the number of registered taxpayers, the amount of listed capital in the (integrated) stock market, and the share of credit going to housing, as well as two non-quantitative measures, the publication of SOE financial information and a change in the status of SLIC (to be under the same rules as other corporate insurance companies). These indicators were to have been met by June 2017 (or 2018, in the case of Getting Credit).

PDO 1: Improving the Business Environment						
CGDPF indicators	**2015**	**2016**	**2017**	**2018**	**Target**	**Achieved**
DTF score for Getting Credit	30.0	30.0	50.0	45.0	50.0	Yes
Number of taxpayers who submit online	419,910		900,403 /1	1,013,254 /2	773,000	Yes
Increased listed capital in capital market	1.18 trillion PKR	1.29 trillion PKR	1.27 trillion PKR		1.46 trillion PKR	No
Housing finance as share of private sector credit	1.6	1.38	1.45		2.0	No
SOE financial information collected and published	Not Available	Published	Published		Published	Yes
SLIC subject to same rules as other insurance companies	No	No	No		Yes	No
Other indicators						
DTF score for paying taxes	44.46	44.46	53.40	46.43		

1/ March 2017
2/ December 2017

Progress on the business environment was mixed. The distance-to-frontier (DTF) credit score improved, and the target was achieved for number of taxpayers, with an improvement

in the DTF score for paying taxes (although both the credit measure and taxpaying measures reversed slightly in 2018). The publication of the SOE financial information has been a success, with three rounds now published by the MoF, reinforcing the sustainability of this reform. However, the capital listed on the stock exchange and the increase in housing credit were not achieved, and SLIC has not been corporatized.

The actions aimed at facilitating taxpayers' online payment were particularly impressive. The reforms include the successful launch of a system to pay taxes through ATMs, the ability to modify taxpayer information (name, authorized representative, and so forth) online, and the ability to use an online portal to prepare and submit taxes, compare against the previous year's tax return, track refunds (which will be sent to the taxpayer's bank), and receive receipts and notices. The system now includes a completely automated online workflow (registration, filing, notices, etc.) that taxpayers can access without a visit to the tax office. The outcome results are also impressive, with taxpayers filing online rising by over 100 percent in 3 years.

In sum, there was mixed progress. The prior actions make sense but, as already mentioned, the timeline for measurable/observable success was often too short for a stand-alone operation.

PDO 2: Enhancing fiscal management through improving revenue management and making public spending more pro-poor: Moderately Satisfactory

Results indicators for enhancing fiscal management through improving revenue management and making public spending more pro-poor include improving the tax/GDP ratio, maintaining the foreign public debt within a specified range, and increasing the number of households with updated poverty scorecards; there is also a non-quantitative measure, the publication of poverty rate statistics based on the cost of basic needs, with the trend back to 2005/06. Again, results were expected by June 2017.

PDO 2: Enhancing Fiscal Management						
CGDPF indicators	**2015**	**2016**	**2017**	**2018**	**Target**	**Achieved**
Tax/GDP	11.0	12.6	12.5	-	12.2	Yes
Foreign share of public debt (%)	28.0	28.5	28.6	30.4 *1/*	20-35	Yes
Number of households with updated poverty scorecards	0		2.46 million	3.8 million	2.5 million	Yes
New poverty series and baseline	No	Yes			Yes	Yes
Other indicator						
Direct tax/GDP	3.8	4.2	4.1	-		

1/ Dec 2017

The fiscal and pro-poor indicators were achieved, in the case of the tax/GDP ratio and the share of foreign debt in public debt. The number of households with updated scorecards was quite close to its target, and the poverty line was adjusted and the trend back to 2005/06 published.

The increase in the share of tax to GDP is linked to the elimination of SROs and the initiation of risk-based audits. The tax reforms went far beyond the elimination of SROs and included the withdrawal of tax concessions/exemptions (on sales and income taxes) provided through schedules in the tax law. Either SROs or exemptions/concessions were withdrawn in 17 sectors. These measures were included in the Finance Bill for FY16/17. The total increase in revenue predicted from the withdrawal of these measures was 78.4 billion PKR, or over 0.2 percent of GDP. The largest changes included a change in the sales tax treatment of cement, and the way advance and minimum taxes are treated. These three measures account for 65 percent of the total predicted increase in taxes. The new risk-based audit policy for audit cases for 2015 (adopted in 2016) was adopted again for 2016 audit cases. Of the 40 audits initiated by April 2018, 36 had been completed and the remaining 4 were in process.

It is difficult to attribute the increase in the overall tax/GDP ratio solely to the reforms supported in this operation, since overall economic performance has arguably more to do with it. More importantly, the prior actions (reduction in SROs and exemptions/ concessions and audit changes) would be better linked to changes in direct taxes (including as a share of GDP). In fact, most of the increase in the tax/GDP ratio is due to increased trade taxes (of an overall gain of 1.2 percent of GDP targeted and 1.5 percent of GDP achieved, only 0.3 percent of GDP would have been due to direct taxes in line with the result of these measures). The likely impact of the adoption of risk-based audits would play out over a longer time horizon than allowed in this operation.

Improving the coordination of debt management in Pakistan is a high priority and empowering the DPCO a good start, although more ambition may be warranted to address the fragmented debt management function. The results indicator focuses on the share of foreign to total debt, and this was achieved. Rebalancing financing toward foreign debt helps address the crowding-out of private credit that domestic financing creates. In addition, between January 2016 and February 2018, the premium of Pakistan's foreign debt (over other emerging markets as measured by EMBI) fell by 177 basis points, suggesting an improvement in the markets' assessment. Another concern is the maturity profile of Pakistan's domestic debt. In June 2017, the maturity profile was within the range specified in the medium-term debt management strategy, but since then domestic debt maturities have shortened as the Government focused on short-tenor domestic borrowing to finance an increasing deficit. The focus on foreign debt makes sense in the CGDPF operation, particularly considering the link to the PBG, but there is a strong case for focusing also on the maturity profile of domestic debt.

Both the pro-poor measures have achieved significant results. Delivering on the first phase of an updated registry, while laying the groundwork for a subsequent phase and dynamic updating, establishes a positive institutional engagement. The revision and improvement

of the poverty line and the publication of the time series back to 2005/06 is also important. The 2015/16 poverty rates were recently published, suggesting reform sustainability.

3.3. Justification of Overall Outcome Rating

Overall rating – Moderately Satisfactory

The objectives and design of CGDPF are well aligned with Government and Bank reform programs, with the possible exception of the missing focus on trade and public spending. Design shortcomings include the need for additional, and time-consuming, follow-up actions, which is risky in a stand-alone operation. The first PDO was Moderately Unsatisfactory, with 3 of 6 results not achieved (in part because of unrealistic timeframes). In the second PDO all results were achieved, although the tax indicator could have been better defined. Combining these gives an overall rating of Moderately Satisfactory.

3.4. Overarching Themes, Other Outcomes and Impacts

(a) Poverty impacts, gender aspects, and social development

The CGDPF program addresses Pakistan's linked competitiveness (business and financial sector) and fiscal (tax and debt) problems while laying the foundations for improved pro-poor spending. Without higher, sustainable growth Pakistan cannot generate the employment or fiscal resources necessary for poverty reduction and social development.

However, a number of the prior actions have more direct impacts on poverty reduction, gender, or social development. The CDGPF business environment agenda is focused on financial inclusion, with households and small firms the largest beneficiaries. For example, the ability to use mobile collateral, the creation of credit bureaus, legal clarity on housing finance, and, to a lesser extent, an improved and more efficient equity market address the key savings/investment deficit in Pakistan. And they address it by opening credit markets to the smaller firms that, in turn, absorb labor and increase welfare for the less advantaged.

More importantly, while an increase in growth is a necessary condition for improved poverty, gender, and social development, it is not a sufficient condition. To make sure the recent increase in growth is directed to the poor while mitigating potential inequality requires improved targeting of pro-poor interventions and an analytic base for measuring the impact of different policies. The NSER update is critical to find and address those who are at risk of being left behind, and it needs to be repeated in a timely fashion. Given the time and resources involved, developing an improved, faster, and more efficient system to update the NSER is important, and the CGDPF advanced the updating and laid a foundation for an improved system. The other directly pro-poor prior action, revising the poverty line and publishing poverty rates back to 2005/06, is critical to understanding poverty and income inequality dynamics.

(b) Institutional change/strengthening

The CGDPF contributed to strengthening the MoF's understanding and delivery of long-stalled reforms, and the program had direct and indirect implications for many other agencies. These implications included the creation of a secured transactions registry; improved and streamlined payment of taxes (part of a larger reform at the FBR); an empowered, better-functioning SECP; sustained collection and publication of SOE financial information by the MoF; the introduction of a risk-based audit approach, again at FBR; improved coordination of debt management, especially at the DPCO; and potential changes to the way the NSER is updated. Much of this institutional agenda will continue to play out over years to come.

3.5. Summary of Findings of Beneficiary Survey and/or Stakeholder Workshops

There was no beneficiary survey or stakeholder workshop.

4. Assessment of Risk to Development Outcome

Rating: Significant

While the timeframes for the results (outcomes) from prior actions in CGDPF were, in some cases, unrealistic, the underlying reform agendas appear well anchored and sustainable. Reform momentum in the financial sector continues; the changes on tax filing represent a positive change; the publication of the SOE financial information is taking root; the DPCO, while fragile, is becoming stronger; and there is a good prospect that there will be sustained improvements in the NSER. The success of the first PBG has improved the understanding of this instrument at the MoF, opened a new market, and likely increased confidence.

The main CGDPF PDO-related risks, aside from the failure to deliver the SLIC Act, is the sustainability of underlying longer-term fiscal reforms that would affect macroeconomic risks, which have increased significantly over the past two years. These risks are partly created by an import surge (linked to the China-Pakistan Economic Corridor), an unwillingness to adjust the exchange rate, and renewed fiscal pressures, all complicated by the political cycle. Thus, while the CGDPF program is focused on the right areas, and is mostly on track, the overall reform program remains at risk.

While the current economic situation is difficult, there are positives. Growth remains strong, and there is reform momentum in many areas. The much-needed adjustment in fiscal and monetary policies has begun. The newly elected government can start a renewed reform agenda in a stronger position than the one undertaken in 2013, which was supported by the FSIG DPC series and this operation. And it is likely that the new government will again call on the Bank to support the economic reforms agenda.

5. Assessment of Bank and Borrower Performance

5.1. Bank Performance

(a) Bank performance in ensuring quality at entry: Moderately Satisfactory

The Bank team chose the right objectives and designed a strong operation in line with Government and Bank reform priorities. They learned lessons from the earlier operations and developed clear, simple, and well-understood prior actions with clearly defined follow-ons. The overall program builds on an analytic program dating back to 2013. The measures in the financial sector added a deeper analysis through the use of the National Financial Inclusion Strategy and the FSAP (in progress as the CGDPF was being developed). The program builds on an IMF EFF program and coordinates with other development partners (the Asian Development Bank, DFID, and USAID) to support the Government, including, in the case of DFID, through a Trust Fund for Accelerated Growth and Reforms (TAGR). This trust fund was especially important in supporting the extensive institutional strengthening focus with technical assistance. The addition of the Policy Based Guarantee provided additional financing from the private sector while also reinforcing some of the reforms being supported.

The decision to make CGDPF a stand-alone loan created several design problems. The results needed to be scaled back to the time frame implied and in many cases they were not. A number of prior actions imply institutional changes that would have required lengthier and more involved follow-on actions than were developed or could have been accomplished during the program. In addition, some results indicators—for example, the tax/GDP ratio and listed capital on the stock exchange—could have been better defined, perhaps even as output indicators, given the time frame.

Another shortcoming was the failure to achieve the final passage of the SLIC Act. Resistance in the Senate meant that the required follow-on action did not happen in the time frame allowed. The development of a revised measure aimed at corporatizing SLIC might have happened if the political situation had not deteriorated. Given the heavy legislative agenda pursued in the CGDPF, the fact that only one piece of legislation is pending is in itself an achievement, but nonetheless a reminder of the risk of pursuing legislative reforms in this type of operation.

(b) Quality of supervisions: Satisfactory

There was relatively little formal supervision under the CGDPF, although the matrix of prior and follow-on actions and tracking the results outcomes did require oversight. In fact, the monitoring system, built on improvements in the definition and clarity of the prior actions, lent itself to an improved engagement with counterparts and better delivery. The process was supported by an extensive team in Pakistan with expertise in the reform areas supported by the CGDPF. Most reform areas in the CGDPF benefit from extensive engagements through projects (like BISP or the Finance for Growth DPC) and trust-fund-financed technical assistance (like the tax, SOE, and debt management reforms), which allowed the team to continue engaging with the authorities to monitor and support the implementation of the program. A one-day joint GoP – World Bank workshop was organized at the end of November 2016 to discuss the implementation of reforms supported by the various DPC programs, including the CGDPF. The workshop focused on reviewing

progress and identifying ways in which implementation could be further supported and areas in which increased attention may be warranted in the future (e.g., trade policy).

(c) Justification of rating for overall Bank performance: Moderately Satisfactory

Supporting such a wide reform effort through a stand-alone operation seems too ambitious, and support for needed follow-on interventions should be built into such a program (and not rely solely on the availability of trust funds or other projects). An alternative to a DPC series (instead of a stand-alone operation) would have been a more modest set of results, more in line with the time frame of the operation. However, and despite this decision, the objectives and design were sound and the supervision effective.

5.2. Borrower Performance

(a) Government performance: Moderately Satisfactory

By the CGDPF the MoF had gained experience managing policy-based lending, and it showed in this operation. In interviews, other agencies continually mentioned the positive role the MoF played in advancing stalled reforms. Preparation and implementation were aided by monthly meetings chaired by the Finance Minister with all relevant stakeholders and technical staff of both the Government and the World Bank. These meetings were important to maintain momentum and resolve any bottlenecks in the implementation of reforms.

The GoP and the World Bank failed to include reforms that could address the deteriorating export performance or public spending. These areas have become critical for macroeconomic stability. Specific to the MoF, more ambition on debt management would have been warranted, particularly with regard to the integration of the various debt management functions into a single debt office rather than strengthening a coordinating unit.

6. Lessons Learned

The CGDPF operation built effectively on the previous FSIG DPC series. The prior actions had good analytic foundations and were simple and well described, with clear prior and follow-on actions that were well understood by all parties. They were codified in a monitoring matrix agreed during negotiations and committed to by the Government in the Letter of Development Policy. With regards to privatization, the operation was designed to emphasize transparency and the overall regulatory framework at the sectoral level instead of individual transactions. The operation increased the focus on institutional reform in a number of areas.

The PBG was a well-conceived and innovative addition to the DPC. A number of lessons were learned from the design of the instrument and the process of procuring the financing supported by the PBG:

- In deciding how to apply a PBG, borrower countries need to make a trade-off between maturity, guarantee coverage, volume, and cost. Higher guarantee coverage means lower financing volume and lower cost. Longer-maturity debt will always cost more than shorter-maturity debt, given that credit spreads charged increase with longer maturities. It would be fair to say that after much deliberation, Pakistan chose to extend tenors while keeping an eye on affordability vs. financing volumes achieved.
- Borrowers should plan ahead for their borrowing needs and take action long before a payment/refinancing deadline. Trying to raise large sums of funding, even with WB support, at a time when the sentiment in the market has started to turn against the borrower does not result in the optimal outcome. This lesson, learned during the Ghana PBG, was applied as much as possible here, with positive outcomes.
- It is in the borrower's interest to consider multiple market segments to maximize the benefits of the WB guarantee in light of changing market conditions. It follows from this that the PBG should maintain flexibility so that it can respond to market fluctuations while getting the best value for the client.
- In addition, it is important to widen the group of banks submitting proposals and run a transparent, competitive RfP process. The World Bank worked closely with the Government to expand the market reach and bring in new banks to the RfP. As a result, Pakistan achieved significant cost savings and extended the tenor to an unprecedented 10 years (previously, only 3 years) for this US$700 million loan.

The strategy to implement reforms at a "measured pace" of the FSIG DPC series and the CGDPF may not be the best strategy going forward. In 2013 a new Pakistan Government and a Ministry of Finance that was new to the DPC instrument needed time to gain experience and build trust. This argued, correctly, for a somewhat slower start to the reform effort as engagement with the authorities was strengthened. However, this strategy did not allow for tackling ambitious trade and spending reforms or focusing on the difficult longer-term agendas needed to tackle revenue and debt reform. Any new support for economic reforms should build on the relations established over the past few years and not shy away from difficult reforms, including in areas in which there has been more limited engagement in the DPCs (such as trade and fiscal decentralization). It would also be useful to frontload some of the more difficult reform steps to earlier operations in a programmatic series, when there is stronger momentum for more difficult reforms (including on broadening tax compliance or debt management).

The more limited reach of a stand-alone operation needs to be reflected in the results framework. The stand-alone nature of the CGDPF had consequences not accommodated in the design. A number of the reforms supported, especially those done through legislative change in the financial sector, involved follow-on institutional changes, and unavoidable lags until outcomes would be forthcoming. This was even more the case when changed behavior in markets was necessary to achieve the desired outcomes. Thus a number of results were not achieved under PDO 1, even though the prior actions made sense and the results, in many cases, were plausibly linked to these actions. In these cases, it would have been better to accept the short time frame involved and focus results on output-related indicators.

Results indicators need to be better linked to prior actions. Beyond unrealistic timelines, a number of results indicators could have been better defined. Stock market capitalization and the overall tax/GDP ratio are examples of indicators for which attribution is very difficult. Alternative indicators would have been more appropriate—for example, to measure progress in taxation reforms, increases in income taxes instead of the tax/GDP ratio might have been better.

It is important for a country to stay the course of reforms in the face of difficulties – and for development partners to support it. Economic policy-making and reform implementation in Pakistan have worsened since the end of the IMF program in late 2016, particularly as political tensions intensified. Some of the risks to the political and macroeconomic situation in Pakistan, candidly listed in the risk matrix of the operation, have materialized. The reforms implemented by the government and supported by the FSIG DPC series and the CGDPF, are by no means perfect. But many of the reforms initiated continue to be implemented. Pakistan may need another program of reforms and financial support relatively soon. But it will start this effort from a stronger foundation (in terms of growth, low inflation, improved energy supplies, and security) and with a number of important reforms under implementation. Pakistan could now create the conditions for sustained growth that most of its Asian comparators have achieved. It will be important for Pakistan to stay the course, and for its development partners to continue supporting the country and take informed risks, providing the necessary leverage for reform champions, even when some reform areas are backsliding and macroeconomic risks have intensified.

Annex 1. Policy and Results Matrix

Prior Actions for CGDPF	Results (June 2017)
Pillar I: Improving the Business Environment	
In order to improve the private sector's access to credit, (a) the National Assembly has passed the Financial Institutions (Secured Transaction) Bill; and (b) the National Assembly has passed the Amendment to the Credit Bureau Act.	**Results Indicator:** Doing Business distance-to-frontier indicators for Getting Credit **Baseline** DB16: 30.0 **Target** DB18: 50.0
The Recipient has posted improved processes to simplify and streamline the payment of taxes on the website of the Federal Board of Revenue.	**Results Indicator:** Increase in the number of taxpayers who submit a tax return online by end-March the following year **Baseline** 419,910 in March 2015 **Target** 773,000 in March 2017
In order to improve governance and transparency of capital markets, (a) the National Assembly has passed an amendment to the SECP Act, to ensure compliance of the provisions applying to securities regulators with international norms and standards and to strengthen the enforcement powers of SECP; and (b) the SECP has issued an order in the matter of the integration of the three stock exchanges.	**Results Indicator:** Increased listed capital in capital markets **Baseline:** Listed capital of PKR 1.18 trillion as of June 2015 **Target:** Listed capital increases by 15 percent to PKR 1.46 trillion by June 2017
The National Assembly has passed the Financial Institutions (Recovery of Finances Amendment) Bill.	**Results Indicator:** Housing finance market as a percentage of private sector credit **Baseline** 1.6 percent in 2014 **Target:** 2 percent by 2017
The Recipient's Ministry of Finance has implemented a new directive requiring the annual collection and publication of key financial information of all state-owned entities by publishing the first report on the Ministry of Finance's website.	**Results Indicator:** Availability of consolidated SOE financial information **Baseline:** Not available **Target:** Published
To attract private sector investment and remove entry barriers in the insurance sector, the National Assembly has passed the State Life Insurance Corporation (Re-organization and Conversion) Bill.	**Results Indicator**: SLIC is subject to same rules as other corporate insurance companies **Baseline:** SLIC is not required to follow Companies Ordinance 1984 **Target:** SLIC complies with Companies Ordinance 1984
Pillar II: Enhancing Fiscal Management	
The Federal Government has submitted to the National Assembly the Finance Bill FY16/17, which includes the third and final phasing-out of discriminatory concessions granted through SROs.	**Results Indicator:** Tax/GDP ratio **Baseline**: 11 percent in FY14/15 **Target:** 12.2 percent in FY16/17
The Recipient's Federal Board of Revenue has started to implement a new audit policy that includes risk profiling of taxpayers for improved tax compliance by initiating 40 comprehensive audits of large taxpayers.	
The Recipient's Ministry of Finance has improved debt management coordination through (a) ministerial notification expanding the existing functions of the Recipient's Debt Policy Co-ordination Office, and (b) publication of the approved medium-term debt management strategy FY 2015/16 – 2018/19.	**Results Indicator:** Share of foreign debt as a percentage of total public debt **Baseline:** 28 percent in 2015 **Target:** 20-35 percent in FY16/17, in line with the medium-term debt strategy
In order to strengthen targeting of safety net programs, the Recipient's Federal Government, through its Ministry of Finance, has authorized BISP to update the National Socio-Economic Registry with dynamic updating of the registry going forward, in accordance with a plan submitted by BISP.	**Results Indicator:** Number of households with updated poverty scorecard information registered in the National Socio-Economic Registry **Baseline:** 0 in 2015 **Target:** 2.5 million by June 2017
The Recipient's Federal Government has published a new poverty rates series going back to 2005-06, using the cost-of-basic-needs method and the most recent survey data (2013/14).	**Results Indicator:** Adoption of a new poverty line **Baseline:** No poverty rate published since 2005-06 **Target:** New poverty rate published using latest data (2013-14) along with trend in poverty on old line, which had not been released since 2006

Annex 2. Bank Lending and Implementation Support/Supervision Processes

a) Task Team members

Name	Unit
Gabi George Afram	SACPK
Sarwat Aftab	GFCSN
Javaid Afzal	GEN03
Akhtar Ali	GMTSA
Guillermo Carlos Arenas	GMTR
Neil Pravin Ashar	LEGSG
Mehwish Ashraf	GMTSA
Helene Bertaud	LEGES
Enrique Blanco Armas	GMTSA
Raul Felix Junquera-Varela	GGOGT
Sebnem Erol Madan	GTIFP
Ghazala Mansuri	GPV06
Yasuhiko Matsuda	SACKB
Zhengjia Meng	GTIFP
Clelia Kalliopi Helena Rontoyanni	GGOAP
Robert Schlotterer	GTIFP
Sarmad Ahmed Shaikh	GFCSN
Connor P. Spreng	GTC06
Daria Taglioni	CCECE
Ahsan Tehsin	GSU18
Muhammad Waheed	GMTSA
Mark Walker	LEGSG
William Wallace	GMTSA

b) Costs

Instrument	*Labor*	*Travel*	*Other*	*Total*
Credit				
Lending (FY16)	216,682.8	41,701.9	22,011.3	280,396.1
Supervision/ICR (FY17)	67,741.5	8,448.6		76,190.1
Supervision/ICR (FY18)	37,373.6	8,678. 5	26,028.1	72,080.1
Total Credit	321,798.0	58,828.9	48,039.4	428,666.3
PBG				
Lending (FY16)	0	0	0	0
Supervision/ICR (FY17)	31,228.5	3.0		31,231.5
Supervision/ICR (FY18)	71,586.4	3,442.2	6,503.0	81,531.6
Total PBG	102,814.9	3,445.2	6,503.0	112,763.1
Total Financing	424,612.9	62,274.1	54,542.4	541,429.4

Annex 3. Government Comments on draft ICR

Most Immediate
By Special Messenger

No. 3(2)EFP.III/2018
Government of Pakistan
Finance Division
(External Finance Policy Wing)
***

Islamabad, July 27th, 2018

From: Malik Ishfaq Khan
Section Officer (EFP.III)
Finance Division

To: Ms. Melinda Good
Acting Country Director
World Bank, Pakistan Office
Islamabad

Subject: **Competitive and Growth Development Policy Financing Implementation Completion Report (ICR)**

I am directed to refer to the World Bank's letter dated June 20, 2018 on the subject and to state that Ministry of Finance concurs to the subject ICR.

2. This issues with approval of competent authority.

Yours sincerely,

(Malik Ishfaq Khan)

Annex 4. List of Supporting Documents

1. Finding the Path to Job-Enhancing Growth: A Country Economic Memorandum, Report No 75521-PK, World Bank, 2013.
2. Pakistan, Country Partnership Strategy for the period 2015-2019, Report No. 84645-PK, April 4, 2014.
3. Pakistan Development Update, November 2017.
4. Performance and Learning Review for the Islamic Republic of Pakistan, Report No. 113574, May 18, 2017.
5. Pakistan First Fiscally Sustainable and Inclusive Growth (FSIG 1) Development Policy Credit, Program Document, Report No. 86373-PK, April 3, 2014.
6. Pakistan Second Fiscally Sustainable and Inclusive Growth (FSIG 2) Development Policy Credit, Program Document, Report No. 99376-PK, May 15, 2015.
7. Implementation Completion and Results Report for Fiscally Sustainable and Inclusive Growth Development Policy Credit, Report No. ICR00003946, June 15, 2017.
8. Competitiveness and Growth Development Policy Financing, Program Document, Report No. 105825-PK, May 23, 2016 – includes Letter of Development Policy.
9. Pakistan Competitiveness and Growth Development Policy Financing Regional Operations Committee (ROC) Decision Note, April 27, 2016.
10. Agreed Minutes of Negotiations between the Islamic Republic of Pakistan and the International Development Association regarding the Competitiveness and Growth Development Policy Financing, May 16, 2016.
11. Pakistan Competitiveness and Growth Development Policy Financing (P157207), Implementation Status Report (ISR), June 23, 2017.
12. Finance for Growth Development Policy Credit, Report No. 112795-PK, February 14, 2017.
13. Pakistan Implementation Completion and Results Report for a Power Sector Reform Development Policy Credit I and II, Report No. 112795-PK, December 29, 2017.
14. Pakistan 2013, Article IV Consultation and Request for an Extended Arrangement under the Extended Fund Facility, IMF Country Report 13/287, September 2013.
15. Pakistan 2017, Article IV Consultation, IMF Country Report 17/212, May 2017.
16. Pakistan, First Post Program Monitoring Discussions, IMF Country Report 18/78, March 2018.
17. Pricing Partially Guaranteed Bonds, World Bank Financial Solutions Occasional Paper, February 2016.
18. Pakistan PBG Loan Pricing Model, Excel spreadsheet, 2016.
19. *Findings from Evaluations of Policy Based Guarantees*, World Bank, an IEG Learning Product, 2016.
20. Macedonia, Implementation Completion and Results Report on a Policy Based Guarantee, Report No. ICR27900, May 13, 2013.
21. Serbia, Implementation Completion and Results Report on a Private and Financial Sector Policy Based Guarantee, Report No ICR 62713, June 20, 2011.

Annex 5. Analytical Underpinnings

Prior Actions	Analytical underpinnings
Pillar 1. Improving the Business Environment	
In order to improve the private sector's access to credit, (a) the National Assembly has passed the Financial Institutions (Secured Transaction) Bill; and (b) the National Assembly has passed the Amendment to the Credit Bureau Act.	GoP's Plan for Improving Business Environment 2014; Enhancing the Business Environment—Pakistan Policy Notes; Doing Business Report 2016; SBP Microfinance Strategic Framework 2011–15.
The Recipient has posted improved processes to simplify and streamline the payment of taxes on the website of the Federal Board of Revenue.	GoP's Plan for Improving Business Environment 2014; Enhancing the Business Environment—Pakistan Policy Notes; Doing Business Report 2016
In order to improve governance and transparency of capital markets, (a) the National Assembly has passed an amendment to the SECP Act to ensure compliance of the provisions applying to securities regulators with international norms and standards, and to strengthen the enforcement powers of SECP; and (b) the SECP has issued an order in the matter of the integration of the three stock exchanges.	Financial Sector Assessment Program (FSAP) 2005 and FSAP Update 2010. A new update will be prepared in 2016.
The National Assembly has passed the Financial Institutions (Recovery of Finances Amendment) Bill.	Technical Note on Housing Finance as part of the National Financial Inclusion Strategy; SBP Microfinance Strategic Framework 2011–15.
The Recipient's Ministry of Finance has implemented a new directive requiring the annual collection and publication of key financial information of all state-owned entities by publishing the first report on the Ministry of Finance's website.	Trust Fund for Accelerating Growth and Reforms (TAGR).
To attract private sector investment and remove entry barriers in the insurance sector, the National Assembly has passed the State Life Insurance Corporation (Re-organization and Conversion) Bill.	GoP's Strategy on Privatization; Time for Serious Corporate Governance—WB Policy Paper Series; Reforming SOEs— Pakistan Policy Notes; TA on Insurance Regulatory Reform.
Pillar 2. Enhancing Fiscal Management	
The Federal Government has submitted to the National Assembly the Finance Bill FY16/17, which includes the third and final phasing-out of discriminatory concessions granted through SROs.	FBR Tax Reform Strategy 2014; Finding the Path to Job Enhancing Growth—Country Economic Memorandum Report; Mobilizing Revenue—Pakistan Policy Notes; Trust Fund for Accelerating Growth and Reforms (TAGR).
The Recipient's Federal Board of Revenue has started to implement a new audit policy that includes risk profiling of taxpayers for improved tax compliance by initiating 40 comprehensive audits of large taxpayers.	
The Recipient's Ministry of Finance has improved debt management coordination through: (a) ministerial notification expanding the existing functions of the Recipient's Debt Policy Co-ordination Office, and (b) publication of the approved medium-term debt management strategy FY 2015/16 – 2018/19.	Trust Fund for Accelerating Growth and Reforms (TAGR); IDA and IMF, 2014, "Pakistan – Developing a Medium Term Debt Management Strategy.
In order to strengthen targeting of safety net programs, the Recipient's Federal Government, through its Ministry of Finance, has authorized BISP to update the National Socio-Economic Registry with dynamic updating of the registry going forward, in accordance with a plan submitted by BISP.	Consolidating Social Protection—Pakistan Policy Notes; WB BISP Project Evaluation reports.

Annex 6: Key Economic Priorities of the Government's Program

The Government's economic reform program focuses on macroeconomic stability, aiming at bringing inflation down to 6-7 percent and achieving a growth rate of 6-7 percent by FY 17/18 or earlier. To do this, it has laid out the following policy agenda:

Stabilization

- *Fiscal consolidation.* Reducing the fiscal deficit from 8.3 percent of GDP in FY12/13 to 3.5-4 percent in FY16/17 by increasing revenues by around 3 percent of GDP, eliminating tax exemptions, imposing austerity in non-social expenditure outlays, reducing subsidies, and improving debt management.
- *Rebuilding external reserves* to no less than 3 months of imports and maintaining prudence in monetary policy. Scaling back monetary accommodation of fiscal deficits and setting up policy rates to keep real interest rates positive; strengthening the central bank's independence.

Main growth-enhancing reforms

- *Comprehensive power sector reforms.* Reducing power subsidies, restructuring boards of power distribution and generation companies, attracting investments, strengthening the power sector regulator, and expanding alternative sources of energy.
- *Reforming or privatizing SOEs.* Privatizing by equity or strategic sales, or restructuring and requiring compliance with the Public Sector Companies (Corporate Governance) Rules 2013.
- *Improving trade competitiveness.* Simplifying trade slabs and phasing out trade-distortive statutory regulatory orders (SROs).
- *Improved trade quantum with preferential trade alliances.* Increased effort to benefit from all preferential trade alliances and taking full advantage of the Generalized Scheme of Preferences from the European Union.
- *Enhancing the investment climate.* Strengthening the Board of Investment in implementing a plan for improving the business environment and establishing investment-friendly special economic zones.
- *Expanding access to finance.* Developing the State Bank of Pakistan's Financial Inclusion Program to enhance small and medium enterprises' access to financial services through regulatory reforms, product innovation, technology upgrade, financial literacy, and consumer protection.

Annex 7: Pakistan Key Macroeconomic Indicators FY 11/12 to FY 17/18

	FY11/12	FY12/13	FY13/14	FY14/15	FY15/16	FY16/17	FY17/18
	Actual						Project
Real economy	(Percentage change, unless otherwise indicated)						
GDP growth (factor cost)	3.8	3.7	4.1	4.1	4.6	5.4	5.8
Gross investment (% GDP)	15.1	15.0	14.6	15.7	15.7	16.1	16.4
Consumer prices (per avg)	11.0	7.4	8.6	4.5	2.9	4.2	3.9
Fiscal sector	(In percent of GDP, unless otherwise indicated)						
Tax revenue	10.4	10.1	10.5	11.0	12.6	12.4	13.0
Overall balance (excl. grants)	-6.8	-8.2	-5.5	-5.3	-4.6	-5.8	-6.6
Total public debt	64.1	64.7	64.4	64.3	68.7	67.9	73.5
Monetary/financial sector	(Percentage change, unless otherwise indicated)						
Credit to private sector	7.5	-0.6	11.1	7.3	11.2	16.8	16.5
Real deposit rates 1/	-3.8	-1.2	-3.0	1.0	1.3	-0.8	-1.2
Listed capital (% GDP)	-	5.0	4.7	4.6	4.3	3.9	-
Balance of payments	(In percent of GDP, unless otherwise indicated)						
REER 2/	106.9	104.5	110.6	119.7	120.7	126.7	-
Current account balance 3/	-2.1	-1.1	-1.3	-1.0	-1.7	-4.1	-5.8
Export growth (%)	-2.6	0.3	1.1	-3.9	-8.8	0.1	12.6
Import growth (%)	12.8	-0.5	3.8	-0.7	-0.2	18.0	14.7
Remittance growth (%)	17.7	5.6	13.8	18.2	6.4	-2.8	1.4
Capital/financial balance	0.7	0.4	3.0	2.0	2.5	3.5	4.1
Gross reserves (US$ 4/	11,905	7,198	10,509	14,836	19,446	17,550	11,364
Gross reserves mth 5/	2.9	1.7	2.5	3.6	4.0	3.2	2.0

Sources: Pakistan authorities, World Bank Staff estimates.

1/ Average weighted

2/ Real effective exchange rate

2/ Including transfers

3/ SBP gross reserves eop)

4/ In months of imports of goods and services

Annex 8: Pakistan 10-year bond spread and EMBI bond spread

Figure 1. Pakistan 10-year bond spread

Figure 2. EMBI bond spread