

**OPERATIONS EVALUATION DEPARTMENT**  
**PAKISTAN - COUNTRY ASSISTANCE EVALUATION**  
**APPROACH PAPER**

### Country Background

1. Pakistan has a population of approximately 145 million, with GNI per capita in 2002 of approximately US\$420. After outpacing its South Asian neighbors in GDP growth over the first three decades of its existence, in the 1990s Pakistan began to fare less well with growth and several key social indicators (Table 1). Pakistan's annual growth rate averaged over 6 percent in the 1980s, about 4 percent during the 1990s, and rose to over 5 percent in the past year. With a population growth rate of 3 percent, per capita GDP growth averaged 1.4 percent from 1990 to 2002.

2. Fiscal pressures have affected the national economy as chronic deficits raised debt and debt service. Public debt grew to 110 percent of GDP by 2001, and interest expenditures reached 7.8 percent of GDP by 2000—a share that has since fallen by a third. The poverty rate declined from 46 percent in the 1980's to 26 percent in 1990/91, and rose to 32 percent in 2000/01.

**Table 1: Regional Comparison of Select Human Development Indicators**

|            | <i>Gross Primary school enrollment</i> |        | <i>Adult Illiteracy (age 15+)</i> |        | <i>Mortality rate per 1000</i> |         |
|------------|--|--------|-----------------------------------|--------|--------------------------------|---------|
|            | Male                                   | Female | Male                              | Female | Infant                         | Under 5 |
| Bangladesh | 88                                     | 90     | 50                                | 69     | 51                             | 77      |
| India      | 111                                    | 92     | 30                                | 53     | 74                             | 93      |
| Pakistan   | 83                                     | 48     | 41                                | 70     | 84                             | 109     |
| Sri Lanka  | 107                                    | 104    | 5                                 | 11     | 17                             | 19      |

Note: All figures are from World Development Indicators, latest available year. For primary school enrollment, data is for 1998 (Sri Lanka), 1999 (India), and 2000 (Bangladesh and Pakistan). Adult illiteracy is for 2002 for all countries, and Mortality rates are for 2001 for all countries.

3. Between 1988 and 1999, four elected governments and four constitutionally mandated interim governments held office. The different governments announced initiatives to increase growth through privatization, improve the private sector climate, reform the state sector, and close the social and gender gaps, but few of the reforms were sustained. From 1988 to 2001, Pakistan did not complete any of seven programs supported by the IMF. The changes in economic programs (including arrangements with private investors in the power sector) and perceptions of corruption in Pakistan weakened investor interest in Pakistan. In addition, in 1998, foreign investment and lending dropped off and sanctions were imposed following the Government's nuclear testing program.

4. Bilateral and multilateral support increased in 2001, as the current Government began implementing a new reform program, and as the stability of Pakistan became a greater

international concern. In addition, a combination of external and internal events have led to increases in remittances, foreign direct investment, and repatriation of Pakistani capital from abroad. Pakistan also managed to retire some high-cost external debt, as its bond ratings were upgraded to B2/B, and it had a successful (and over-subscribed) \$500 million Eurobond issue in February 2004. The increased flows and refinanced debt helped to lower the debt service burden, ease fiscal pressures, and fuel GDP growth, which at 5.1 percent for the year ended June 2003, exceeded projections. Debt service has decreased to about 5.2 percent of GDP, or about 26 percent of exports this year. The current IMF program is on track.

### **Bank Program**

5. The Bank is a major source of funding for Pakistan, with IBRD and IDA loans representing about 23 percent of outstanding debt in 2002. IBRD and IDA commitments averaged a combined \$580 million annually from FY90-99, dropped to zero in FY00, and rebounded with IDA commitments of US\$374 million in FY01 and US\$800 million in FY02. Lending composition shifted from almost 100 percent investment lending in the early 1990s, to over 70 percent adjustment lending in the last three fiscal years. The lending blend also shifted from approximately 70/30 IBRD/IDA funds in the early 1990s to 100 percent IDA credits in FY01-03.

6. Project implementation has been uneven but recently improving. In 1993, 44 projects were under implementation, with 16 percent rated as “problem projects,” and another 29 percent rated “at risk.” Problem projects peaked in 1998; out of 29 projects under implementation, 34 percent were classified as problem projects and another 18 percent were “at risk.” The portfolio has since strengthened, as projects under implementation declined to 13 by 2003, of which the region currently rates only one unsatisfactory.

7. Of 64 projects closed from FY94-FY03, OED rated 73 percent (by commitment amount) satisfactory, compared to an overall regional rating of 73.6 percent, and a Bank-wide average of 78 percent. In addition, OED rated 19 percent of the Pakistan projects (by commitment amount) as having Substantial Institutional Development, compared with 33 percent for the South Asia Region, and 44 percent Bank-wide. OED rated 59 percent of Pakistan projects (by commitment amount) as having Likely Sustainability, compared with 64 percent for the South Asia Region and 67 percent Bank-wide.

8. Bank Programs during the last decade were guided by several country assistance strategies and progress reports. The country assistance strategies noted the erratic implementation of reform, yet each country assistance strategy was marked by an optimism that the Government was displaying a new level of commitment to reform. The major thrust of the objectives outlined in the successive country assistance strategies (with some variation) were:

- **Fiscal management.** The fiscal situation had deteriorated seriously and remains vulnerable. Tax revenues were weakened by large exemptions, public expenditures were not well managed, and public debt soared. Debt service increasingly crowded out development expenditures.

- **Poverty and the Social Sector.** Successive country assistance strategies have recognized the shortfalls in the social services and the worsening of poverty in Pakistan. One ongoing problem has been that the pressures of the Government budget have made it very difficult for the Government to increase social spending to desired levels. Poverty is concentrated in rural areas, making development in the rural and agricultural sectors critical to poverty reduction.
- **Investment Climate and Sustainable Growth.** Frequent changes in the Government, as well as governance problems, led to inconsistent policies and an inhospitable climate for private sector development. The energy sector in particular had a number of highly visible changes in policy. There have been improvements in other areas, such as financial sector reform.
- **Governance.** Governance issues affected each of the above priorities in the 1990s. Weak tax collection and poorly supervised expenditures helped exacerbate the fiscal situation; poorly targeted development expenditures weakened the social sector program; and governance issues diminished private sector interest in investment. In recent years, the Bank has supported devolution in order to increase accountability at the local level, including making several provincial level adjustment and investment loans and credits.

9. Evaluating progress towards these four objectives will be the primary focus of the Pakistan CAE. It is noted that although the overall country strategy is structured according to the above themes, individual sector strategies and projects often cross many of these themes; for example, rural development clearly affects both poverty and sustainable growth, and is in turn strongly affected by governance issues. Hence, sectoral work rarely maps into one specific country assistance strategy theme.

### **Focus and Methodology**

10. The CAE will assess the Bank's assistance to Pakistan over the period FY94-FY03, taking into account the political and economic environment. This country assessment will review: (i) the appropriateness of the Bank strategy for meeting Pakistan's development needs; (ii) the effectiveness of Bank assistance in implementing those strategies; and (iii) an assessment of the extent to which contributions to major outcomes involved the Bank, other development partners, the Government, as well as exogenous forces. The evaluation will include a review of relevant documents, complemented by interviews with the staff of the Bank and other key donors, as well as representatives of the Government, NGOs, and civil society.

11. Specific evaluation questions in each program area would include:

#### ***Overall Bank Strategy and Program Mechanics***

- To what extent did the objectives identified in the country assistance strategies reflect the primary development priorities of the country? Did the Bank's strategies reflect the political economy and institutional contexts of the country? Were the sector

strategies and programs well-designed and consistent with the overall Bank strategy? Were the Bank's strategies selective? Was there country ownership to support such strategies?

- Did the Bank select an appropriate mix of instruments to implement the strategy? Did the shift from investment lending to adjustment lending reflect the country's development priorities? Were lending and non-lending services integrated to support the overall country strategy? Were projects designed to reflect the implementation capacity of counterparts?
- Did the Bank implement and monitor procurement, financial management, and other safeguard issues in its program? What were the client's views of the Bank's policies and procedures for procurement, financial management and safeguards? Did project preparation include an analysis of the client's capabilities in these areas? Has the Bank provided support to capacity building, governance, and accountability in various sectors and levels of the Government?
- Did the Bank's program influence outcomes? Was IBRD and IDA assistance well-coordinated with respect to the rest of the Bank Group, the IMF, and other donor agencies.

### ***Fiscal Management***

- Did the Bank assist the Government in identifying and addressing the critical problems in fiscal management, including debt management, revenue collection, and expenditure management?
- Pakistan's debt grew to 110 percent of GDP by 2001. Given the increasing levels of debt, were adjustment loans and other instruments well-designed and targeted to address the country's core fiscal problems?
- Pakistan's fiscal situation has led to limited availability of funds for development spending. Has the Bank provided support to improve institutional structures and institutional capacity that is needed to assist the Government in key areas such as public expenditure management, revenue mobilization, planning and budgeting, and prioritization of development expenditures?

### ***Poverty and Social Sector***

- Did the Bank identify the key sources of poverty, and constraints on alleviating poverty? Did the strategy reflect the political economy and institutional context? To what extent were gender issues taken into account?
- One of the major issues identified as a priority by both the Government and the Bank was the gaps in the delivery of social services; yet, social spending and subsequent outcomes have lagged those of Pakistan's neighbors. Has Bank lending and AAA assisted the Government in developing a strategy and implementation program to

improve social services? Was there adequate support for the Social Sector projects at the provincial level? Was the shift to including social sector conditionality in provincial level structural adjustment credits (SACs) effective?

- Poverty and poor delivery of basic services are especially acute in the rural sector. The incidence of rural poverty has remained almost unchanged over the past decade despite reasonable, though fluctuating, rates of growth of agricultural productivity. Did the Bank assist the Government in the development of an effective rural and agricultural development strategy? To what extent did the strategy address key issues of inequality such as land ownership, and access to water and other key inputs?

### ***Investment Climate and Sustainable Growth***

- The Government has endorsed privatization and the development of an attractive business climate. Did the Bank's advice and support help the Government develop a strategic approach for privatization and improving the business climate? Did the Bank provide assistance in the implementation of such a strategy?
- To what extent has the Bank identified key issues affecting productivity and growth? Have critical labor force and educational issues been addressed in improving productivity?
- Agricultural productivity is also a key element of sustainable growth, in addition to poverty alleviation, for Pakistan. Yet, there has been a marked deterioration in Pakistan's land, water and resource base in the past decade, which will weaken Pakistan's ability to achieve sustainable growth in productivity. What steps did the Bank take to help the Government address sustainability issues?
- Pakistan was one of the early adopters of the notion of private provision of infrastructure, most notably in the area of power. Did the strategy address issues in infrastructure development, including sequencing issues, governance, priority of development, and overall sectoral viability? Did project design reflect the needs and capacity of the country?
- The Government has made progress in strengthening the financial sector. How deep and robust are the reforms, and what has been the Bank role in supporting those reforms?

### ***Governance***

- The Government and the Bank have identified governance as a key issue. How effective has the Bank been in designing projects and AAA that would result in improvements in governance?
- Recently, the Government and the Bank have focused on devolution and regional lending to improve accountability for both reforms and project implementation. Is

this approach more effective and sustainable, especially given concerns about institutional capacity?

- Given the governance issues that have arisen in Pakistan, were these issues factored into the design and implementation of policy and institutional reforms, as well as on the Bank projects?

### **CAE Outputs and Timetable**

12. The CAE will be issued to CODE in FY05. The main mission will be in the spring of 2004. The OED team will produce background papers that will be discussed within the Bank and with the Government, and will be the basis of the evaluation work. Exit consultations with the Government will take place before issuing the report. Peer reviewers are Rene Vandendries (Consultant) and Mustapha Nabli (Chief Economist, MNA), as well as an external peer reviewer.

**Operations Evaluation Department**  
**Pakistan: Country Assistance Evaluation**  
**Annex 1: Evaluation Team**

1. Task Manager: Lily Chu (OEDCR)

Research and Portfolio Issues: Brenda Manuel (OEDCR)

Internal Peer Reviewers: Rene Vandendries (Former OED staff, World Bank Group), and Mustapha Nabli (Chief Economist, MNA)

2. Rural Development

Geoffrey Fox (Professor, University of New England, Armidale, New South Wales, Australia; AusAid, Canberra, Australia; Former Sector Director, World Bank Group)

James Brown (Senior Technical Advisor, Deloitte Touche, Tohmatsu Emerging Markets Ltd.)

3. Infrastructure and Energy

Richard Stern (Managing Director, Emerging Markets Partnership; Former Vice-President, World Bank Group)

4. Social Sector and Poverty

Nancy Birdsall (President, Center for Global Development; Former Executive Vice-President of the InterAmerican Bank)

Adeel Malik (Researcher, Center for Global Development)

5. Financial Sector

Manuel Hinds (Former Minister of Finance, El Salvador)

6. Fiscal, Trade, and Growth

Adil Kanaan (Visiting Professor, American University of Beirut; Former Division Chief, World Bank)