



Report Number : ICRR0020797

## 1. Project Data

**Country**

Pakistan

**Practice Area(Lead)**

Macroeconomics, Trade and Investment

**Programmatic DPL**
**Planned Operations:** 2

**Approved Operations:** 2

**Operation ID**

P147557

**Operation Name**

Fiscally Sustainable &amp; Inclusive Growth

**L/C/TF Number(s)**

IDA-54400

**Closing Date (Original)**

30-Jun-2015

**Total Financing (USD)**

400,000,000.00

**Bank Approval Date**

01-May-2014

**Closing Date (Actual)**

30-Jun-2015

**IBRD/IDA (USD)**
**Co-financing (USD)**

Original Commitment

400,000,000.00

0.00

Revised Commitment

400,000,000.00

0.00

Actual

402,406,950.00

0.00

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**Group**

IEGEC (Unit 1)

**Operation ID**

P151620

**Operation Name**

PK: Growth DPC-II ( P151620 )



<b>L/C/TF Number(s)</b> IDA-54400,IDA-56820	<b>Closing Date (Original)</b> 30-Jun-2016	<b>Total Financing (USD)</b> 500,000,000.00
<b>Bank Approval Date</b> 18-Jun-2015	<b>Closing Date (Actual)</b> 30-Jun-2016	
	<b>IBRD/IDA (USD)</b>	<b>Co-financing (USD)</b>
Original Commitment	500,000,000.00	0.00
Revised Commitment	500,000,000.00	0.00
Actual	500,108,728.00	0.00

## 2. Program Objectives and Policy Areas

### a. Objectives

According to the Program Document (page 1), the Project Development Objective (PDO) of the First Fiscally Sustainable and Inclusive Growth Development Policy Credit (DPC1) of the Islamic Republic of Pakistan was: "to (a) foster private and financial sector development to bolster economic growth, and (b) mobilize revenue while preserving the priority use of fiscal space". The Program Document (page 1) of the Second Development Policy Credit (DPC2) cited the same first objective and clarified the second: "to (a) foster private and financial sector development to bolster economic growth, and (b) mobilize revenue while expanding fiscal space to priority social needs". This Review will use the PDO for DPC2.

### b. Pillars/Policy Areas

The programmatic series had two pillars:

Fostering Private and Financial Sector Development aimed at reforming trade tariffs and tariff exemptions to improve competitiveness and innovation, start the phased privatization of state-owned enterprises (SOEs), create a one stop shop for business registration to improve the business environment, develop the micro-insurance sector to provide affordable financial products to low income people, and improve the availability of credit information to enhance the investment climate and strengthen the financial system.

Expanding Revenue Mobilization and Social Protection aimed to improve revenue mobilization to achieve fiscal consolidation and build the fiscal space to support social spending, while expanding and enhancing the social safety net program known as the Benazir Income Support Program (BISP).

### c. Comments on Program Cost, Financing, and Dates



Program Cost: The program cost for DPC1 was estimated at appraisal at SDR 258.5 million (US\$400 million equivalent) and for DPC2 at SDR 355.6 million (US\$500 million equivalent).

Financing: The program was financed by International Development Association (IDA) credits of SDR 258.5 million (US\$402.4 million equivalent) for DPC1 and SDR355.6 million (US\$500.1 million equivalent) for DPC2. Both credits were fully disbursed, each in a single tranche.

Dates: DPC1 was approved on May 1, 2014, became effective on May 6, 2014, and closed on June 30, 2015. DPC2 was approved on June 18, 2015, became effective on June 19, 2015, and closed on June 30, 2016

### 3. Relevance of Objectives & Design

#### a. Relevance of Objectives

The series was relevant to country conditions in Pakistan at the time of appraisal. Following the floods of 2010-11, continuing security problems, declining external financial flows, the devolution of government functions to the provinces, and the fiscal disarray preceding the national elections of May 2013, Pakistan faced two critical economic issues: the fiscal deficit was at 8.3 percent of GDP in FY2012/13, and international reserves dropped to US\$6 billion, barely enough for 1.5 months of imports. The election of a new government in May 2013 and the conclusion of an Extended Fund Facility (EFF) agreement with the International Monetary Fund (IMF) in September 2013 stabilized the economy. However, political demonstrations in August 2014, floods in Punjab in September, and the attack by the Taliban on a school in Peshawar in December disrupted program implementation and paralyzed government services for weeks. At the same time, the steep decline in global oil prices beginning in mid-2014 provided relief to Pakistan, a net oil importer.

The series would aim to support ongoing fiscal consolidation efforts to reduce the fiscal deficit and stabilize the debt to GDP ratio. The fiscal space gained from consolidation would be directed at expanding the social protection for the poor and the vulnerable --- despite reductions in absolute poverty, nearly three fourths of the country's population remained poor and vulnerable. The objective of fostering private sector and financial sector development would begin to support policy and institutional reforms in four areas --- tariffs on international trade, SOEs, business registration, micro-insurance, and credit information --- that would eventually contribute to economic growth and development going forward.

The series remained aligned to the priorities of the Government as articulated in "Vision 2025: One Nation, One Vision" which focused on reviving growth and establishing the foundations for Pakistan's emergence as one of the world's largest 25 economies by 2025 through seven pillars: developing human and social capital; achieving sustained, indigenous and inclusive growth; advancing democratic governance, institutional reform and the modernization of the public sector; attaining water, energy and food security; achieving a private sector- and entrepreneurship-led growth; developing a competitive knowledge economy through value addition; and, modernizing the transportation infrastructure and regional connectivity.



The series' objectives also remained aligned to the strategic focus of the World Bank Group's "Country Partnership Strategy for the Islamic Republic of Pakistan for the Period FY2015-19" which articulates four pillars and results areas: transforming the energy sector; supporting private sector development; reaching out to the underserved, neglected and poor; and, accelerating improvements in services.

## Rating

High

### b. Relevance of Design

The PDO was clearly stated, with the language in DPC2 providing clarification that gains in fiscal space from improved revenue mobilization were to be directed at social spending. The two policy areas exactly matched the two objectives of the program. The theory of change and the causal chain between activities and expected results were coherent: (a) a reform of the trade tariff regime, the privatization of state-owned enterprises (SOEs), the development of micro-insurance products, and improvements in the and the business registration and credit information systems could be expected to foster private sector and financial sector development; (b) improvements in tax collection and limits on the issuance of tax exemptions should assist revenue mobilization; and (c) increasing the number of unconditional cash transfer (UCT) recipients and raising the amount of cash benefits should expand social protection for the poor and vulnerable.

The macroeconomic situation was broadly satisfactory at the time of the preparation and approval of DPC1 and DPC2. Growth, though below levels needed to accelerate job creation, was nevertheless on an upward momentum. The fiscal deficit declined from 8.3 percent of GDP to 5.3 percent in FY2013/14, and the public debt-to-GDP ratio, though above the 60 percent limit stipulated by law, dropped to 64.3 percent. Private sector credit growth rebounded to 11.2 percent in FY2013/14, the highest in the previous six years, despite monetary tightening. Prices had stabilized, with the headline inflation at 2.5 percent in March 2015. The trade deficit was 6.7 percent of GDP in FY2013/14, with the current account deficit at 1.2 percent of GDP. Foreign exchange reserves were US\$11.1 billion in February 2015 compared to US\$3 billion in November 2013.

Notwithstanding these strengths, design suffered had some significant shortcomings. First, the Program Document did not explain how the set of five measures to "foster private and financial sector development" were selected from a conceivably long list of feasible and relevant interventions. The ICR would provide some context to the choices, showing that they were "low hanging fruit", but this was not disclosed until after program closing. For example, the passage of the Credit Bureau Act, a "lower priority measure", was included in the program because the legislation was ready for submission to Parliament. Second, the program did not provide an operational definition of "privatization" or of the "strategic sale of equity". During implementation, the sale of a 5 percent government stake in Pakistan Petroleum Limited (PPL) was considered a privatization and a strategic equity sale, on the same level as the sale of an 88 percent government stake in the National Power Construction Corporation (NPCC). Third, two elements of the reform program --- the creation of the One Stop Shop (OSS) for the business registration of limited liability companies, and the approval of the Micro-Insurance Rules --- had no associated results targets. The absence of defined results for these actions would make it



difficult to assess their efficacy. Fourth, the capacity of the Government agencies to implement elements of the program was not well vetted. The poor staffing and the lack of experience of the Privatization Commission would be revealed during program implementation. Fifth, the program did not attempt to adequately gauge popular support or opposition to the program. The privatization of SOEs did not find favor with the public.

**Rating**  
Modest

#### 4. Achievement of Objectives (Efficacy)

##### **Objective 1**

##### **Objective**

To foster private and financial sector development to boost economic growth.

##### **Rationale**

The outcome target to reduce the simple average statutory tariff rate from 14.4 percent in June 2013 to 12 percent or lower by end-June 2016 was not achieved. The rate stood at 13.4 percent at end-March 2016. Pakistan's high level of protection and the complexity of its tariff regime were viewed as imposing a burden on importers, undermining competitiveness, and constraining the ability of firms to innovate. In 2014/15, Parliament had approved a budget law in providing for the application of six statutory tariff slabs or brackets (prior action, DPC2). The Ministry of Finance (MOF) approved a plan to have four brackets in three years, set within a range of one to 25 percent for all tariff lines, allowing very few exceptions (prior action, DPC2). However, the number of tariff lines subject to regulatory duties rose from 105 in FY2112/13 to 568 in FY2014/14, and the percentage of imports paying regulatory duties rose from 0.6 percent to 9.7 percent over the same period. This raises the question of whether the tariff reduction plan can be achieved as originally envisioned.

The Government sold its 19.6 percent equity stake in United Bank Limited (UBL) and 5 percent in Pakistan Petroleum Limited (PPL) in June 2014, 11.5 percent in Allied Bank Limited (ABL) in December 2014, 42.5 percent in Habib Bank Limited (HBL) in April 2015, and 88 percent in National Power Construction Corporation (NPCC), thereby meeting the outcome target of privatizing at least five SOEs by the end-June 2016. Earlier, the Privatization Commission had launched the Privatization Program by completing one SOE strategic sale and three SOE capital market equity transactions (prior actions, DPC1 and DPC2).

A One Stop Shop (OSS) office in Lahore was established (prior action, DCP2) and a virtual OSS for business registration created (prior action, DPC1). There were no outcome targets related to this. The online OSS suffered software problems and was barely in use at program closure. To compensate for the deficiency, the manual processing of business registrations was reportedly speeded up.

The Securities and Exchange Commission of Pakistan (SECP) approved the Micro-Insurance Rules of 2104



(prior action, DPC1) as a means of advancing financial inclusion and providing affordable financial products to low income people. No information was provided on whether any micro-insurance products had been developed following the issuance of the rules.

A framework for providing quality credit information on consumers and small and medium enterprises (SMEs), was created. The National Assembly enacted the Credit Bureau Act, meeting the outcome target. Although the Senate amended the new law in a manner incompatible with the terms of the Program Agreement for DPC1, the legislation was subsequently amended anew to comply with the terms of the Program Agreement for DPC2. The Government announced its membership in September 2015 in the Better Than Cash Alliance, the partnership based at the United Nations of country governments, companies and international organizations that aim to accelerate the transition from cash to digital payments to advance financial inclusion. This also met an outcome target. The Government had submitted the Credit Bureau Bill to Parliament (prior action, DPC1). It is still too early to determine whether the credit information system works in the manner envisaged in the new law.

In summary, the aim of reducing protection was not achieved. While the privatization and strategic sales target was attained, the significance of the result is undermined by a lack of operational definition of the target, leading highly variable achievements to be included together, The online OSS suffered software problems and was barely in use at program closure. There is no evidence of the development of micro-insurance products. Although the legislative and institutional goals related to enhanced credit information were reached, it is still too early to identify concrete results.

**Rating**  
Modest

## **Objective 2**

### **Objective**

To expand revenue mobilization and social spending.

### **Rationale**

The outcome target of raising overall (federal plus provincial) tax collection from 9.6 percent of GDP in FY2012/13 to 11.5 percent of GDP in FY2015/16 was exceeded; collection was 12.4 percent of GDP at end-June 2016. Earlier, the MOF had approved the Federal Board of Revenue (FBR) Strategy Paper advocating a comprehensive tax reform strategy for Pakistan (prior action, DCP1). To implement the strategy, the FBR (a) issued 70,000 notices to identified potential tax evaders to register and file tax payments and initiated administrative or legal actions against at least 25 percent of the taxpayers who received notices by end-December 2014; (b) completed the provisional tax assessment of 80,000 taxpayers; (c) launched the Taxpayers Audit Monitoring System; (d) initiated risk-based audits of at least five percent of total returns filed for tax year 2012 and completed at least 25 percent of such audits; (e) initiated risk-based audits on at least 7.5 percent of tax returns filed by large taxpayers for tax year 2013 and completed at least 10 percent of such audits; (f) published the Parliamentarians Tax Directory; and, (g) issued national tax numbers to all members of the Senate, the National Assembly, the Provincial Assemblies, and disclosed their tax payments



publicly. These were all prior actions for DCP 1 and 2. Two provincial governments expanded the scope of their general sales tax (GST) on services to increase their revenue (prior action, DPC2). Parliament approved additional tax measures in the budget for FY2014/15, with a total revenue target of at least 0.7 percent of GDP (prior action, DPC2).

The target to eliminate special concessionary exemptions issued by the FBR through Statutory Rules and Orders (SROs), except in a few narrowly defined sectors, by end-June 2016 was met. The FBR refrained from issuing SROs granting special tax exemptions beginning in July 1, 2013). Parliament approved a provision in the budget for FY2014/15 eliminating a set of tax exemptions and SROs (prior action, DPC2). The Government issued a Presidential Ordinance to consolidate amendments to the tax laws to eliminate permanently the discretion of the FBR to issue special tax exemptions and make any proposed tax exemption subject to parliamentary approval as part of the annual budget law. The Government submitted these amendments to the tax laws to Parliament as part of the Finance Bill for the budget for FY2015/16.

However, the target to raise the number of unconditional cash transfer (UCT) beneficiaries who receive full benefits from 4.4 million in FY2012/13 to at least 5.5 million by end-June 2015 was not met. The Benazir Income Support Program (BISP) reported that 5.3 million UCT beneficiaries registered for benefits by end-June 2016, although 5.7 million potential UCT beneficiaries were identified by the program. Earlier, the MOF had acted to strengthen the pro-poor orientation of the BISP by: (a) raising the basic benefit to Pakistani Rupee (PKR) 1,200 per family per month; (b) guaranteeing full and timely quarterly budget releases to the BISP; and (c) obtaining the endorsements of the Chief Secretaries of the Provinces of memoranda of understanding between the provinces and the BISP to extend UCTs for primary education purposes in 20 districts (prior actions, DPC1). In addition, Parliament approved provisions in the budget law for FY2014/15: (a) increasing the budgetary allocation to the BISP to PKR 97.15 million to raise benefits to PKR 1,500 per beneficiary per month; (b) expanding conditional cash transfers (CCTs) for primary education purposes to at least 27 districts, with benefits of PKR 250 per child attending school per month; and, (c) striking implementation agreements between provincial governments and the BISP on cost-sharing arrangements for CCTs. Although the number of UCT beneficiaries was 200,000 short of the target in end-June 2015, the Government has made substantial efforts to expand the coverage and funding of the BISP and the social protection system hence better serves the needs of the poor and vulnerable. In summary, the revenue mobilization targets were fully met, and important progress was made (although slightly below target) in expanding coverage and funding of the BISP.

**Rating**  
Substantial

## 5. Outcome





The objectives were highly relevant to the country context, and well aligned with the World Bank Group's Country Partnership Strategy. Relevance of design is rated modest in view of deficiencies regarding the justification for some of the measures selected for support, the definition of privatization and strategic equity sale, the lack of results indicators and targets for the business registration and micro-insurance actions, the vetting of institutional capacity to implement certain reforms, and the assessment of popular support or opposition to the reform plans. The degree of achievement of the objective to foster private and financial sector development is assessed as modest. A number of targets were not met, and in some cases no evidence of intended results was available at closure. The objective of expanding revenue mobilization and social protection is rated substantial. Overall, shortcomings are considered moderate, leading to a moderately satisfactory outcome assessment.

**a. Outcome Rating**

Moderately Satisfactory

## **6. Rationale for Risk to Development Outcome Rating**

Risks to development outcomes are substantial. The ICR (page 29) reports persistent opposition to the reforms from vested interests. Considering that the benefits from preferential treatment and protection would, in the program's absence, have been maintained, opposition is unlikely to dissipate easily. The ICR (page 25) also reports public opposition to the SOE privatizations. There is no evidence of a public campaign to persuade the citizenry of the merits of, and benefits from, the sale of public assets.

There are also substantial institutional capacity risks. The staff of the Privatization Commission is inexperienced with low recorded assimilation of knowledge conveyed through advisory and technical assistance services. These deficiencies will take time to overcome. The ICR (page 21) also reports that the FBR was not fully open to engagement with development partners, and that the staff of the SECP have yet to prove their ability to fully activate and operate the OSS.

The decision of the Bank and the Government to follow up the DPC with two to three successor development policy operations (ICR, page 23) should help to mitigate these risks.

**a. Risk to Development Outcome Rating**

Substantial

## **7. Assessment of Bank Performance**

**a. Quality-at-Entry**

Quality at entry was strong in the following respects:

- The DPC policy reform agenda was underpinned by analytical work, notably "Pakistan: Finding the Path





to Job-Enhancing Growth" (2013) and "Pakistan: The Transformative Path" (2013).

- The Bank engaged other development partners extensively, including through a strategy meeting with the U.K. Department for International Development (DFID), the U.S. Agency for International Development (USAID), the IMF, and the Asian Development Bank (ADB) in London in 2013. The objectives and reform plans of the DPC series were firmly aligned with those of Pakistan's three-year Extended Fund Facility (EFF) program with the IMF. The Bank and DFID created a Multi-Donor Trust Fund for Accelerating Growth and Reforms (TAGR) to deliver technical assistance to Pakistan in areas supported by the series. DFID provided grant funding support in the areas of taxation and social protection.
- The Bank identified the principal macroeconomic and political risks to the program, and recommended mitigation measures, including strong macroeconomic fundamentals and surveillance by the Bank and the IMF. The sequencing of the reform program was carefully paced to address political economy challenges.

There were, however, moderate shortcomings:

- The Privatization Commission's ability to implement the program was overestimated. The Commission was inadequately staffed, had little experience with privatization transactions, and did not seem to understand fully how to complete the prior actions corresponding to it.
- There were weaknesses in the results framework, notably an absence of targets for the creation of the OSS for the registration of limited liability companies or for the passage of Micro-Insurance Rules.
- The Bank did not encourage the Government to engage in wider consultations concerning the privatization of SOEs.

### **Quality-at-Entry Rating** Moderately Satisfactory

#### **b. Quality of supervision**

Supervision was strong in the following areas:

- The Bank engaged the Government in a continuing dialogue over the reform program. The strong in-country presence of the Bank task team ensured that the dialogue was continuous and that implementation supervision was constant and attentive to implementation issues.
- The Bank, in close collaboration with its development partners, delivered a broad set of technical assistance (TA) activities to support the implementation of reforms on tax policy and administration, trade and tariffs, the business environment, and social assistance. Many TA activities were extended with funding from the TARG.
- Recognizing the Privatization Commission's capacity constraints, the Bank and its development partners provided advisory support to the Commission's staff during program implementation. However, the Commission reportedly lacked the absorptive capacity to benefit effectively from the TA activities (ICR,



page 20).

There were two moderate shortcomings:

- The Bank did not quickly address, or press the Government to address quickly, problems associated with the operationalization of the virtual OSS for business registration. The advertisement for the online OSS did not cite the address for the site, the site encountered serious software problems soon after its activation, and only three firms used the online service. Consequently, the online OSS suffered a reputational loss.
- The Bank could have supervised more tightly the requirement that the Government publish the monthly fiscal revenue and expenditure report in the MOF website within 30 days from the end of the month. The reporting template was conveyed to the Bank but there was no evidence that the monthly reports were published online (ICR, pages 30-31).

### **Quality of Supervision Rating**

Moderately Satisfactory

### **Overall Bank Performance Rating**

Moderately Satisfactory

## **8. Assessment of Borrower Performance**

### **a. Government Performance**

The Government's performance was strong in the following respects.

- The ICR reports that the Government was firmly committed to macroeconomic stabilization.
- The Government pro-actively reinforced prior actions where necessary. For example, a Presidential Ordinance permanently removed the discretion of the FBR to issue tax exemptions, when it became clear that the prior action could not be fulfilled using the ordinary channels and within the schedule envisaged in the DPC (ICR, pages 18, 22 and 31).

There were two moderate shortcomings:

- The Government misunderstood the requirement for completing the prior action on privatization when it insisted that the mere issuance by the buyer of a check for the purchase of the SOE Heavy Electrical Complex (HEC) was deemed a fulfillment of the required prior action. The check was not honored on encashment (ICR, page 23).
- There were weaknesses in coordination, with some implementing agencies distanced from the policy dialogue (ICR, page 22).



## **Government Performance Rating**

Moderately Satisfactory

### **b. Implementing Agency Performance**

The Ministry of Finance acted as implementing agency, although other agencies were responsible for executing specific prior actions and reforms. MOF itself submitted the Credit Bureau Bill to Parliament; strengthened the pro-poor orientation of the BISP; approved the FBR Strategy Paper on tax reform; and, approved the tariff reform plan. However, as noted above, the monthly revenue and expenditure report was not published on the Ministry's website.

Actions by the FBR contributed to exceeding the tax collection target and halting the issuance of SROs. It also implemented the provisions of the FBR Strategy Paper on tax reform. However, the FBR did not respond as effectively as anticipated to externally provided advice and assistance

The BISP but conveyed UCT benefits to 5.3 million, slightly short of the target of 5.5 million. The BISP Board completed issuing rules and regulations to delineate its powers and functions and those of BISP management.

The Privatization Commission completed the five privatization prior actions. However, the Commission lacked the experience to implement privatization transactions (ICR, pages 20 and 30); was less than open to TA support provided by the Bank and other development partners (ICR, page 21); and did not have the absorptive capacity to internalize the advisory and TA support (ICR, page 20).

The SECP and the EOBI, together with the FRB, created the OSS, but online access was not available at closure.

## **Implementing Agency Performance Rating**

Moderately Unsatisfactory

## **Overall Borrower Performance Rating**

Moderately Satisfactory

## **9. M&E Design, Implementation, & Utilization**

### **a. M&E Design**

The results framework defined a set of five results indicators and associated targets for the program elements. The deficiency, at entry, with the design of the privatization program --- the lack of an operational definition for "privatization" and "strategic equity sale" --- carried over into M&E design. The results indicator "entities privatized through strategic equity sale" remained imprecise.



There were no results indicators defined for the OSS, which aimed to improve the business registration system, and for the Micro-Insurance Rules, which aimed to develop micro-insurance products and solutions, although prior actions were required for both program elements.

The indicators defined by the Program Documents were measurable. Information would be drawn from reports prepared by the implementing agencies.

The MOF was responsible managing M&E.

### **b. M&E Implementation**

M&E was mostly implemented according to plan. Data were drawn from the regular reporting function of the implementing agencies and were relevant to government operations. However, the lack of results indicators for the OSS and the Micro-Insurance Rules activities were not remedied.

### **c. M&E Utilization**

The ICR does not report on the use of the M&E data, although M&E results would have been used during the preparation of further development policy operations.

### **M&E Quality Rating**

Modest

## **10. Other Issues**

### **a. Environmental and Social Effects**

Environmental Effects: The DPC did not formally trigger any environmental safeguards policies. Following the requirements of Bank Operational Policy OP 8.60 (paragraph 9: Poverty and Social Impacts, and paragraph 10: Environmental, Forests, and Other Natural Resource Aspects), which govern DPLs, the Program Document for DPC1 (page 25) and for DPC2 (pages 22-23) made the following determination: (a) the DPC was not likely to cause any significant effect on Pakistan's environment, forests, and other natural resources; (b) plans for enhancing Pakistan's industrial competitiveness had previously examined the links among industrial agglomerations, spatial transformations, the sustainable use of natural resources, and environmental management; and, (c) Pakistan had the laws, policies, programs, and institutions (led by the Pakistan Environmental Protection Council and including, at the federal level, the Climate Change Division of the Cabinet Secretariat, and at the local level, provincial governments) to help manage environmental risks.

Social Effects: The Program Document for DPC1 (pages 23-25) and for DPC2 (pages 20-22) argued that actions and reforms supported by the DPC were expected to be mainly positive or, at worst, mildly negative.



[R1] No systematic analysis of the poverty impact of the DPC had been conducted, so no attribution to the program is being made.

### **b. Fiduciary Compliance**

The Program Document for DPC1 (pages 25-26) and for DPC2 (pages 23-24) stated that the series would follow standard Bank procedures for DPOs. No fiduciary issues were reported.

### **c. Unintended impacts (Positive or Negative)**

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### **d. Other**

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## **11. Ratings**

<b>Ratings</b>	<b>ICR</b>	<b>IEG</b>	<b>Reason for Disagreements/Comment</b>
Outcome	Moderately Satisfactory	Moderately Satisfactory	---
Risk to Development Outcome	Substantial	Substantial	---
Bank Performance	Moderately Satisfactory	Moderately Satisfactory	---
Borrower Performance	Moderately Satisfactory	Moderately Satisfactory	---
Quality of ICR		Substantial	---

### **Note**

When insufficient information is provided by the Bank for IEG to arrive at a clear rating, IEG will downgrade the relevant ratings as warranted beginning July 1, 2006.

The "Reason for Disagreement/Comments" column could cross-reference other sections of the ICR Review, as appropriate.

## **12. Lessons**

The first three lessons are drawn from the ICR (pages 31-33), with some adaptation.



- When engaging a new government in a reform program, a gradual and measured approach to program design and implementation is desirable. The strength and durability of the political commitment to reforms is often uncertain, as is the institutional capacity of the new government to execute difficult measures or even to absorb advisory services and technical assistance. The gradual approach allows a development partner and the new government to cultivate a level of mutual trust, and the new government to assimilate external knowledge and to develop its institutional capacity, both of which are necessary for the sustained implementation of structural reforms.
- A more comprehensive and integrated approach to privatization than simply focusing on the number of equity sale transactions in any given year is likely to strengthen the reform program. Strategic privatizations are better set within the context of wider development agenda. A government should also calibrate the scope and scale of its privatization program to its ability to plan and execute transactions, to the capacity of private investors and the capital markets to purchase and to fund the purchase of state assets, and to the willingness of various constituencies to support SOE privatization efforts.
- When constructing an operation's results framework and its associated M&E indicators and targets, it is best to set an output or an outcome for a program component, in addition to defining or describing the modality by which an objective is achieved. The creation of an OSS for business registration is reputedly a best practice modality for facilitating business registrations. But a results framework and M&E plan must specify an output or outcome for an OSS, in terms, for instance, of the number of steps or the number of days to complete a business registration application.
- There is a need to involve implementing agencies at the planning stage of a DPO to ensure they have the technical and financial resources to implement their part of the program. Planning the details of the OSS project with the SECP, EPBI and FRB would have enabled the Bank and the Government to determine the ability of the implementing agencies to execute a technology project.
- There is also a need to undertake active and in-depth consultation with stakeholders to identify and mitigate political economy risks. Consultations with the constituency of various SOEs would have allowed the Bank and the Government to gauge the extent of public support or opposition to the privatization program.

### 13. Assessment Recommended?

No

### 14. Comments on Quality of ICR

The assessment of the program results is evidence-based. The ICR provides a useful summary of the Government's completion of the prior actions, and of the operations' performance relative to the results indicators, both of which it sets in the context of the results framework. The document also offers a convincing narrative of the degree of achievement of the program objectives.

The analysis of the program outcomes is candid. The ICR provides a balanced view of the strengths and



weaknesses of the program design, the M&E design, and Bank and Borrower performance.

The ICR documents the context of the program and the expounds on the motivation for, and the expected results from, each of the policy areas of the DPC and their components.

There are some minor omissions. The effectiveness date is missing from the front table; FBR is labeled the Federal Bureau of Statistics in the Abbreviations section; and, HEC is mislabeled as Higher Education Commission. The document could have explained why the social security system for private sector employees, was involved in the business registration reform (the Program Documents do not explain this either).

**a. Quality of ICR Rating**

Substantial