

ASIAN DEVELOPMENT BANK

COUNTRY ASSISTANCE PLAN (CAP)

**PAKISTAN
(1999-2001)**

November 1998

CURRENCY EQUIVALENTS

(as of 15 August 1998)

Currency Unit	-	Pakistan Rupee (PRs)
PRs1.00	=	\$0.01869
\$1.00	=	PRs53.50

The exchange rate of the Pakistan rupee is determined under a system of managed float.

ABBREVIATIONS

ADF	Asian Development Fund
ADTA	Advisory technical assistance
CBR	Central Board of Revenue
CMDP	Capital Market Development Program
COS	Country Operational Strategy
CPM	Country Program Mission
CPN	Country Program Notes
EA	Executing Agency
EFF	Extended Fund Facility
ESAF	Enhanced Structural Adjustment Facility
FCD	Foreign Currency Deposit
GDP	Gross domestic product
GST	General sales tax
HDI	Human Development Index
HRD	Human resource development
IMF	International Monetary Fund
IPF	Indicative Planning Figure
JEXIM	Export-Import Bank of Japan
KfW	Kreditanstalt für Wiederaufbau (Germany)
KESC	Karachi Electric Supply Company
NDP	National Drainage Program
NGO	Non-government organization
NWFP	North West Frontier Province
O&M	Operations and maintenance
OCR	Ordinary capital resources
OECF	Overseas Economic Cooperation Fund
OPEC	Organization of Petroleum Exporting Countries
PC	Privatization Commission
PDF	Pakistan Development Forum
PFP	Policy Framework Paper
PPAF	Pakistan Poverty Alleviation Fund
PPTA	Project Preparatory Technical Assistance
PRM	Pakistan Resident Mission
PSDP	Public Sector Development Program
RETA	Regional Technical Assistance
SAP	Social Action Program
SDP	Sector Development Program
TA	Technical Assistance
TEPI	Trade, Export Promotion and Industry
WAPDA	Water and Power Development Authority

NOTES

- (i) The fiscal year (FY) of the Government ends on 30 June.
- (ii) In this Report, "\$" refers to US dollars.

FOREWORD

The Country Assistance Plan describes the planned program of assistance by the Asian Development Bank for Pakistan covering the three-year period 1999-2001. It includes loan and technical assistance projects, as well as possible cofinancing from other donors. The CAP was prepared by the ADB between April and June 1998, in close consultation with the Government of Pakistan, and other stakeholders. The CAP was discussed with the Board of Directors in October 1998 and has been revised by the ADB to incorporate recent developments. The assistance plan described in the CAP is only indicative and may be revised to reflect future developments.

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PAKISTAN

I. Country Performance Assessment¹

A. Economic Performance Assessment

1. For most of the 1990s, Pakistan's economy has been in difficulty mainly due to political instability, sectarian violence, weak governance, deep-rooted structural problems, and inappropriate policy responses. These have resulted in unsustainable fiscal and current account deficits, a significant slowing down of economic growth to two-thirds of its historical levels, double digit inflation, stagnating industrial production and exports, and depletion of foreign exchange reserves. After taking office in February 1997, the new Government moved quickly to reverse the trend and initiate a program of economic reforms to address both immediate macroeconomic stabilization requirements and longer term structural adjustments, and free the economy from the low investment, low savings, and low growth path of the nineties. This program paved the way for the introduction of a comprehensive IMF Policy Framework Paper (PFP) and Enhanced Structural Adjustment Facility (ESAF)/Extended Fund Facility (EFF) in October 1997. The PFP encompasses critical reforms of the tax and fiscal system, state-owned enterprises, financial markets, trade regime, and the foreign exchange market. Concurrent with the structural policies of most immediate macroeconomic impact, the PFP also includes reforms directed at developing Pakistan's human capital, raising productivity in key sectors, protecting the environment, and promoting good governance. ESAF is receiving substantial complementary support from other development partners, particularly the Bank and the World Bank. The first review of the program was successfully completed in March 1998. However, after Pakistan's nuclear testing in May 1998, the IMF program was held in abeyance and is being renegotiated.

2. Macroeconomic performance¹ during the first year of the ESAF/EFF program (October 1997-June 1998) was generally encouraging. Partly as a result of economic revival measures implemented by the Government and because of strong agricultural growth due to favourable weather conditions, Pakistan's economy showed some signs of recovery during FY1997/98. Real GDP growth during the fiscal year is projected at around 5.4 percent, a significant improvement over the previous year's 1.3 percent. Sustained growth is, however, still severely constrained by a number of impediments rooted in both demand and supply sides, and including weak investment, slow export growth, and low productivity. Tight monetary and fiscal policies have led to a substantial reduction in inflation, to eight percent by the end of the 1997/98 fiscal year, a single digit growth for the first time since 1989/90.

3. Progress in reducing Pakistan's budget deficit, the top priority for macroeconomic stabilization, has been mixed. The FY 1997/98 budget aimed to reduce the consolidated fiscal deficit to 5 percent of GDP through a combination of large expenditure containment and modest revenue growth. Revenue collection was however disappointing, with tax collection by the Central Board of Revenue (CBR) during the first half of the fiscal year falling short of target by about \$250 million. Slower than expected economic growth, a sharp fall in imports, reduction in tax/tariff rates (as an economic revival measure), and poor tax administration are the main causes of the shortfall. The worsening financial position of Pakistan's public sector corporations, particularly the power utility companies WAPDA and KESC, is also severely affecting fiscal operations and threatening macroeconomic stability. Despite a weak revenue performance, the Government estimates that the FY1997/98 fiscal deficit will reduce to 5.4 percent of GDP (compared to 6.5

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Appendix 1 provides information on key economic, social and environmental indicators.

percent in the previous year). However, due to the inelasticities in the budget as a consequence of a dominating share of defense and debt servicing outlays, development and operations and maintenance (O&M) expenditures have so far borne the brunt of fiscal adjustments. Such short-term expedients have a limit which is being rapidly reached, and cannot substitute for vigorously pursuing fundamental structural reforms of public finances (see para. 6).

4. The ongoing stabilization program has resulted in a sharp reduction in the current account deficit in FY 1997/98. A tight monetary and fiscal policy, combined with a decrease in world market prices of petroleum and a halt of capital goods imports by independent power producers (IPPs) resulted in a large fall in imports. Lower imports coupled with large inflows of Foreign Currency Deposits (FCDs, mainly from overseas Pakistanis attracted by favorable interest rates) resulted in a current account deficit of \$1.0 billion in the first nine months of FY1997/98, compared with \$3.1 billion over the same period in the previous year. In spite of this, Pakistan remains vulnerable on the external front due to: (i) nuclear testing-related economic sanctions (see para. 7); (ii) increasingly heavy reliance on FCDs and costly short-term commercial borrowings; (iii) the effects of the Asian currency crisis which impairs inflows of medium and long-term private capital; (iv) the problematic law and order situation which continues to affect investors' confidence; and (v) the structural inability to increase and diversify exports to meet a larger part of external financing needs. Pakistan had to borrow \$900 million of short-term loans in the first half of FY1997/98 and increase further its excessive reliance on FCDs, which rose to \$10.5 billion. The total stock of public and publicly guaranteed external debt is currently estimated at \$32 billion or about 220 percent of the total export of goods and services and net private transfers during the last fiscal year. The debt service ratio is currently estimated at about 39 percent (compared to 27.4 percent in 1992/1993). The foreign exchange reserves' position did improve during the year (up to \$1.3 billion by May 1997) but started to rapidly deteriorate after the nuclear testing on 30 May 1998. As of end June 1998, reserves were estimated at about \$800 million, about one month of imports. On 29 June 1998, the Pakistan Rupee was formally devalued by 4.6 percent.

5. In its first 16 months in office, the Government achieved considerable initial success in implementing the structural reform agenda, and its commitment to fundamental changes remains beyond doubt. Achievements include major tariff reductions and tariff rationalization measures; reductions in other tax rates and broadening of the tax base; significant structural reforms in trade policy, banking sector, and capital markets; adoption of a flexible exchange rate policy; revival of the privatization process and strengthening of the Privatization Commission (PC); strengthening of the accountability process; and initiation of a fundamental overhaul of the CBR. Institutional reforms are being implemented in the critical irrigation and drainage sector. Recently, the Government has also sanctioned a major reform program to restore the financial viability of the electric power utilities and improve the efficiency of the power sector. The second phase of the Social Action Program (SAP) has taken off with greater emphasis on quality, decentralization, and other institutional reforms. Measures for reducing discretionary powers of politicians and bureaucrats are being considered. The short-term picture painted in preceding paras. is necessarily gloomy, but an objective assessment must give due account to the impact these structural reforms are expected to make on Pakistan's economy in the longer term, provided they are vigorously implemented.

6. Reform of public finances should remain the topmost priority of the Government's agenda for change. Pakistan needs to push forward with tax reforms to develop and effectively implement a broad-based and equitable tax system including development of the General Sales Tax (GST) into a modern value added tax; improved implementation of the agriculture income tax; and expanded provincial tax revenues which currently cover only eight percent of their

expenditures. The Government also needs to urgently strengthen tax administration through technical, managerial, legal, and accountability measures. Carrying through the restructuring of CBR into an operationally and financially autonomous Pakistan Revenue Service is essential. In parallel, the Government should intensify the ongoing restructuring of public expenditures with a focus on: (i) further economy measures in defense (from 1990/1991 to 1996/1997 defense expenditures reduced from 6.4 percent of GDP to 5.2 percent, and are expected to reach 4.6 percent by fiscal year-end); (ii) improved planning of public spending, taking into account sustainable levels of recurrent expenditures; (iii) enhanced accountability for, and allocation and effectiveness of, public spending; and (iv) exercising greater caution with regard to new large, costly and politically motivated infrastructure projects which carry substantial Government liabilities. Finally, due to the heavy reliance of provinces on federal transfers (about 80 percent of provincial receipts) and their narrow and inelastic revenue base, provinces are facing an unprecedented fiscal crisis. The provinces should therefore pursue comprehensive fiscal adjustment and reforms including increased revenue mobilization (from provincially controlled agricultural tax, property tax, water and transport related charges and levies, etc.). Provinces should also strengthen public sector accountability to reduce wasteful spending.

7. Pakistan's nuclear testing in late May 1998 and the consequent economic sanctions are expected to have serious implications for the economy, including the possible disruption of the reform program. To prevent a foreign exchange crisis and mitigate the impact of sanctions, the Government has imposed temporary restrictions on foreign exchange transactions including the freezing of all foreign currency accounts held by resident Pakistanis. The Government also announced intensified efforts to increase exports, raise fiscal revenue, and expand agricultural production. Notwithstanding these, Pakistan is expected to be severely affected at both the macro and sector levels, if sanctions by major donors and trade partners continue for a long period of time. Import of critical items for agriculture and industry will have to be reduced due to lack of foreign exchange and likely reluctance of foreign banks to issue or guarantee letter of credit (L/C) for Pakistan's imports. With a slowing down of foreign capital flows, withholding of vital quick-disbursing policy-based loans by major multilateral and bilateral donors, and depleted foreign exchange reserves, Pakistan will experience serious difficulties in meeting its debt servicing obligations. The potential for a vicious cycle to hit the economy is strong. Continued depression of industrial activity, slower growth, and a decrease in imports will reduce the Government's revenue collection and result in further cuts in development and O&M spending, including the availability of counterpart funds for externally funded investments. In the absence of social safety nets, the impact on the poor and unemployed is likely to be the heaviest. On a worse case basis, lack of appropriate financing assistance may result in reversal of reforms, arrears buildups and default on both public and private debt, and severe economic and social damage, which may lead to political and social disruptions.

8. On 12 June 1998 the Finance Minister proposed to the National Assembly the FY1998/99 Federal Budget requiring an overall outlay of PRs606 billion (about \$13.2 billion). The budgeted outlay reflects a modest increase of 9.8 percent compared to the previous budget. The increase is lower than the projected growth rate of nominal GDP in FY1998/99 (about 14 to 15 percent). The Finance Minister stated that the Government would continue to pursue tight demand management, supply-side tax policy, trade liberalization, documentation of business activities, and broadening the tax base. While a sharp structural change was expected to take place in the new budget to meet the changing economic and political environment after the nuclear testing, the proposed budget did not present any significant deviation structurally from the previous budget. It is basically a pre-sanction budget, and includes a total of PRs142 billion (\$3.1 billion) of external aid, 9.7 percent higher than last year. Development expenditures are planned to increase by 22.8 percent. This raises the percent share of development expenditure from 16.3

percent in FY1997/98 to 18.3 percent in FY1998/99, a still low figure. Debt servicing and defense continue to claim a dominant share (70 percent) of total expenditures, and continue to impose severe inflexibilities in fiscal operations. Defense increased by 8.2 percent to reach PRs145 billion, or 23.9 percent of the budget compared to 24.8 percent last year. Budgeted revenue income amounts to PRs502.1 billion, which represents an increase of 11.5 percent. A notable development in the revenue structure is the envisaged decreased share of tax revenue down to 67.4 percent from 70.6 percent last year. By contrast, non-tax revenues (income from property and enterprises, and administrative fees) and surcharges are to increase by 17.8 percent and 44.2 percent, respectively. A 10 percent surcharge on the wealth tax and personal income tax is to be levied, the envisaged reduction in corporate tax rates has been deferred for one year, and the General Sales Tax (GST) will be imposed on large-sized retail traders whose annual turnover is PRs5 million or above. The Government envisages that the overall consolidated budget deficit will fall to 4.6 percent of GDP in FY1998/99 from the estimated 5.4 percent of GDP in FY1997/98. However, achieving fiscal goals would heavily depend on political and economic developments, including with regard to economic sanctions.

9. Regardless of economic sanctions, the macroeconomic and structural challenges facing Pakistan are formidable. If the government's stabilization and structural reform program is implemented effectively and in a sustained manner, Pakistan's economy should be able to grow at around six percent per year over the medium term. This faster pace of economic growth would bring higher living standards, more rapid employment generation, and much greater progress in reducing poverty than in the recent past. Higher growth would need to be based on higher investment, substantial improvements in the skill base of the labor force, and a significant acceleration in productivity growth. On the other hand, should the Government fail to stabilize the economy in a sustained manner and be unable to effectively implement key structural reforms, then growth would continue to be slow, with a further build-up of balance of payments pressures and rising public sector debt, unemployment, and poverty as well as worsening social tensions.

B. Assessment of Social and Environmental Performance

1. Poverty

10. Although there has been progress during the 1970s and 1980s, a significant proportion of the population (about 30 percent) still suffers from severe poverty. The majority of the poor live in rural areas (about 70-80 percent of poor households). Their lower standard of living is mainly due to high rates of underemployment, inadequate socio-physical infrastructure, and insufficient income generating assets. Pakistan's economic problems of the 1990s and subsequent economic reform initiatives (privatization, removal of subsidies, increased power tariffs, downsizing of the public sector) may have, at least temporarily, affected the economic position of low-income groups adversely, although the data is ambiguous and the real picture would emerge only from the 1998 census. Given the strong linkages between poverty and low human resource development (HRD) in Pakistan, especially in the rural areas, the Government recognizes the provision of basic social services (principally education, nutrition, health, and population welfare) as a key element of its poverty reduction strategy, together with employment creation. Accordingly, the Social Action Program (SAP) is the cornerstone of the Government's fight against poverty. Participatory area-based integrated rural development programs, including development of rural infrastructure, micro-finance, and employment generation have also become an important component of the governments' targeted poverty alleviation efforts. The Government recently established an autonomous Pakistan Poverty Alleviation Fund (PPAF) to finance income generating projects, microenterprises, and infrastructure projects at the community level mainly through NGOs and the private sector.

2. Gender

11. Women's social indicators in Pakistan consistently lag behind those of men. The sex ratio is 104 men for 100 women, compared to 97 for developing countries as a whole. The female life expectancy at birth (LEB) of 62 years falls short of that of males' 63 years (in most countries female LEB exceeds its male counterpart). The adult literacy rate is 27 percent for females compared to 50 percent for males, while primary school enrolment is 63 percent for girls compared to 85 percent for boys. Despite the significant gains recently made under SAP, inequities remain between women and men's levels of development. More women are illiterate and their level of basic health is worse than that of men. With a high fertility rate of 5.9 births per woman, women's health is debilitated by frequent and closely spaced pregnancies. Women have a lower nutritional status and often lack access to proper care. Pakistani women make a large and generally unrecognized contribution to the economy. Statistics tend to underestimate women's work, especially for women employed in agriculture and in the informal sector in urban areas. The improvement of women's conditions is an important objective of the Government's policies and its development partners. The main thrust of the ongoing efforts is towards reducing gender disparities in access to social services, particularly for rural women and low-income women in urban areas. This is being pursued mainly through SAP which incorporates special provisions to ensure access of women to social services with emphasis on girls' schooling, and through improving the quality and outreach of health services in rural areas, particularly for preventive health, maternal and child health, and family planning.

3. Human Development

12. The 1997 UNDP Human Development Index (HDI) ranks Pakistan 139th among 175 countries and classifies it as a low human development country. Pakistan's HDI is much lower than most other countries with similar per capita income. The adult literacy rate rose from about 34 percent in 1985 to 39 percent in 1996/97. Women's literacy still stands at only 27 percent. Despite the increases in educational expenditures, Pakistan still spends only 2.6 percent of its GNP on education, compared to UNESCO's target of 4 percent for developing countries. Similarly, in 1996/1997 expenditure on health amounted to 0.74 percent of GNP compared to WHO's target of one percent. Between 1987 and 1996, life expectancy increased from 58 to 62.5 years while infant mortality fell from 127 to 102 per 1,000 live births. Only limited progress was achieved in reducing the fertility rate. Population growth remains among the highest in the world, at 2.8 percent per annum, and will continue to put pressure on the provision of social services and the labor market. Under the Eighth Five-Year Plan (1993-1998), a wide range of programs are being undertaken to promote human development and this emphasis will be continued in the Ninth Five-Year Plan. The SAP accounts for a major part of these programs. Now in its second phase, SAP continues to place an emphasis on improving the provision of basic services, e.g., education, health, rural water supply and sanitation as well as family planning. SAP has managed to stop the deterioration in the provision of social services, and SAP sector budgets continue to be well protected. SAP I increased primary school participation from 69 to 73 percent, contraceptive prevalence from 14 to 22 percent of the population, access to safe water from 47 to 55 percent, and life expectancy from 58 to 62.5 years (all Government figures for 1992/93 to 1995/96). The much awaited new census, the first since 1981, was conducted in March 1998 and the results will be available at the end of the year. The census results may bring major changes in the distribution of political power and provincial budgetary allocation.

4. Environment

13. Pakistan is a forest-poor country, with only 0.03 ha. of forest per capita compared with the world average of 1 ha. per capita. Forests play a significant role in the country's economy because of their importance as sources of fuelwood and catchment area for header reservoirs which are vital for generation of electricity and regulation of water supply and irrigation. Deforestation has led to soil erosion, which reduces soil fertility and causes siltation of reservoirs. The recent data showed that about 11 million ha. of land in the North West Frontier Province (NWFP) is recorded as an area prone to soil erosion, and about 40 million tons of soils are carried through the Indus basin every year. Land degradation by wind and water, erosion, waterlogging, and salinity poses major hazards for irrigated agriculture. Annual loss due to salinity and waterlogging was estimated in 1995 at about \$300 million.

14. Pollution associated with industrial and urban activities has emerged as a significant threat to public health. The economic cost of the health impact of water pollution was estimated in 1995 at \$460 million to \$1.25 billion per year, while that from air pollution ranged from \$250 million to \$369 million per year. The daily production of solid waste in the country is about 48,000 tons of which about 20,000 tons are from urban areas. Only about 40 percent of solid waste can be transported to the final disposal sites which are generally open dumping grounds.

15. Although the National Conservation Strategy and the Environmental Protection Act, 1997 provide the legal foundation for environmental management in Pakistan, little has been accomplished over the past decade. Challenges ahead are on how to increase accountability in managing natural resources and environment and strengthen enforcement. The major constraints are lack of official authority over environment-related activities, small budgets, shortage of experienced staff and, above all, little awareness of the ill effects of a deteriorating environment.

C. Governance: Sound Development Management

16. Weak governance has been a leading factor in Pakistan's poor economic performance and its structural problems. The problem is multi-dimensional and has resulted in mismanagement of resources and undermined social stability. Governance problems include: (i) political uncertainties through frequent changes of government and confrontations between various organs of the state which have distracted attention from economic management and undermined investors' confidence; (ii) politicisation of economic decision making, and political interferences in the use of public resources; (iii) failure of public institutions to fulfil their mandate, limited accountability, and ineffective policy implementation; (iv) an outdated legal and judicial system; (v) perennial law and order problems, and sectarian violence; and (vi) lack of fiscal discipline, tax evasion, loan defaults, non-payment of utility bills, and corruption. On the positive side, Pakistan has a professional class – managers, lawyers, civil servants, accountants, etc. – which is well qualified. Democratic institutions and processes have significantly strengthened during the 1990s, the press is generally free and dynamic, the judiciary independent, albeit hampered by funding constraints, and, in recent years, there has been an encouraging growth of the NGO community.

17. Political stability has somewhat improved strengthened with the Government's controlling majority, and good governance has become a high priority. The Accountability Act was passed in 1997 and a Chief Commissioner was appointed to investigate cases of corruption. A Good Governance Commission and a Commission on Administrative Restructuring have also

been established to review government procedures and management practices, and the mandates, organization, and staffing of government ministries and departments. Other measures to eliminate political interference in economic decision-making, curtail wasteful public expenditures, and mobilize revenues are being initiated, while the Ministry of Law has embarked (with Bank assistance) on a comprehensive review of the legal and judicial system to make the system more effective and attuned to the needs of a modern economy, as well as to strengthen the rule of law. The Government is attempting to embark on a comprehensive program of civil service reform including “downsizing” to reduce the high public sector wage bill. The Government’s commitment to improve governance are however still at an early stage of implementation and must be sustained.

D. Implementation Experience and Proposed Lending Level

1. The Portfolio

18. Since the start of lending operations to Pakistan in 1968, the Bank has approved 158 public sector loans for more than \$9.2 billion, of which about \$3.7 billion (40 percent) was from OCR and \$5.5 billion (60 percent) from ADF. This makes Pakistan the Bank’s largest ADF recipient, and second largest borrower overall. Total lending includes four program loans for a total of \$800 million. About \$800 million, or 8.5 percent of approvals, have been cancelled, mostly due to loan savings. Total net project lending amounts thus to about \$8.4 billion. The majority of the Bank’s lending in Pakistan since the start of operations has been in the energy sector and for natural resources management, mainly in the water resources sector. During the 1990’s, there has been a significant increase in lending to the social sectors which now account for about 22 percent of the portfolio under implementation, following the natural resources and energy sectors which account for 29 and 28 percent, respectively. As of June 1998, the active loan portfolio amounts to nearly \$4.5 billion for 52 loans, including one program loan of \$250 million. Of this, a high \$2.4 billion has yet to be disbursed. Disbursement performance over the past five years has been good, averaging around \$500 million annually for project lending, and roughly in line with new loan approvals. There has, however, been a slowdown in disbursements over the past years, primarily due to shortages of counterpart funds, and this trend is expected to continue for the next two to three years until the economy picks up.

19. In spite of satisfactory disbursements, implementation delays remain a widespread feature of the Bank’s (and other donors’) portfolio in Pakistan. Repeated loan extensions are common occurrences, and of the total undisbursed loan amount, about \$800 million is the result of delays in implementation. Ideally, the portfolio’s undisbursed balance should be below \$2 billion (the Bank’s portfolio now shows a relatively high average age of about five years). To reduce the high undisbursed balance of \$2.4 billion, the Bank is planning to conduct a spring cleaning exercise in 1998 which is expected to yield between \$200 million and \$300 million in cancellations. This together with the continued application of strict linkages between annual disbursements levels, new approvals, and the size of undisbursed balances should ensure that the portfolio remains healthy over the program period and beyond. Appendix 2 provides information on portfolio performance indicators.

2. Development Impact

20. The Bank’s lending operations in Pakistan have clearly contributed to increased agricultural and industrial output, electricity generation, transport network expansion, health and education facilities and provision of urban services. Post evaluation results show that out of 51 post-evaluated projects, 32 have been generally successful, 14 partly successful and 5

unsuccessful. While the overall objectives of most projects were met and their economic viability confirmed, only a few post-evaluated projects met their initial implementation schedule. Compared to the period when most post-evaluated projects were formulated (1973-1983), institutional and implementation capabilities as well as policy environment in nearly all subsectors have improved, and the Bank is paying increased attention to these aspects.

21. During the 1990s, the Bank has had a significant impact in the water resources, social, and capital market sectors. In the water resources sector, a breakthrough was achieved with regard to major institutional changes in the sector's management. The National Drainage Program (NDP) Sector Project, approved in 1995, included a carefully considered program of policy and legislative improvements. These included the creation of the Provincial Irrigation and Drainage Authorities (PIDAs), and a specific move to decentralize the system's management and increase beneficiary participation and responsibility through newly empowered farmer organizations. Under the SAP, the Bank's role in both policy and institutional reform in the social sectors has been considerably enhanced. For example, under SAP I (1994-97) significant achievements were made in the following critical areas: enhanced capacity for planning and implementation of health and population programmes, increased stakeholder involvement in the education and rural water supply and sanitation sectors and devolution of management functions such as scheme selection and fund allocation to district levels. These measures have helped support the SAP's achievements in raising primary school participation rates, lowering the population growth rate, improving access to safe water and raising life expectancy in Pakistan. Under the Capital Markets Development Program, extensive policy dialogue during program formulation led to the enactment of a new securities legislation and improvement of sector governance, including restructuring of the Boards of the Stock Exchanges to accommodate enhanced private sector representation and improved market supervision to strengthen investor confidence.

3. Issues in Project Implementation

22. Portfolio performance has been constrained by generic issues at the macro and micro level. These include (i) legal and administrative issues, (ii) process coordination and procedural issues and (iii) technical and project management issues. Invariably, these issues generally result in implementation delays, with often negative financial and economic consequences. In addition, non-compliance with specific covenants in particular with regard to submission of audited accounts and financial management diminish accountability and transparency as well as project sustainability. The Bank is adopting a two pronged approach to address these issues, including increased attention to project administration and more systematic project and portfolio review, together with increased assistance for capacity building to improve the institutional environment and ownership of stakeholders. Over the past two years, the limited availability of counterpart funds has emerged as another major concern. While Bank funded projects have generally been protected against budgetary cuts through inclusion in the core investment program of the Public Sector Development Program (PSDP) at the federal level or the Annual Development Plan (ADP) at provincial level, the worsening budgetary outlook may threaten this basic requirement. Strict prioritization of project lending, careful assessments of budgetary implications of new lending, and close monitoring of fund releases and their inclusion as major performance criteria will thus be critical elements of the Bank's operations in Pakistan over the program period. Moreover, the aforementioned spring cleaning exercise (see para. 18) will also allow a better focus of scarce resources by reducing the number of projects under implementation.

4. Proposed Lending Level

23. The Bank's proposed lending levels to Pakistan will continue to be determined by the following factors: (i) the need to give near term priority to the exigencies of macroeconomic stabilization and structural reforms through increased quick disbursing policy-based lending to support the IMF PFP while alleviating the significant upfront costs of structural adjustments; (ii) the tight medium term fiscal outlook which will continue to limit the availability of counterpart funds and restrict new project lending; (iii) ADF constraints which require conservative programming of ADF loans, and their well targeted use for poverty alleviation, social sectors, or governance related interventions; and (iv) the need to maintain strict performance-based lending, both in terms of implementation of the ongoing portfolio and the progress of the institutional and policy reform agendas in the sectors concerned.

24. Over the 1993-1996 period project lending to Pakistan (i.e. excluding program loans, and quick disbursing components of SDPs) averaged \$450 million per year. In 1997, project lending was reduced to \$251 million, and is envisaged at only \$110 million during 1998. These recent significant reductions in project lending were prompted by severe budgetary constraints and corresponding scarcity of counterpart funds as well as the need to significantly increase program lending in the near term to support the balance of payments and structural reforms and maintain adequate levels of net resources transfer. For the same reasons, 1999 project lending is only planned at about \$270 million, with the balance envisaged for quick disbursing components of policy based loans. Depending on an economic revival and improved budgetary situation, the 2000/2001 project/sector lending program input may revert to earlier levels of about \$450 to \$500 million per annum. Lending levels would however continue to be assessed in light of the portfolio's performance and the Government's commitment to policy reform.

II. Country Operational Strategy

A. Current Strategy

25. The current Bank operational strategy for Pakistan was introduced in 1994/1995. Human development (including education, health, population welfare, and water supply and sanitation) is the primary focus of the strategy. Economic growth is supported, as a strategic objective complementary to human development, to generate employment for a rapidly growing labor force and the financial resources required for investment in human and physical capital by both public and private sectors. Critical bottlenecks in physical infrastructure in agriculture, transport, and energy are also being addressed, while harnessing the potential of the private sector whenever possible. Resource mobilization, reform and development of Pakistan's financial markets, and an improved policy environment for private sector industry and export-led growth are also key elements of the strategy.

26. The 1995 COS recommends the following strategic thrusts. First, education and health should receive priority support through SAP related programs and other interventions with particular emphasis on the needs of women and other disadvantaged groups. Second, human development and environment concerns should also be addressed through assistance to urban development with a focus on the needs of the poor and the improvement of urban governance. Third, assistance to rural development should be focused on targeted poverty alleviation interventions in the form of community-based area development interventions and the provision of micro-finance to support income generating activities in the rural areas. Fourth, sustained agricultural growth is to be supported through reversing the deterioration of the vital irrigation and

drainage infrastructure and the full implementation of the new institutional structure for water management. Fifth, assistance to infrastructure development is concentrated on the development of provincial and rural roads, as well as selective assistance in the power sector for developing the country's vast hydropower potential and transmission capacity, with private sector participation to the maximum extent possible. Finally, in addition to urban environmental management improvement, environment issues and objectives are being tackled through water resource management programs, selected forestry/biodiversity investments, and targeting of the industrial sector for compliance with sound pollution control strategies.

B. Policy Implications of the COS

27. The 1995 Pakistan COS signalled a major shift towards pursuing a strategy that puts primary emphasis on human development which did not show any significant improvement in spite of relatively high growth rates during the 1980s. Within this objective, emphasis is on enhancing the quality and delivery of services through greater involvement of NGOs and the private sector. To improve the performance of social sectors on a sustained basis, the strategy goes beyond addressing micro institutional-level shortcomings and proposes broad-based, sector-wide public sector management reforms (or process improvements), including administrative, legal, technical, and institutional aspects. This approach has considerable implications for Bank operations since interventions should essentially be at the policy level and relate to systemic sectoral reforms.

28. Overall, the key policy implications of the proposed Bank operations in Pakistan over the program period include resource mobilization and utilization, public sector management, governance, devolution and decentralization. These issues are intertwined and cut across all aspects of the Bank's program in Pakistan. Resource mobilization and improved management of public expenditures are being promoted through capital market and trade and industry reforms, advisory assistance for PSDP and debt management, fiscal decentralization and increased provincial revenue mobilization, and improved cost recovery and sustainability in the urban, water resources, and transport sectors. Improved public sector management and governance are being promoted through legal and judicial reform, civil service reforms, restructuring of the power sector, improved management of irrigation and drainage infrastructure, improved quality and efficiency in the delivery of health and education services, restructuring of provincial road sector institutions, development of public-private partnerships in health, education, and urban development, and improved urban governance. Finally, devolution and decentralization is supported through a significant shift of operations and related policy dialogue towards province-based interventions, fiscal decentralization in areas of provincial control, promoting farmer-based water resources management, enhancing district level management of health and education services, and strong community involvement and participatory processes in rural development and the social sectors.

C. COS Revision

29. The establishment of a new Government in February 1997 and subsequent launching of an economic reform program and ESAF/EFF have brought about several adjustments in the Bank's strategy for Pakistan to respond to the changing policy environment. These include increased priority for macroeconomic management and support for economic stabilization and restructuring needs as identified under the IMF PFP. The Bank initially focussed on reform and expansion of the capital market and trade liberalization, export promotion, and private sector led industrial growth. Strategic adjustments also entail an expansion of Bank support for governance with an initial focus on strengthening the legal and judicial system and public administration reform. Finally, the dramatic deterioration of the power sector's financial situation and its potentially highly damaging macroeconomic impact have prompted the

Government to start a fundamental restructuring of the sector with the support of the Bank and the World Bank.

30. A review of the Pakistan COS is planned to be finalized in early 1999 and will, among others, reflect the aforementioned adjustments. While the new strategy's medium to long-term objectives are not expected to be altered, changes will be introduced to reflect the new government's priorities and changing economic environment, the lessons learned under the 1995 COS, and the outcome of sector work, particularly in the social, environmental, and water resource sectors. The new strategy will also reflect the current shift towards increasing province-level operations (see paras. 61 and 62). Finally, while assistance to the social sectors is expected to remain an important medium to long term strategic priority, the pace and scope of such assistance will need to be carefully reviewed in light of significant increases in Bank's and most other donors' assistance to these sectors during the 1990s. Fiscal and institutional absorptive capacity, sustainability aspects, and the lesson learned under substantial ongoing programs, including SAP will be critical elements of such review.

III. Sector Strategies

A. Infrastructure

1. Energy

31. Pakistan's public sector power utilities (WAPDA and KESC) face a complex set of problems which have aggravated over the past years, to the point that they now threaten macroeconomic stability and have brought the institutions to the brink of financial insolvency. Main problems include: (i) inefficient operations, high system losses and theft; (ii) overstaffing, governance problems, and deteriorating infrastructure due to inadequate maintenance; (iii) inability to collect electricity bills of key consumers, which has reduced cash flow and complicated liquidity management; (iv) distorted tariff structure with heavy subsidization of agricultural and low-slab domestic consumption and free supply to the Federally Administered Tribal Areas (FATA) and Azad Jammu and Kashmir, resulting in losses of over Rs30 billion in 1997/98; (v) associated overpricing of power for industrial and commercial consumption, which has reached the point where the alternative of captive generation may become attractive; (vi) the induction of substantial amounts of high-cost (relative to WAPDA's existing hydel and other generation facilities) private power capacity, which combined with slower-than-expected growth of power demand has meant that WAPDA is obliged to purchase a growing proportion of high-cost power; and (vii) the Government's earlier policy not to increase power tariffs, combined with the rapid increase in private power generation.

32. To address the critical situation in the sector, in March 1998, the Government agreed with the IMF, the Bank, and the World Bank to implement a comprehensive restructuring program for the sector, and requested the Bank and the World Bank to provide urgent quick disbursing support for the initial phase of the program over the next 18 months and help meet the associated substantial adjustment and financial re-engineering costs. The longer term strategic objective in the sector is to develop an efficient and competitive power sector which would comprise a number of privately owned generation corporations operating under market competition; an independent and regulated transmission and dispatch corporation for an integrated operation of the system and for the wholesale market; private regulated corporations for electricity distribution; a privatized KESC supplying the Karachi area; and the transformation of the National Electric Power Regulatory Authority (NEPRA) into a fully autonomous and effectively functioning regulatory agency for the power sector.

33. The Government has already implemented (in March 1998) a 21 percent tariff increase and a reduction of cross subsidies in the tariff structure. A high level Steering Committee to provide guidance and coordination and accelerate WAPDA's restructuring program has been established together with a Holding Company to take over the functions of WAPDA's power division. Also, the privatization of KESC has been revived, financial advisors appointed, and advertisement for expression of interest issued. NEPRA was established in 1997 and the sector's regulatory framework is being strengthened. A new private power policy is also under preparation.

34. The next steps to be supported by proposed policy based lending and complementary technical assistance from the Bank and the World Bank (tentatively in 1998) will include the actual breaking up of the monolithic, vertically integrated, and poorly governed WAPDA; corporatization and partial privatization of state-owned assets in generation, transmission, and distribution; further tariff rationalization; financial restructuring and re-engineering of utilities and addressing the circular debt problems among energy utilities which threaten fuel suppliers and the engineering industry with bankruptcy; carry through with KESC's privatization; and full operationalization of NEPRA.

2. Road Transport

35. The road network has increased over the past two decades but overall investment in the sector has been inadequate. Infrastructure capacity lags behind the growth of transport demands and the underinvestment has exposed the transport system to severe deterioration. While national and provincial roads are adequate in extent though not in quality and service level, rural roads are inadequate in both extent and quality to serve the needs of rural areas. Key issues related to the transportation sector include (i) maintenance funding and operations; (ii) quality control of road construction; (iii) transport safety; (iv) enhancement of fuel taxes for heavy vehicles and provincial license fees for vehicles; and (v) further reduction of the Government owned-and operated bus fleet.

36. The Bank's strategic priority in the sector focuses on the development of provincial and rural roads to support rural development and better linkages between provincial growth centers. This will be addressed through province-level interventions which would combine OCR/ADF lending for integrated provincial/rural road investments. Integration of such interventions would promote a more strategic approach towards the selection of specific road links as well as better management of operation and maintenance. Province-based interventions would increase ownership, sharpen the focus of the policy dialogue on sector revenue and O&M expenditure issues (a provincial matter for this type of road), and promote the reform of provincial Communication and Works Departments, thus encouraging improvements in each province's road sector.

37. The program currently includes one Provincial /Rural Roads project in Punjab, and a cluster PPTA for preparing similar investments in the other provinces on a staggered basis. The program also includes a loan for the rehabilitation of the Karachi-Chaman (Balochistan) road link (prepared under a 1996 PPTA) which is critical to a better economic integration of the remote and isolated Balochistan province with the rest of the country, and the Karachi and Port Qasim ports.

3. Finance, Trade, and Industry

38. Despite being a richly endowed country with a strong resource base and cheap labor, Pakistan has a small industrial base. The performance of the industrial sector has been

adversely affected by: (i) distortions of the trade regime which encouraged uneconomic import substitution; (ii) inability of the export policy incentive framework to offset the antiexport bias in the trade regime; (iii) large-scale nationalization of industrial and financial institutions, which eroded productivity and efficiency, while discouraging prospects for private investment; and (iv) the high cost of financial intermediation stemming from the fiscal pressures and inefficiencies of the banking system. The small industrial base and its restricted exposure to the world markets have held back Pakistan's economic growth prospects and induced a high degree of vulnerability in the balance of payments position. To achieve higher and sustainable economic growth, Pakistan needs to further open up its economy to maximize gains from international trade and to better integrate itself with the emerging global multilateral trading system to encourage an efficient, competitive, and diversified production structure that caters to the domestic as well as international markets.

39. The broadening and deepening of the financial markets and strengthening of their regulatory frameworks to ease availability and cost of credit, and the development of a conducive industrial and trade incentive framework to promote exports and private sector-led industrial growth and its diversification, are critical elements of the IMF PFP. Reform of the banking sector to restore its viability is being carried out under an ongoing World Bank Banking Sector Adjustment Loan (BSAL). Development of a diversified and competitive capital market is being promoted by the Bank under the ongoing Capital Market Development Program (CMDP). The 1998 Bank Trade, Export Promotion, and Industry (TEPI) Sector Development Program addresses the acceleration of the trade liberalization process, the development of a modern and efficient export promotion drive, the improvement of trade and investment facilitation, and the carrying out of the privatization process. Given the magnitude of the aforementioned Bank interventions, and their substantial policy and capacity building agendas, no new assistance in these sectors is contemplated during the current operational cycle, and the Bank will concentrate on full and effective implementation of these programs.

B. Agriculture, Rural Development, and Water Resource Management

40. Agriculture remains the most important sector for employment and income generation in the country. The sector, including forestry and fishing, accounts for about 25 percent of the country's GDP and more than 45 percent of employment. The sector is also important for the country's manufacturing industries, both as a source of raw materials and as a consumer of locally manufactured goods. It generates directly and indirectly about 70 percent of the country's export earnings, including raw and processed cotton, rice, leather, textiles, and carpets. Productivity improvements have been achieved in the past due to increased investment in irrigation facilities, production and distribution of fertilizers, and mechanization. The performance of agriculture is dependent on weather conditions and susceptible to pest and virus attacks, and traditional sources of productivity growth (high-yielding varieties of seeds, expansion of irrigation, use of chemical fertilizers, farm mechanization, etc.). Main constraints in the sector include imperfections in land markets and distribution, particularly in Sindh; irrigation inefficiencies and increasing deterioration of land; inadequate rural transport network; inefficiencies in public sector marketing of certain agricultural inputs and outputs; poor quality of research and extension; and restricted access to credit by small farmers.

41. Water sector efficiency is particularly important in Pakistan, as about 90 percent of crop production depends on irrigated land. The sharp deterioration of the vast irrigation and drainage system, due to improper management of watershed areas and deforestation, has become a serious threat to the sustainability of agricultural growth. Major problems of waterlogging and salinity are also affecting the production potential on approximately 30 percent

of irrigated land. Inefficient management of water systems and consequent low delivery efficiency and inequitable distribution, inadequate O&M, and insufficient cost recovery have also plagued the sector. In 1997 a major program of institutional and policy reforms for improved water resource management was initiated under the National Drainage Program (NDP), Provincial Irrigation and Drainage Authorities (PIDA) were introduced in each of the four provinces covered by the Indus basin system to enable establishment of financially autonomous farmer organizations at distributory canals level, and Area Water Boards to manage the canal command. The underlying principle of these reforms is to make farmers' organizations a norm in the management of onfield irrigation systems.

42. Assistance to the water resource management sector will continue to figure prominently in the Bank's program. Investments and related policy dialogue will principally focus on making institutional reform initiated under NDP work, and result in accelerated agricultural growth and poverty reduction. This will include: (i) explicit support for implementation of changes in water resource institutions called for in the new water resource acts of each of the provincial governments; (ii) active development of farmers' organizations for managing the water system; (iii) implementation of a system of water charges in the context of adequate institutional structures for maintenance of the irrigation system; (iv) introduction of transparency and equity in the system; and (v) promoting full coverage of each province. Concurrent with the efforts for institutional reforms, assistance for completing the drainage system and critical link canals will be selectively considered. In connection with the new COS's preparation and because of the sector's huge financial requirements and the need to provide a sharper focus in the selection of new Bank investments, a 1998 Water Resources Sector Strategy and Investment Study TA is being implemented to prepare a national water sector profile, develop a sector strategy for agriculture water resources, and define a medium-term Bank investment plan comprising infrastructure development or rehabilitation of selective watershed areas, policy support, institutional development and capacity building which will provide a direction for investment decisions of the Bank for the 2000-2005 period. In the meantime, an earlier prepared priority investment for a link canal in the Punjab will be included in 1999 under a Punjab Irrigation SDP which will also include support to a staged development of farmers' organizations within a canal command and the establishment of Area Water Boards. The pipeline also includes several other priority investments. These will be developed and reviewed under the TA study.

43. The Bank's rural development strategy is aimed at poverty alleviation through multi-pronged area based rural development interventions in the more backward areas of relatively high poverty density where improvements in the use of available resources will enable income growth. The overriding feature of such assistance is a strong community involvement in all components and the establishment of rural support programs to provide the institutional support to community organizations. The program currently includes one project each in, NWFP and Sindh. Assistance to improving the rural poor's access to microfinancial services is also included in the program, through the newly created PPAF which functions as an apex organization in microfinance development and will work with potentially sustainable microfinance service providers including NGOs, private banks, and nonbank financial institutions. Capacity building assistance to PPAF is also planned during the program period.

44. Within the framework of its assistance to the agriculture and rural development sector, the Bank will also continue to promote the enforcement and improved implementation of the recently introduced agricultural income tax through harmonization of tax rates and coverage across provinces.

C. Social Infrastructure and Environment

1. Education

45. Due to past lack of investment in education, student enrolments have not kept pace with population growth and the quality of student learning has remained deficient. Poor schooling led to human resource constraints which slowed development. Despite these limitations including severe financial constraints over the past two years, Pakistan has maintained spending for basic education through the multi-donor assisted SAP including primary education and middle schooling. As a result, enrolments have climbed from 69 percent in 1993 to 73 percent in 1996 and from 54 to 57 percent for girls in the same period. The SAP has provided organizational capacity to increase enrolment growth, improve provincial educational monitoring, augment non-salary budgets for learning materials and community participation through NGOs. Donor coordination through the Multisupport Unit has been especially effective. Under the SAP umbrella, the Bank-assisted projects in primary and middle schools and teacher training have been protected from funding cuts and together have had impacts on improving teacher certification and in-service training, scholarships for girls in grade 6-8 and the introduction of community model schools to provide quality classroom learning for primary school girls. These issues of access especially for girls, quality improvements to learning and the system's capacity building under SAP continue to provide the Bank's focus in education.

46. For human development, the Bank's main objective is to support Government expansion of quality basic education especially for girls in rural areas to raise participation rates in primary schools above 85 percent by 2000. In addition to improving access to basic education, the Bank is also interested to raise the quality of what is learned in school as measured by improvements in teacher qualifications, in-service training and student test scores. Policies in support of basic education have been discussed jointly with donors under the SAP. Policy dialogue continues to emphasize the distribution of non-salary expenditures through school management committees and provision of adequate numbers of trained teachers in schools according to enrolment criteria of one qualified teacher to 35 students. Outside of basic education, the Bank and the Government are engaged in discussions on strengthening nonformal education programs for rural women to improve literacy and wage skills with microcredit options.

47. The general outlook over the next several years remains guarded because of the severe economic difficulties experienced by Pakistan. In spite of these difficulties, the Bank will continue to place priority on basic and nonformal education with the aim to improve basic social indicators in Pakistan. In basic education, the Bank will provide follow up in two areas of comparative advantage protected by SAP: (i) quality improvements to primary education with emphasis on dropout prevention in rural areas through scholarships and community involvement; and (ii) curriculum development and teacher in-service training. The Bank will also follow through with its innovative program to provide nonformal education to rural women. The Bank also plans to help the Government strengthen education management through technical assistance.

2. Health

48. The health, nutrition and population status in Pakistan remains well below regional standards. This is mainly an outcome of inequities by income group, gender and residence. The life expectancy of the rural poor, in particular women, is low. Half the children are malnourished, and iodine, iron and Vitamin A deficiencies are common among the rural poor. About 25 percent of infants are born with low birth weight, and nine percent die before their first birthday. While

reproductive health and nutrition problems mainly affect the poor, communicable diseases due to preventable or easily curable infections such as diarrhoeal diseases, tuberculosis and pneumonia account for the largest burden of diseases in the population at large. Finally, a continuing population growth rate of 2.8 percent per annum will further erode Pakistan's resources and growth potential, and will double its current population of 138 million by the year 2022.

49. Health services in both public and private sectors are generally of poor quality, in particular for promotive, preventive and life saving services, resulting in serious underutilization and inefficiency of health services. The major problem in the health sector is poor governance. While federal and provincial capabilities have improved under SAP, the district level remains ineffective due to lack of authority and absence of accountability and teamwork. There are few female health staff compared to males, and staff absenteeism is high due to adverse recruitment practices, inadequate incentives, and social and security problems in rural areas. On the demand side, there is limited community appreciation for the health and nutrition needs of women. The health education and nutrition promotion subsectors have remained marginalized.

50. Under SAP, a core health policy reform agenda has been formulated in each province, which, as the programmatic theme for the next five years, aims to improve the quality of Primary Health Care (PHC). The Provinces have also identified a range of organizational priorities to improve the effectiveness and efficiency of the health sector. This includes decentralization, involving communities, development of district health management authorities, public-private partnership, development of supervision and monitoring systems, integration of federal programs and provincial health services, rationalizing public health facilities and staff deployment, introducing performance-based incentives systems, and improving cost recovery. While these strategies are laudable and justified in view of the current functioning of the public health system and increasing demand for high tech services, such extensive restructuring requires substantial institutional development and needs to be implemented in a phased manner.

51. The Bank is one of the lead donors in the sector. It has had a key role in helping the Government to set programmatic and organizational priorities, improve system designs, develop human resources for the sector, and improve service delivery to ensure better impact of policies and programs. Priorities for the Bank's involvement are women's health (including reproductive health, health education, and nutrition promotion), communicable disease control, and health sector reform.

52. The Bank's policy interventions in the sector focus on: (i) improved public sector efficiency through strengthening of the sector's management and the development of public-private partnership in the delivery of services; and (ii) increasing equity in the sector through improving the access of women to health services and the quality of women's health care. Subsequent to a Women's Health Project in 1998, the program includes PPTAs and subsequent lending assistance for Communicable Disease Control and Reproductive Health projects. The program also includes an ADTA for Health Sector Reform aimed at improving the sector's governance and streamlining the role of the Government in addressing market failures in the sector.

3. Urban Development, Water Supply, and Sanitation

53. While the quantitative indicators for water supply and sanitation, in particular for urban areas, are above the average for South Asia, infrastructure investments in the sector cannot keep pace with the rapid growth of urbanization in recent years and service quality is poor. Many urban water supply and sewerage systems that have been installed or upgraded more than 20

years ago are operating at or above full capacity. These systems are in poor condition and many have already come to the end of their economic life. Piped water supply is irregular, often provided for less than six hours per day and system losses are high, estimated at 50 percent. Underground sewerage facilities are provided only in major cities, and squatter settlements and low-income areas are often left unserved. In urban areas, only about 40 percent of solid waste can be transported to the final disposal site due to inadequate resources and management capacities. Substantial deficiencies remain in the provision of shelters for the urban poor. In addition, the large Afghan migrant and refugee populations in NWFP's and Balochistan's urban centers are further taxing the strained capacity of urban services in these areas.

54. In addition to insufficient investments in both urban and rural infrastructure, major constraints on sector efficiency are: (i) poor public sector management at all levels of Government; (ii) a lack of accountability in governance; (iii) ineffective markets for land and shelter, (iv) underfunding of investments, poor cost recovery, and poor O&M. Local resource generation for the provision of public utilities as well as beneficiary and community participation in the operation and maintenance of the utilities has also been limited. Increased private sector participation for the provision of urban services is encouraged by the Government, but hindered by a poor regulatory framework.

55. The main focus of Bank assistance to the sector will be on environmental aspects and the needs of the poor. Policy dialogue will broadly cover: (i) institutional restructuring with emphasis on elimination of overlapping functional responsibilities, professionalization of urban management, staffing policies, and devolution of services delivery; (ii) private sector involvement in the delivery of selected urban services; (iii) budgeting and finance and increased cost recovery and municipal revenue; and (iv) increased community involvement. Capacity building efforts will be pursued for institutional strengthening of provincial and municipal urban management and operations, including planning and implementation capabilities, financial management, and environmental management. Assistance for privatization of utilities and urban waste management will also be considered, as appropriate.

56. Future sector investments will be exclusively province-based through selective use of the SDP modality which would strengthen the Bank's policy leverage and provide general budgetary support through the accrual of counterpart funds. Bank planned assistance to urban development over the program period is significant with proposed interventions in each province. Lending will, however, be strongly performance based and timing of delivery of proposed investments will depend on progress of policy reforms including through upfront commitments, particularly in the areas of cost recovery, financial sustainability, and improvements of urban governance.

4. Environment

57. The main objective of the Bank's environment strategy in Pakistan is to promote the full integration of environmental concerns into the country's development process. This requires a multi-pronged approach to enhance policies and incentives for environmentally responsible behaviour, increased investment in environmental protection by both the public and private sectors, and capacity building assistance to agencies responsible for environmental planning, management and enforcement. Priority areas include: (i) improving natural resource management, including forest resources, critical ecosystems, and water resources; (ii) controlling urban and industrial pollution; and (iii) promoting more effective partnerships between the Government, the private sector, and the public at large for addressing environmental issues. This is proposed to be achieved through stand-alone forestry and biodiversity interventions, increased

environmental focus of Bank assistance in the water resource and urban development sectors, and through selective stand-alone assistance for industrial pollution control, including hazardous and toxic waste prevention and treatment and reduction of air pollution.

58. Over the program period environment protection and management will be the primary or secondary objective of most proposed Bank interventions in the water resource and urban development sectors. Environment issues will also be mainstreamed under the proposed area based rural development projects. A major stand-alone initiative is also envisaged for assistance to improve industrial pollution control. This is proposed through initial advisory technical assistance for sector work, followed by a PPTA and subsequent investment phase most likely through the SDP modality. Finally, the program also includes an ADTA for strengthening the Government's capacity to enforce the new Environmental Act and mainstreaming environmental concerns through improving Government environment impact assessment.

D. Gender

59. The Bank's strategy for Pakistan places particular emphasis on gender issues, including: (i) measures to combat the multiple constraints which prevent girls from entering school and from completing primary and middle level schooling; (ii) special attention to women's health given Pakistan's high fertility rates and low contraceptive prevalence; (iii) support to the enhancement of women's productivity and their economic empowerment which holds the best promise to improve their condition; and (iv) better collaboration between Government and NGOs in providing targeted interventions.

60. These objectives will continue to be pursued over the program period through proposed interventions such as Women's Health Project, Reproductive Health Project, Non Formal Education for Women Project, Primary School Quality Improvement Project, Rural Micro Finance, and the area-based rural development projects.

E. Governance Dimensions of Bank Operations

61. Major manifestations of poor governance include an inefficient and centralized civil service structure, an outdated legal and judicial system, misuse of public resources, weak institutional capacity, ineffective policy implementation, limited accountability and serious breaches of law and order. Over the last 2-3 years, the Government has intensified policy reforms toward anticorruption, decentralization, transparency in policy formulation, and efficient civil service, but the efforts have not yet been successfully institutionalized. The trade regime remains over-protected with relatively high tariff rates, financial markets are fragile, and corporate governance of state-owned enterprises (SOEs), particularly power utilities, is in crisis.

62. Bank operations and policy dialogue will be increased over the program period to improve governance and to develop competitive markets and the private sector. Main areas include strengthening and modernization of the legal and judicial system, and civil service reform. These interventions, together with sector-level efforts to strengthen the role of the market mechanism in resource allocation, will support key elements of the Bank's governance and anti-corruption policies. A TA to assist the Government and the Judiciary is under implementation, which will prepare the reform agenda to be supported by policy-based lending programmed in 1999. Power Sector Restructuring Program (PSRP) loan (1998) will address corporate governance of power utilities (WAPDA and KESC), while Trade, Export Promotion, and Industry (TEPI) SDP (1998) aims to lower tariff rates, reduce tariff exemptions/concessions, and privatize SOEs.

F. Province-Level Interventions

63. In spite of its federal nature, government functions and the fiscal environment in Pakistan are over-centralized, particularly with regard to resource allocation, expenditure decision making and management, public sector institutions, and revenue mobilization. This has reduced effectiveness of expenditures, weakened incentives for local revenue mobilization and cost recovery, and impaired accountability. Strengthening local government institutions, decentralizing management of locally oriented expenditures, and expanding local resource bases and mobilization are therefore critical. Moreover, because of strong geographic, climatic, cultural and ethnic differences, the development requirements of provinces can differ widely and require a more targeted strategic approach.

64. While past Bank operations in Pakistan have in many cases been implemented at the provincial level, this has generally been through “umbrella” projects covering all four provinces and with significant involvement of the concerned federal ministries. These interventions have not always been ideal due to their complex implementation arrangements and somewhat diluted policy and institutional focus. The Government and the Bank agree that in areas of provincial control a more systematic recourse to province-based operations covering one province at a time should be applied. This would considerably facilitate project management and implementation, strengthen the policy dialogue and capacity building efforts, and enhance ownership and accountability. A stronger provincial focus would also introduce replicability in other provinces. The use of policy based lending, including through SDPs, at the provincial level will also be considered on a selective basis. Under the severe budgetary situation, the SDP modality is a particularly attractive for the provinces since it would enable them to bring about much needed sectoral structural adjustments while pursuing critical development expenditures which have been a principal casualty of the fiscal crisis. This shift in the Bank’s strategic and operational approach will constitute an important element of the new COS for Pakistan.

G. Private Sector Operations

65. The Bank’s private sector operations in Pakistan have been significant. Investments at the end of March 1998 were \$124.5 million or 16.4 percent of the Bank’s total private sector portfolio. They include direct investments (about 48 percent of the total) as well as through financial intermediaries and regional funds. Business and financial risks may increase as a result of the expected economic impact of nuclear testing, with possibly lower returns on investments and further deterioration of portfolio quality. Since a number of Bank investments, including mutual fund investments, are listed on stock exchanges, the foreseeable fall of the stock prices in the medium term may also affect the value of Bank investments. In addition, capital inflows through regional funds sponsored by the Bank will be reduced due to the recent downgrading of Pakistan’s credit standing by the international rating agencies. However, the recent foreign exchange restrictions do not apply to business activities of foreign companies and multilateral institutions including the Bank and should by themselves not affect the Bank’s day-to-day operations. The Bank has currently no firm project in its private sector pipeline.

66. Bank support to private sector development is mainly envisaged through improving the policy and regulatory framework for enhancing private sector-led economic growth. This includes: (i) trade and export promotion through further liberalization of the trade regime, provision of competitive trade financing, and restructuring of trade related public sector institutions; (ii) support to privatization in the industrial and power sectors; (iii) reform of economic laws, and removal of legal and judicial bottlenecks affecting the private sector; (iv) addressing industrial

pollution prevention and control issues; and (v) promotion of public-private partnerships in the social and urban sectors. There are also a number of public-private partnership opportunities for the development of infrastructure. However, caution is currently required since most of these would also involve substantial Government liabilities which it can ill afford at this stage. Similarly, the opportunities for direct assistance to purely private sector initiatives in infrastructure or industry would generally have to wait for improved economic stability, the restoration of sustained higher economic growth rates, and improved investor confidence.

IV. Subregional Economic Cooperation

67. The most immediate potential for subregional cooperation is for power exchange between Pakistan and India. Pakistan will generate power in excess of domestic demand from 1999-2002 while India will continue to face shortages. Subregional economic cooperation between India and Pakistan in electric power exchange would include exploring new ways of efficiently and systematically matching supply and demand for electric power between the two countries. The mutual advantages of such exchange would include: (i) the development of complementary energy resources; (ii) advantage taken of load and hydrological diversities; (iii) increased supply reliability; (iv) reduced reserve capacity requirements; (v) reduced system losses; and (vii) reduced adverse environmental impact. The Government of Pakistan formally requested the Bank to provide assistance in this regard and a RETA for a Pakistan-India Electricity Exchange Project was being envisaged. However, with the recent deterioration of relations between India and Pakistan, immediate progress in this area may be difficult.

68. Subregional cooperation opportunities would also be substantial between Pakistan, Afghanistan, and the central Asian republics. This would be particularly the case for communication links and in the gas sector. The continuing conflict in Afghanistan has prevented any significant development to date. The Bank will continue to monitor the situation and explore potential interventions, if possible. At this stage, the proposed Karachi-Chaman road rehabilitation project does have a subregional dimension since it would improve the major road link between the port of Karachi, Balochistan and the Afghan border, with potential for eventual connections towards Central Asia.

V. Donor Activities and Aid Coordination

69. Donor coordination in Pakistan is good and well structured. Donors' resident missions/representatives regularly meet, including through specific sector focused coordination groups. In addition to individual meetings, the Bank's annual CPM always convenes a "Donors' Meeting" in PRM to brief all major donors on the Mission's findings, the scope of the program, and related issues. The annual Pakistan Development Forum (PDF) is the main broadbased forum for aid coordination and involves substantial and frank discussions on the progress of macroeconomic reforms, aid utilization performance, and sector issues. This year's PDF was held in Islamabad from 12 to 13 May 1998, and included special sessions on governance, education, and private sector development. Appendix 3 shows the recent overall external assistance to Pakistan.

70. The coordination between the Bank and the World Bank in Pakistan is good at the programming, operational, and policy levels. It has further strengthened with several envisaged key areas of coordinated or joint efforts to support the ongoing economic reform program. The decentralization of the World Bank's country directorship to Islamabad has improved the consultative process and facilitated decision making. High level annual consultations between the Bank and World Bank in a new format at the Bank's headquarters have proven to be a useful forum to discuss country operations, including macroeconomic aspects and common sector issues.

Minutes of these meetings form the basis for subsequent follow up on agreements reached. The modalities of collaboration with the World Bank vary significantly across sectors and subsectors. They range from cofinancing and parallel financing to geographical and subsectoral divisions of operations. Cooperation with respect to policy dialogue takes the form of a joint dialogue to a "sequential" policy dialogue where each institutions takes one aspect of policy reform in the sequence. The Bank and the World Bank also collaborate at the portfolio administration level. Staff from each institution participate in the Country Projects (Bank) and Annual Portfolio (World Bank) reviews. Together with OECF, a joint Public Sector Development Program (PSDP) review is undertaken annually to assist the Government in preparing its annual development budget. In addition, after completion of the World Bank's new Country Assistance Strategy for Pakistan in 1998, both institutions are planning to update their 1996 joint Policy and Program Paper for Pakistan which outlines relations between both institutions, including areas of demarcation and collaboration.

71. Cooperation between IMF, the Bank, and the World Bank is particularly close in supporting the IMF PFP and has generated synergies on policy issues. Recently both institutions have initiated the preparation of parallel policy-based lending support for restructuring of the power sector. Field missions overlapped and the design of the policy agenda is being closely coordinated. It is also intended that disbursements from both institutions would be staggered to complement each other and enhance the incentives for timely compliance with the policy agenda and provide uniform resource transfers over the program's period. Governance is another area where both institutions maintain close cooperation. The Bank has taken the lead on legal and judicial reform, while the World Bank did so in the case of civil service reform. Ongoing TA or other sector work by each institution would form the basis for possible parallel lending interventions which are required in light of the magnitude of adjustment costs and to increase policy leverage and complementarity. Finally, while the Bank and the World Bank basically have many sectors of common interventions there are no overlaps and complementarities are significant. In the water resource sector both institutions are involved to assist meeting the significant investment requirements while promoting the policy reform agenda initiated under NDP. In urban development, World Bank is mainly involved in Lahore and major cities in Punjab, while the Bank focuses on other provinces and secondary cities in Punjab. Education and health are common sectors with the World Bank supporting general basic education and the Bank focusing more on women's specific needs and also supporting non-formal education. Ports and railways are more exclusively the World Bank's domain, while the Bank has taken the lead on area-based rural development projects.

VI. Cofinancing and Catalyzing External Resources

72. Pakistan has been one of the major recipients of official cofinancing during the last decade. In 1997, \$320 million worth of cofinancing was mobilized, all of it official. While Pakistan's economic difficulties and poor rating make official cofinancing even more critical, current prospects are relatively limited. Many donors are very cautious with regard to new commitments to Pakistan due to large aid backlogs, poor track record of sustained policy reforms, governance problems, and low fiscal and institutional absorptive capacity. Also, because of donors' resource constraints and increased channeling of bilateral funds through NGOs, many development partners are scaling down cofinancing. The economic sanctions associated with Pakistan's nuclear test may further reduce the scope for cofinancing. To counterbalance this, the Bank will need to increase its efforts to tap less traditional sources of funds, particularly through export credit and other commercial cofinancing, and the use of the Bank's guarantee facility. In the latter case, the most immediate prospect is in conjunction with the proposed power sector restructuring operation. Although export credit should also offer good prospects, the Government has been somewhat reluctant to avail of

such financing due to the precarious external position. This also limits other types of commercial cofinancing due to creditworthiness concerns. The situation may however improve as the benefits of reforms come on stream.

VII. Bank's Operational Program

73. The loan and TA program for the 1997-2001 period is presented in the table below. Details are provided in Appendix 4.

PAKISTAN
Table 1: Lending and Technical Assistance Program, 1997-2001

A. Public Sector Lending Program (number of loans; amount in \$ million)										
	1997 (Actual)		1998		1999 ^{e/}		2000 ^{e/}		2001 ^{e/}	
	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount
Lending Program ^{a/}	6	501	8	566	6	685	6	420	7	530
ADF	5	251	3	109 ^{c/}	5	250	5	220	5	205
OCR	1	250	5	457 ^{d/}	3	435	2	200	6	325
Lending Pipeline ^{b/}	6	501	8	566	8	825	6	420	7	530
ADF	5	251	3	109	6	290	5	220	5	205
OCR	1	250	5	457	4	535	2	200	6	325

B. Technical Assistance Program (number of TAs; amount in \$'000)								
	1997 (Actual)		1998		1999		2000 / 2001	
	No.	Amount	No.	Amount	No.	Amount	No.	Amount
Technical Assistance Program ^{a/}	14	7,316	18	10,945	14	9,650	12	8,200
Technical Assistance Pipeline ^{b/}			18	10,945	14	9,650	12	8,200

^{a/} The Program includes firm projects only.

^{b/} The Pipeline includes both firm and standby projects.

^{c/} Includes Malakand Area Development (\$41 million); Punjab Framer Irrigation (\$8 million); Women's Health (\$60 million).

^{d/} Includes Trade , Export Promotion and Industry SDP (five loan package of \$457 million).

^{e/} Total does not tally with breakdown because blend loans were counted as one. (Blend loans: 2 in 1999, 1 in 2000 and 4 in 2001)

74. Pakistan's total IPF over the 1998-2001 period currently stands at about \$2.2 billion out of which \$1.3 billion is ADF (\$320 million per year), and \$900 million OCR (\$225 million per year). Planned lending over the period matches that amount, but the ADF share was programmed conservatively at only \$753 million while OCR lending is planned at about \$1.36 billion, i.e. \$457 million above the OCR IPF for the period, mainly to accommodate vital program lending and OCR lending for economic growth projects. ADF loans will be confined to poverty alleviation, social sectors, and governance related operations. With the exception of governance, quick-disbursing assistance will be on OCR terms. Due to shortages of counterpart funds, project lending is significantly reduced to only \$109 million (ADF) in 1998.

75. About 50 percent of proposed Bank lending over the 1998-2001 period is concentrated on social infrastructure, water resource management, rural development, and road transport. The balance is mainly for policy based lending (especially in 1999) in trade and industry, the power sector, and legal/judicial reform. About 44 percent of projects (56 percent of loans) are directly aimed at economic growth, and 44 percent (31 percent loan amounts) at human development, poverty alleviation, environment, or women in development. Another 12

percent of projects (13 percent loan amounts) are aimed at economic growth with environment, poverty alleviation, human development, or women in development as a secondary objective. Province specific operations account for 64 percent of loan projects, while the remaining 36 percent are for federal or “umbrella” (i.e. more than one province) projects. Province specific operations are planned for urban development, area based rural development, provincial/rural roads, and water resources management.

76. The 1999 firm lending program amounts to about \$822 million (\$110 million ADF and \$712 million OCR) for nine loans including trade and export promotion industry sector loan package, power sector restructuring, governance related program, and education. The 1999 TA program amounts to about \$8.2 million out of which \$3.25 million is for four PPTAs and \$4.95 million for eight ADTAs.

VIII. Economic and Sector Work Program

77. In connection with the new COS, significant economic and sector work is being carried out in 1998, including for an Urban Sector Strategy Study, Social Sector Strategy, Environmental Sector Study, and Water Resources Management Strategy and Investment Study. In addition, with the recent increased Bank emphasis on governance issues in Pakistan, detailed sector work is being carried out in the legal and judicial sector, and with regard to potential civil service reform. Finally, a major economic activity to be initiated in 1998 and to be pursued over the next couple of years is for providing structured high level policy advice to the Government. This is based upon a Government request for the Bank to critically review ongoing stabilization and structural reforms to assess their continued relevance and propose adjustments, as required. This will include: (i) a combination of small scale TA and staff inputs (through an interdepartmental task force) to review the ongoing reform programs in key areas of the economy; (ii) the convening of a high level workshop in Manila to discuss topical working papers resulting from these reviews; (iii) the subsequent finalization of a Policy Advice Paper for submission to the Prime Minister; and (iv) follow up assistance in identified priority areas. Topics include: inter-governmental fiscal relations, industrial development and export diversification, foreign exchange management, banking supervision, external and foreign debt management, service industry development strategy, social safety nets, strengthening primary education, and human development for technology competence.

78. While the Government has made progress with regard to a more efficient management of public expenditures, there is a need to pursue these efforts towards better prioritization, management, and implementation of the federal PSDP. The inadequacies in information flows also need to be addressed to achieve greater effectiveness and development impact of public expenditures and optimize financial risk management. To support the Planning Commission and the Ministry of Finance in these areas, a cluster TA for National Economic Management Support Systems has been included in the 1998 program, with processing and implementation of sub-components to be staggered over the 1998-2000 period. The TA will assist in strengthening the planning, monitoring, and evaluation of the PSDP, as well as support the development of policies and procedures for financial risk management, including through integration with related existing systems for aid and debt management and financial reporting developed under past and ongoing Bank TAs.¹

¹ Over the program period, additional sector work is also planned for developing a health sector reform agenda, assisting the Government of Balochistan to evaluate the impact of its agriculture sector investments, and for studying the housing and housing finance sector.

IX. Local Cost Financing

79. In 1997, Bank loans to Pakistan financed about \$146 million equivalent in local cost, or 59 percent of total Bank project lending to Pakistan in that year. This percentage should be seen in light of the fact that three out of four project loans in 1997 were in the social sectors or for poverty alleviation. Over the past two years, Bank financing has steadily decreased and, in 1997, averaged 57 percent of total project costs. With a project loan pipeline strongly tilted towards social infrastructure and poverty alleviation and the continuing severe budgetary situation, the need for local cost financing remains critical.

80. In spite of acute financial difficulties, Pakistan has made all efforts to protect externally funded projects from budgetary cuts, increase its local cost financing portion, and increase budgetary allocations to social sectors, particularly under SAP. Increased domestic resource mobilization is being pursued under the IMF PFP, and is one of the main elements of the Bank's policy dialogue in Pakistan including in the agriculture, water resources, urban development, power and transport sectors. Fiscal decentralization and increased revenue generation by the provinces is also an important feature of the Bank's operations in Pakistan and is receiving full support from the Government. Measures to improve public expenditure management are also underway, and donors continue to encourage the Government to further reduce defense expenditures, consistent with security needs. The benefits of the reform and corresponding sustained increases in domestic resource mobilization will, however, take time and the fiscal situation will remain extremely precarious over the medium term. Support to meet an appropriate part of the local currency cost of Bank Projects is thus warranted. Consistent with the Bank's policy and with the focus of the country operational strategy, a higher percentage of local cost financing would also be justified for projects addressing human development (education, health, population program, women in development), poverty reduction (mainly in the agricultural sector), and natural resource management concerns.

PAKISTAN
COUNTRY PERFORMANCE INDICATORS

Item	FY1994/95	FY1995/96	FY1996/97 ^{r/}	FY1997/98 ^{p/}
A. Income and Growth				
1. GNP per Capita (US dollars, current prices)	480	488	452	457
2. GDP Growth (%) (in constant prices)	5.2	5.2	1.3	5.4
Agriculture	6.6	5.8	0.1	5.9
Industry	4.9	5.4	1.0	6.2
Services	4.8	4.8	2.1	4.8
B. Savings and Investment (at current market prices)				
		(percent of GNP)		
1. Gross National Savings	14.2	11.6	11.3	15.0
2. Gross National Investment	18.3	18.7	17.5	17.3
Public Investment (fixed capital)	8.2	8.1	7.0	5.9
Private Investment (fixed capital)	8.6	9.0	9.0	8.9
C. Money and Inflation				
		(Annual percent change)		
1. Consumer Prices ^{a/}	13.0	10.8	11.8	8.2
2. Broad Money (M2)	17.2	13.8	12.2	14.0
D. Government Finance (consolidated)				
		(percent of GDP)		
1. Total Revenue	17.2	17.6	16.1	16.1
Tax	13.7	14.1	13.5	12.9
Non-tax, etc.	3.2	2.9	2.6	3.2
2. Total Expenditure	22.8	23.9	22.3	21.1
Current	18.4	19.5	18.8	18.0
Development	4.4	4.3	3.5	3.1
3. Overall Surplus/Deficit(-)	-5.6	-6.3	-6.2	-
E. Balance of Payments				
1. Merchandise Trade Balance (% of GDP)	-4.2	-5.7	-5.1	-3.0
2. Current Account Balance (% of GDP)	-4.1	-7.1	-6.2	-
Exports (current prices, US\$ million)	8,137	5,902		
3. Exports, fob (% of GDP)	12.7	12.9	13.1	13.6
Export Growth (annual percent change)	16.1	7.1	-2.6	4.7
Imports (current prices, US\$ million)	10,394	8,592		
4. Imports, fob (% of GDP)	16.8	18.6	18.2	16.6
Import Growth (annual percent change)	18.5	16.7	-6.4	-9.6
F. External Payments Indicators				
1. International Reserves (\$ million)	2,737	2,065	1,219	800
(months of imports)	3.2	2.1	1.3	1.0
2. External Debt Service				
(% of exports of goods and services)	34.9	33.9	37.0	-
3. External Debt (% of GDP)	44.8	44.1	45.0	-
Memorandum Items				
GDP (current prices, PRs billion)	1,882.1	2,165.6	2,404.6	2,759.5
Exchange Rate (PRs per \$)	30.85	33.57	38.99	46.00

^{a/} Annual average.

^{r/} Revised data.

^{p/} Preliminary data.

PAKISTAN
COUNTRY PERFORMANCE INDICATORS

Population Indicators	1985		1997	
Total Population (millions)	94.73		135.28	
Annual Population Growth Rate (%)	3.1		2.8	
Social Indicators	1985		1997	
Total fertility rate (births per woman)	6.4	(1988)	5.9	(1994)
Maternal mortality rate (per 100,000 live births)	600	(1980/85)	340	(1993)
Infant mortality rate (per 1,000 live births)	126.7		100.4	(1996)
Life expectancy at birth (years)	58	(1987)	62.0	
Adult literacy rate (%)	34.3		38.9	
Male	47.6		50.3	
Female	19.8		27.0	
Primary school enrollment rate (% of school age pop)	51	(1986/88)	74.8	
Male	65.9	(1986)	85.5	
Female	32.8	(1986)	63.1	
% reaching Grade 5	-		46	(1986/93)
Secondary school enrollment rate (% of school age pop) ^{al}	29	(1986/88)	31.6	
Male	28.6	(1986)	36.5	
Female	16.9	(1986)	25.8	
Child malnutrition (% of under age five)	52	(1980/89)	38	(1990/96)
Population below poverty line (%)				
Rural	29	(1980/89)	31	(1990)
Urban	32	(1980/89)	20	(1990)
Population with access to safe water (%)	43	(1980/85)	74	(1990/96)
Population with access to sanitation (%)	22	(1988/90)	47	(1990/96)
Public education expenditure as % of GDP	2.2	(1986)	2.6	
Public health expenditure as % of GDP	0.7	(1986)	0.74	
Natural Resources and Environmental Quality Indicators	1985		Latest year	
Energy				
Energy production (average annual growth rate in %)	6.5	(1980/90)	7.3	(1980/93)
Energy consumption per capita (kg of oil equiv.)	233	(1990)	255	(1994)
Water Resources and Water Supply				
Annual withdrawal (% of total water resources)	33	(1970/87)	32.8	(1970/94)
Annual per capita withdrawal (m ³)				
Total	2,053	(1970/87)	2,053	(1970/94)
Domestic	21	(1970/87)	21	(1970/94)
Industrial and agriculture	2,032	(1970/87)	2,032	(1970/94)
Water quality of selected river				
Dissolve oxygen (milligram per liter)				
Indus, Kotri	2.5	(1992)	na	
Ravi, upstream from Lahore	7	(1992)	8.9	(1995)
Ravi, downstream from Lahore	6.3	(1992)	2.6	(1995)
Urban Pollution in Selected Cities				
Karachi				
Carbon Monoxide, CO (8-hour,ppm)	6.4	(1992)	na	
Lead, Pb (3-month average, mg/m ³)	0.01 - 0.24	(1992)	na	
Suspended particulate matter (mg/m ³)	0.42 - 0.62	(1992)	na	
Land Use				
Forest and woodland (% of total area)	5	(1990)	4.4	(1995)
Annual deforestation (1000 ha)	9	(1980/88)	na	
National protected areas (% of total land area)	4.6	(1991)	4.7	(1995)
Land Degradation (ha '000)				
Salinity	5,327.7	(1987)	na	
Waterlogging	1,554.3	(1987)	na	
Environmental Indicators				
Arable Land (as% of total land)			26.1	(1993)
Forest Cover (as % of total land)			4.4	(1993)
Protected Area (as % of total land)			0.009	(1993)
Energy Consumption per capita (oil equivalent)	142.00	(1980)	255	(1994)
CO ₂ Emission per capita (metric ton)	0.38	(1980)	0.60	(1992)

na - not available

m³ = cubic meter; kg = kilogram; mg = milligram; ppm = parts per million; ha = hectares.

^{al} High Stage secondary enrollment (Classes I-X)

Sources: UNDP Human Development Report 1997, WB World Development Report 1997.

PAKISTAN
PORTFOLIO PERFORMANCE

Table 1 : Implementation, Disbursement Performance and Postevaluation Results
(as of 31 December 1997)

A. Project Portfolio	Net Loan Amount		Rating												
			Total		With "AAA" rating		With one "B" or "C" rating		With two "B" or "C" ratings		With three "B" or "C" ratings		With "D" rating		
1. Public Sector Projects	(\$ million)	(%)	(No.)	(%)	(No.)	(%)	(No.)	(%)	(No.)	(%)	(No.)	(%)	(No.)	(%)	
Natural Resources / Agriculture	1541.0	34	20	100	20	100	0	0	0	0	0	0	0	0	
Energy	1177.4	26	10	100	7	70	3	30	0	0	0	0	0	0	
Finance and Industry	355.0	8	3	100	3	100	0	0	0	0	0	0	0	0	
Transport and Communications	443.7	10	4	100	4	100	0	0	0	0	0	0	0	0	
Social Infrastructure	864.9	19	14	100	12	86	1	0	1	0	0	0	0	0	
Multisector	102.0	2	1	100	1	100	0	0	0	0	0	0	0	0	
Total	4484.0	100	52	100	47	90	4	8	1	2	0	0	0	0	
2. Private Sector Projects (w/o government guarantee) a/ US Dollar equivalent at the time of approval	Loan Amount a/		Rating												
	(\$ million)	(No.)	(%)	(No.)	(%)	(No.)	(%)	(No.)	(%)	(No.)	(%)	(No.)	(%)	(No.)	(%)
	221.8	19	100	16	84	0	0	0	0	2	11	1	5	0	0
B. Disbursements (Public Sector Projects only)			OCR		ADF		Total								
(1) Total Funds Available for withdrawals (\$mn, active loans only)			999.3		2856.2		3855.5								
(2) Disbursed amount (\$ mn, cumulative, active loans only)			543.1		1424.9		1968.0								
(3) Percentage disbursed [(2)/(1)] (%)			54.4		49.9		51.0								
(4) Disbursements (\$mn, latest year)			139.6		256.2		395.8								
(5) Disbursement ratio (%)			20.4		13.9		15.7								
C. Net Transfer of Resources (includes private sector loans)			OCR (\$ million)		ADF (\$ million)		Total (\$ million)								
Net transfer in 1991			134.6		256.0		390.6								
Net transfer in 1992			60.9		152.6		213.5								
Net transfer in 1993			77.6		210.9		288.5								
Net transfer in 1994			2.0		389.4		391.4								
Net transfer in 1995			-190.0		287.4		97.4								
Net transfer in 1996			-185.4		318.67		133.3								
Net transfer in 1997			-103.7		185.7		82.0								
D. Post-Evaluated Projects			(By year of approval)		1978 - 198;		1988 - present		1968- present						
1. Postevaluation Rating (as of 31 December 1997)					(No.) (%)		(No.) (%)		(No.) (%)						
Rated Generally Successful (GS)					6 40		26 0		32 63						
Rated Partly Successful (PS)					8 53		6 17		14 27						
Rated Unsuccessful (US)					1 7		4 0		5 10						
Total					15 100		36 17		51 100						
2. Postevaluation Rating by Sector (1968 - present) (as of 31 December 1997)			GS		PS		US		Total						
			(No.) (%)		(No.) (%)		(No.) (%)		(No.) (%)						
Natural Resources / Agriculture			9 69		3 23		1 8		13 100						
Energy			16 100		0 0		0 0		16 100						
Finance and Industry			4 31		7 54		2 15		13 100						
Transport and Communications			2 67		1 33		0 0		3 100						
Social Infrastructure			0 0		3 60		2 40		5 100						
Multisector			1 100		0 0		0 0		1 100						
Total			32 63		14 27		5 10		51 100						

Source : CIRC Country Detail; Monthly Statement of Loans as of 31 December 1997; PEO: updated 20 May 1998.

PAKISTAN
PORTFOLIO PERFORMANCE INDICATORS

Tabel 2: Status of Project Implementation
(As of 31 December 1997)

Sector	Loan No.	Project Name	Net Ln Amt ADF (\$Mn)	Loan Approval Date	Loan Effectivity Date	Loan Closing Date		Cumulative Contracts Awards (\$Million)	Cumulative Disbursements (\$Million)	Physical Progress (%)	Project Performance Rating		
						Original	Revised				Implement Progress	Project Cost	Loan Covenant
Agriculture	0700	1 Left Bank Outfall Drain	172.492	Oct-84	Nov-85	Dec-93	Mar-97	172.924	169.427	96	A	A	A
Agriculture	0772	2 Pat Feeder Canal Rehabilitation	155.114	Dec-85	Jun-87	Dec-93	Dec-97	147.130	142.978	94	A	A	A
Agriculture	0791	3 Cotton Development	49.458	Sep-86	Feb-88	Dec-91	Dec-97	45.139	41.545	88	A	A	A
Agriculture	0837	4 Flood Protection Sector	128.736	Aug-87	May-88	Dec-93	Dec-97	128.194	119.699	98	A	A	A
Agriculture	0901	5 Khushab Scarp	58.270	Sep-88	Feb-89	Dec-94	Apr-98	53.333	45.725	97	A	A	A
Agriculture	0973	6 Livestock Development	38.896	Sep-89	Dec-90	Jun-97	Dec-97	26.407	23.267	72	A	A	A
Agriculture	0976	7 Swabi Salinity & Reclamation	132.431	Oct-89	Apr-90	Jun-97	Jun-99	87.287	70.680	62	A	A	A
Agriculture	1012	8 2nd Barani Area	26.518	Feb-90	Dec-90	Jun-98	-	18.359	20.295	80	A	A	A
Agriculture	1076	9 Sindh Forestry	29.094	Jan-91	Dec-91	Jun-99	-	12.628	12.996	60	A	A	A
Agriculture	1101	10 Kotri Barrage	21.108	Sep-91	Dec-92	Jun-97	Dec-99	16.783	13.284	90	A	A	A
Agriculture	1146	11 Chashma III	185.488	Dec-91	Nov-92	Sep-00	-	136.728	48.823	30	A	A	A
Agriculture	1179	12 NWFP Barani Area	31.617	Sep-92	Nov-93	Jun-99	-	19.376	18.509	70	A	A	A
Agriculture	1294	13 Pehur High Level Canal	124.479	Dec-93	Nov-94	Dec-02	-	75.144	10.548	6	A	A	A
Agriculture	1297	14 3rd PJB On-Farm Water Management	62.736	Mar-94	Aug-94	Dec-99	-	37.028	40.903	72	A	A	A
Agriculture	1350	15 Marala-Ravi Link Canal	3.000	Jan-95	Oct-95	May-97	Jan-98	2.382	1.768	45	A	A	A
Agriculture	1403	16 Forestry Sector	25.976	Nov-95	Mar-96	Dec-02	-	0.349	0.857	-	A	A	A
Agriculture	1413	17 National Drainage (Sector)	126.390	Dec-95	Dec-97	Jun-03	-	-	-	-	A	A	A
Agriculture	1467	18 Bahawalpur Rural Development	35.185	Sep-96	Run-97	Jun-03	-	-	1.214	2	A	A	A
Agriculture	1531	19 D.G. Khan Rural Development	35.172	Sep-97	Jan-98	Dec-04	-	-	-	-	A	A	A
Agriculture	1578	20 Flood Protection II	98.831	Nov-97	-	Jun-05	-	-	-	-	A	A	A
	20	Subtotal	1540.991					979.191	782.518				
Social Infra	1001	21 Karachi Sewerage	56.899	Dec-89	Jan-91	Feb-95	Sep-97	45.617	43.885	98	A	A	A
Social Infra	1002	22 Karachi Sewerage	34.000	Dec-89	Jan-91	Feb-95	Sep-97	31.281	30.147	98	A	A	A
Social Infra	1004	23 2nd Urban Development	73.354	Dec-89	Sep-90	Jun-97	Jun-98	64.458	55.208	80	A	A	A
Social Infra	1200	24 Health Care Development	57.555	Dec-92	Aug-93	Dec-99	-	26.783	24.854	64	A	A	A
Social Infra	1210	25 Teacher Training	39.777	Dec-92	Oct-93	Dec-98	-	13.847	13.632	60	A	A	A
Social Infra	1260	26 Urban Water Supply & Sanitation	68.716	Nov-93	Oct-94	Sep-99	-	4.813	4.631	22	B	A	B
Social Infra	1277	27 Population	24.441	Dec-93	Aug-94	Dec-99	-	11.108	10.768	52	A	A	A
Social Infra	1278	28 Middle School	76.665	Dec-93	Oct-94	Dec-99	-	16.802	14.586	34	A	A	A
Social Infra	1349	29 Punjab Rural Water Supply & Sanitation	42.354	Jan-95	Aug-95	May-00	-	3.726	2.011	21	A	A	A
Social Infra	1373	30 Technical Education	52.149	Sep-95	Mar-96	Jun-02	-	8.380	5.373	20	A	A	A
Social Infra	1454	31 Second Primary Schools (Girls)	42.067	Aug-96	Jan-98	May-02	-	-	-	-	C	A	A
Social Infra	1493	32 Social Action Program Loan II	187.571	Nov-96	Apr-97	Dec-00	-	18.410	19.689	5	A	A	A
Social Infra	1534	33 Second Science Education	39.725	Sep-97	-	Jun-04	-	-	-	-	A	A	A
Social Infra	1539	34 Korangi Wastewater Management	69.624	Sep-97	-	Jun-04	-	-	-	-	A	A	A
	14	Subtotal	864.897					245.225	224.784				
Finance	1371	35 Financial Sector Intermediation Loan	100.000	Sep-95	Jun-96	Dec-00	-	19.873	4.202	na	A	A	A
Finance	1576	36 Capital Market Development Program Loan	250.000	Nov-97	Jan-98	Dec-00	-	-	-	na	A	A	A
Finance	1577	37 Capacity Enhancement of Securities Market	4.957	Nov-97	Jan-98	Dec-00	-	-	-	na	A	A	A
	3	Subtotal	354.957					19.873	4.202				
Energy	0925	38 KESC 5th Power	100.000	Nov-88	Feb-90	Dec-92	Dec-97	103.356	91.355	100	A	A	B
Energy	0929	39 3rd Pirkoh Gas Development	65.350	Dec-88	Jun-89	Dec-92	Jun-98	62.146	54.085	85	A	A	A
Energy	0930	40 3rd Pirkoh Gas Development	45.958	Dec-88	Jun-89	Dec-92	Jun-98	41.852	31.731	85	A	A	A
Energy	1094	41 2nd Oil & Gas Development	40.050	Aug-91	Aug-93	Jun-94	Sep-98	19.596	12.380	58	A	A	A
Energy	1138	42 Sui-Southern Gas System Rehab & Exp.	178.000	Dec-91	Sep-92	Jun-96	Jun-98	141.594	150.024	92	A	A	A
Energy	1143	43 WAPDA 12th Power	125.000	Dec-91	Jan-93	Jun-98	-	118.099	110.571	71	A	A	A
Energy	1144	44 WAPDA 12th Power	128.653	Dec-91	Jan-93	Jun-98	-	116.228	106.839	71	A	A	A
Energy	1314	45 KESC 6th Power	100.000	Sep-94	Mar-95	Dec-98	-	36.185	26.019	7	A	A	B
Energy	1315	46 KESC 6th Power	94.422	Sep-94	Mar-95	Dec-98	-	36.208	24.242	7	A	A	B
Energy	1424	47 Ghazi Barotha Hydropower	300.000	Jan-96	Jun-96	Jun-02	-	123.056	58.368	2	A	A	A
	10	Subtotal	1,177.433					798.320	665.614				
Transport	0917	48 2nd Farm-to-Market Road	113.487	Nov-88	Mar-90	Dec-94	Jun-97	120.732	113.487	98	A	A	A
Transport	1185	49 Provincial Highways	155.857	Nov-92	Oct-93	Dec-97	Jun-99	117.836	71.025	50	A	A	A
Transport	1323	50 Sukkur Bridge	45.000	Sep-94	Apr-95	Dec-99	Apr-00	29.119	5.980	9	A	A	A
Transport	1401	51 Rural Access Roads	129.370	Nov-95	Mar-96	Dec-00	-	59.150	21.013	-	A	A	A
	4	Subtotal	443.714					326.837	211.505				
Multi sector	1209	52 Flood Damage Restoration	102.028	Dec-92	Aug-93	Dec-96	Mar-97	84.918	79.360	95	A	A	A
	1	Subtotal	102.028					84.918	79.360				
	52	Total Ongoing Loans	4,484.020					2,454.364	1,967.983				

Note: A loan is considered closed when the loan account is closed.

Source: CIRC Country Detail as of 31 December 1997 and PAC Notes.

PAKISTAN
OVERALL EXTERNAL ASSISTANCE ^a

In \$ Million

External Resource (\$ million)	Past 3 Years ^b (Annual Average)		1996-1997 Program	
	Loan/Credit	Grant/TA	Loan/Credit	Grant/TA
A. Multilateral Assistance				
ADB	473.2	-	400.1	
IBRD	410.3	-	-	
IDA	233.5	-	106.3	
UN System	-	16	-	6.4
IFAD	10.6	-	15.7	-
All Others (OPEC Fund, IDB, NORDIC, EIB, EEC, etc.)	66.1	44.2	-	28.7
Subtotal (A)	1,193.7	60.2	522.1	35.1
B. Bilateral Assistance				
Japan	480.4	63.7	248.5	34.5
Germany	98.6	28.3	148.3	48.8
France	58.6	-	27.7	-
Netherlands	-	20.9	-	15.7
People's Republic of China	44.5	-	-	6
All Others	628.0	85.4	656.3	15.5
Subtotal (B)	1,310.1	198.3	1,080.8	120.5
Total (A+B)	2503.8	258.5	1,602.9	155.6

a On commitment basis

b Average of three years total commitments (Project and Non-project Aid) from 1993-1994 to 1995-1996.

Source: Information provided by Economic Affairs Division (updated 26 May 1998)

PAKISTAN
LENDING PIPELINE AND TECHNICAL ASSISTANCE PROGRAM, 1999-2001

Sector/Project Name	Strategic Dev't Objectives ^{a/}		Projects Division	Year of PPTA	Amount (\$M)			Co-F'cing Reqrmt
	Primary	Secondary			OCR	ADF	Total	
1999 FIRM LOANS								
Social Infrastructure								
1 Non-Formal Education for Women	WID	HD	AWEH	1996	-	30	30	10
Finance / Industry								
2 Trade & Export Promotion & Industry Sector	ECO	-	IWFI	1992	300	-	300	-
3 Foreign Currency Import Finance Facility	ECO	-	IWFI	-	150	-	150	-
4 Modernization of Customs Adm.	ECO	-	IWFI	-	3	-	3	-
5 Institutional Support for Trade Regime	ECO	-	IWFI	-	3	-	3	-
6 Inst'l Strength of the Board of Investment	ECO	-	IWFI	-	1	-	1	-
				Subtotal	457	-	457	-
Energy								
7 Power Sector Restructuring Program	ECO	-	IWEN	-	250	-	250	250
8 Power Sector Restructuring Support TA Loan	ECO	-	IWEN	-	5	-	5	-
				Subtotal	255	-	255	250
Other								
9 Legal and Judiciary Reform Program	ECO	-	PW1	-	-	80	80	-
				Total	712	110	822	260
1999 STANDBY LOANS								
Agriculture and Natural Resources								
10 Punjab Irrigation SDP	ECO	POV	AWFN	-	150	50	200	50
2000 LOAN PIPELINE								
Agriculture and Natural Resources								
1 Rural Micro Finance	POV	WID	AWAR	1997	-	30	30	-
2 Punjab Irrigation SDP	ECO	POV	AWFN	-	150	50	200	50
3 Sindh Area Development	POV	-	AWAR	1998	-	40	40	20
4 NWFP Barani Area Development (Phase II)	POV	-	AWAR	1998	-	40	40	-
				Subtotal	150	160	310	70
Transport and Communications								
5 Punjab Road Sector Development	ECO	-	IWTC	1998	100	50	150	-
Social Infrastructure								
6 NWFP Urban Development SDP	HD	ENV	AWWU	1997	30	40	70	30
7 Pujab Urban Development	HD	ENV	AWWU	-	40	60	100	-
8 Primary School Quality Improvement	HD	WID	AWEH	1998	-	50	50	-
				Subtotal	70	150	220	30
				Total	320	360	680	100
2001 LOAN PIPELINE								
Agriculture and Natural Resources								
1 Punjab Small Dams	ECO	-	AWFN	1999	25	25	50	-
2 Gomal Zam Irrigation Development	ECO	POV	AWFN	1999	30	30	60	90
				Subtotal	55	55	110	90
Energy								
3 NWFP Public/Private Hydropower	ECO	-	IWEN	1999	100	-	100	200
Industry and Finance								
4 Industrial Pollution Control SDP	ENV	-	IWEN	1998	100	-	100	50
Transport and Communications								
5 NWFP/Balochistan Road Sector Dev.	ECO	-	IWTC	1999	70	30	100	-
Social Infrastructure								
6 Reproductive Health	HD	POV	AWEH	1999	-	50	50	-
7 Quetta Water Supply	ENV	-	AWWU	1997	-	40	40	-
				Subtotal	-	90	90	-
				Total	325	175	500	340

^a ECO = Economic Growth; POV = Poverty Reduction; HD = Human Development; WID = Women in Development; and ENV = Environmental Protection

PAKISTAN
LENDING PIPELINE AND TECHNICAL ASSISTANCE PROGRAM, 1999-2001

Sector/Project Name	Responsible Division	Type of TA	Amount (\$'000)			
			Bank			Total
			PPTA	ADTA	Other	
1999 TECHNICAL ASSISTANCE PROGRAM						
Agriculture and Natural Resources						
1 Integrated Pest Management	AWAR	AD	-	500	-	500
Energy						
2 NWFP Hydropower Sector	IWEN	PP	900	-	-	900
Industry						
3 Industrial Pollution	IWEN	PP	600	-	-	600
Social Infrastructure						
4 Reproductive Health	AWEH	PP	500	-	-	500
5 Strength. Implementation Capacity of Ministry of Education	AWEH	AD	-	500	-	500
6 Health Sector Reform	AWEH	AD	-	600	-	600
7 Nutrition Policy Implementation	AWEH	AD	-	150	-	150
		Subtotal	500	1,250	-	1,750
Transport						
8 Punjab Road Sector Dev.	IWTC	PP	1,250	-	-	1,250
Other						
9 Impact Assessment of Agriculture Projects in Balochistan	PEO	AD	-	300	-	300
10 Institutional Strengthening of Ministry of Law	PW1	AD	-	800	-	800
11 Capacity Building for Enforcing Env'tl Legislation	PW1	AD	-	500	-	500
12 Public Administration Reform	PW1	AD	-	1,600	-	1,600
		Subtotal		3,200	-	3,200
		Total	3,250	4,950	-	8,200
2000/2001 TECHNICAL ASSISTANCE PROGRAM						
Agriculture and Natural Resources						
1 Balochistan Coastal Area Development	AWAR	PP	600	-	-	600
2 Gomal Zam Irrigation Development	AWFN	PP	600	-	-	600
3 Cholistan Area Development	AWAR	PP	600	-	-	600
4 FATA Rural Development	AWAR	PP	700	-	-	700
5 Small Dams (NWFP/Punjab)	AWFN	PP	1,500	-	-	1,500
6 Northern Area Biodiversity	AWFN	PP	900	-	-	900
		Subtotal	4,900	-	-	4,900
Transport and Communications						
7 Road Sector Dev (NWFP/Balochistan)	IWTC	PP	1,500	-	-	1,500
Social Infrastructure						
8 Quetta Water Supply Institutional Strength	AWWU	AD	-	800	-	800
9 Sindh Municipal Development	AWWU	PP	800	-	-	800
10 Low Income Housing	AWWU	PP	800	-	-	800
11 Communicable Disease Control	AWEH	PP	800	-	-	800
12 NWFP Health Sector Reform	AWEH	PP	500	-	-	500
13 Teacher Training II	AWEH	PP	600	-	-	600
14 Primary School Quality Improvement II	AWEH	PP	800	-	-	800
15 SAP Evaluation	AWEH	AD	-	500	-	500
		Subtotal	4,300	1,300	-	5,600
		Total	10,700	1,300	-	12,000

PAKISTAN
LOAN PROGRAM BY TYPE AND SECTOR, 1999-2001

Classification	1999 (Firm)		2000-2001	
	No.	%	No.	%
I. By Type				
A. Traditional growth projects	8	89	4	27
B. Projects directly aimed at social concerns	1	11	7	47
C. Projects directly aimed at environmental protection	-	-	2	13
D. Growth oriented projects poverty reduction or environmental protection as secondary objective	-	-	2	13
Total	9	100	15	100
II. By Sector				
A. Agriculture and Agro-Industry	-	-	6	40
B. Energy	2	22	1	7
C. Industry and Finance	5	56	1	7
D. Transport and Communications	-	-	2	13
E. Social Infrastructure	1	11	5	33
F. Multisector/Others	1	11	-	-
Total	9	100	15	100

PAKISTAN

PROJECT PROFILE					
1. Project Name: Nonformal Education for Rural Women			2. Sector/Subsector: Social Infrastructure/Education		
3. Dev. Objective: Primary: WID Secondary: HD					
4. Rationale & Objectives: In Pakistan, rural women aged 15 to 25 are estimated to number 15.6 million or 13 percent of the country's population. About 8 million are in various states of illiteracy; either never having gone to any school, or are dropouts, or have completed primary education never to have gone on to higher grades thereafter. The major objective of the Project is to assist the Government in the socioeconomic development of these rural women. The Project will provide primary education through nonformal education mode, including livelihood skills training supported by microcredit, intended to improve the quality of life of rural women.			5. Beneficiary Participation/Consultation Needs: - Provincial Departments of Education (PDE) - Prime Minister's Literacy Commission (PMLC) - Nongovernment Organizations (NGOs and Community Based Organizations (CBOs) - Rural women		
6. Scope The Project includes: (i) selected tehsils in 16 districts in Punjab, and 10 districts in Balochistan; (ii) target group which will cover 191,000 female learners in Punjab in 6,367 NFE learning centers; and 34,000 female learners in Balochistan in 1,133 NFE learning centers; as well as 25,000 primary graders in PMLC's NFE schools; (iii) provision of civil works, facilities, learning materials; (iv) staff development (in-country and overseas for selected staff), and training of NFE female facilitators; (v) capacity building; and (vi) microcredit and a revolving credit fund to be institutionalized later as a Poverty Reduction Foundation.					
7. Estimated Cost & Financing Plan (\$):			Remarks:		
Loan Project Cost (\$m)					
Financing (Source)	FC	LC			Total
Bank	tbd	tbd			60.0
Co-financing					
Borrower					
Sub-borrowers		-			-
Total	tbd	tbd	60.0		
8. Estimated Benefits and Beneficiary Groups: Direct beneficiaries will be women living in the rural areas of Balochistan and Punjab.					
9. Executing Agency Ministry of Education and Provincial Departments of Education			10. Project Implementation Period: Start: 1999 End: 2003		
11. Environment Category: C			12. Processing Year: 1999		

PAKISTAN

PROJECT PROFILE				
1. Project Name: TRADE, EXPORT PROMOTION AND INDUSTRY			2. Sector/Subsector:	
Location (Province):		Type: Loan		Finance/Industry
3. Dev. Objective: Primary: ECO Secondary:				
4. Rationale & Objectives: The proposed Program is a continuation of the Bank's support for the Government's efforts to restructure trade and industry sectors. It is proposed to focus on the (i) trade liberalization; (ii) promotion of a new export development strategy; (iii) industrial sector reforms with focus on strengthening of the infrastructure policy and privatization of manufacturing enterprises in strategic sectors; and (iv) institutional development of trade and investment bodies. In addition, the Program will also seek to improve the availability of export credits, diversify export commodities, introduce the system of export insurance, and to conform Pakistan's industry practice with prevailing international standards such as intellectual property rights protection and ISO 9000 certification. These elements are an integral part of the medium-term economic reform program supported jointly by the IMF, WB, and the Bank including TEPI Program.			5. Beneficiary Participation/Consultation Needs: Industry and trade consultative bodies.	
6. Scope The Program will support policy dialogue to: (i) further simplify and rationalize the tariff regime; (ii) develop a suitable incentive framework for exports; (iii) restructure or privatize state-owned corporations and manufacturing enterprises; and (iv) strengthen the public sector trade promotion bodies.				
7. Estimated Cost & Financing Plan (\$):				Remarks:
Loan Project Cost (\$m)				
Financing (Source)	FC	LC	Total	
Bank	300.0		300.0	
Co-financing				
Borrower			tbd	
Sub-borrowers		-	-	
Total	300.0	0.0	300.0	
8. Estimated Benefits and Beneficiary Groups: The Program will be designed to promote and diversify Pakistan's exports. It is also expected to contribute to an increase in foreign direct investment to Pakistan. These benefits will together serve to modernize the industrial structure, upgrade product quality, and encourage improvement in management and production efficiency. Enhanced exports is also likely to yield positive impacts on the country's external account.				
9. Executing Agency Ministry of Finance			10. Project Implementation Period: Start: early 1999 End: 2001	
11. Environment Category:			12. Processing Year: 1999	

PAKISTAN

PROJECT PROFILE					
1. Project Name: Power Sector Restructuring Program Loan (PSRP) TA Loan			2. Sector/Subsector: Energy/Electric Power		
3. Dev. Objective: Primary: ECO Secondary:					
4. Rationale & Objectives: The long-term goal of the Bank's intervention is to ensure a self-sustaining, efficient and competitive power sector which is able to provide required quantities of quality power least cost to the consumers. In order to achieve this, there is a need for financial restructuring of the utilities and to improve existing pricing and cost recovery mechanisms, to improve operational efficiencies and enhance the competitive industry structure, and to strengthen the market regulation to ensure investors confidence and consumer protection.			5. Beneficiary Participation/Consultation Needs:		
6. Scope Technical assistance for capacity enhancement of the power sector. GOP will provide further details on TA loan requirements to the Bank prior to appraisal.					
7. Estimated Cost & Financing Plan (\$): (a) TA Amount : \$ 5.0 million (b) Loan Project Cost (\$m)			Remarks:		
Financing (Source)	FC	LC			Total
Bank	5.0	tbd			5.0
Co-financing	-	-			-
Borrower	-	-			-
Sub-borrowers	-	-			-
Total	tbd	tbd	5.0		
8. Estimated Benefits and Beneficiary Groups: The PSRP seeks to bring together the measures to reform the power sector in Pakistan, speed-up the actions needed for its sustainable growth, increase efficiency in the use of resources and improve customer focus in the delivery of services.					
9. Executing Agency Ministry of Finance (MOF), Ministry of Water and Power (MWP)			10. Project Implementation Period: Start: 1999 End: 2002		
11. Environment Category: N/R			12. Processing Year: 1999		

PAKISTAN

PROJECT PROFILE				
1. Project Name: Legal and Judicial Reform Program			2. Sector/Subsector: Judicial/Legal	
3. Dev. Objective: Primary: ECO Secondary:				
4. Rationale & Objectives: Inefficiencies in the legal and judicial system are adversely impacting economic development. The Bank's TA on Pakistan 2010 Study and the IMF ESAF framework have both identified inefficiencies in the legal and judicial system as key governance issues which need to be addressed. The GOP has therefore requested the Bank assistance for a legal and judicial reform program.			5. Beneficiary Participation/Consultation Needs: The consultative processes between the members of the legal profession and civil society initiated under the Pakistan 2010 Study needs to be built up upon. Stakeholders include the judiciary, legal profession, and the general public, particularly the business community.	
6. Scope The Loan will focus on the problem of inefficiencies in the legal and judicial system, including court congestion and inefficient delivery of legal services to the Government. This will entail addressing key policy and structural issues which perpetuate the current inefficiencies. The Project will, among other things, cover court administration and case management including introduction of efficient management information system in the courts, accountability of the judiciary, legal education and training, strengthening of ministries in the federation and the provinces, improving access to justice including induction of more women judges particularly in the family courts and introduction of and improved legal information system, to enhance transparency and create efficiency.				
7. Estimated Cost & Financing Plan (\$):				Remarks:
Loan Project Cost (\$m)				
Financing (Source)	FC	LC	Total	
Bank	80.0		80.0	
Co-financing				
Borrower			tbd	
Sub-borrowers		-	-	
Total	80.0	0.0	80.0	
8. Estimated Benefits and Beneficiary Groups: Securing greater predicatibility in economic transactions and enhancing the rule of law. Beneficiaries will include the general public particularly the business community.				
9. Executing Agency tbd			10. Project Implementation Period: Start: early 1999 End: 2001	
11. Environment Category: C			12. Processing Year: 1999	

ASIAN DEVELOPMENT BANK

**COUNTRY ASSISTANCE PLAN
(2000-2002)
PIPELINE UPDATE**

PAKISTAN

June 2000

PAKISTAN
LENDING PIPELINE AND TECHNICAL ASSISTANCE PROGRAM, 2000-2002

Sector/Project Name	Strategic Dev't Objectives ^{a/}		Projects Division	Year of PPTA	Project Cost(\$ million)				Co-financing Requirement	
	Primary	Secondary			TOTAL	Bank		Government ^{b/}		
						OCR	ADF			Total
2000 LOANS										
Agriculture and Natural Resources										
1 NWFP Barani Area Development (Phase II)	POV	-	AWAR	1998	93.6	-	49.4	49.4	28	16.1
2 Punjab Water Resources Sector Development Program	ECO	ENV	AWFN	1999	157.1	-	110	110	47	-
				Subtotal	250.7	-	159.4	159.4	75	16.1
Social Infrastructure										
3 NWFP Urban Development Sector	HD	ENV	AWWU	1997	30	-	21	21	9	-
4 Rural Micro Finance	POV	WID	AWAR	1997	114	-	80	80	34	-
5 Quetta Water Supply and Sanitation (Engineering)	HD		AWWU	1997	7	-	5	5	2	-
6 Punjab Non-formal Education for Rural Women	WID	HD	AWEH	1996	43	-	30	30	13	-
				Subtotal	158	-	136	136	22	-
Finance/Industry										
7 Small and Medium Enterprise Trade Enhancement Finance (previously Foreign Currency Import Facility)	ECO		IWFI		130	30	-	30	100	-
				Subtotal	130	30	-	30	100	-
Total					539	30	295.4	325	197	16.1
2001 LOAN PIPELINE										
Agriculture and Natural Resources										
2 Sindh Rural Development	POV		AWAR	1998	86	-	40	40	26	20
				Subtotal	1,206	#REF!	#REF!	#REF!	494	#REF!
Finance/Industry/Energy										
3 Capital Market Development Program II	ECO	POV	IWFI	2000	200	200	-	200	tbd	-
				Subtotal	200	200	-	200	-	-
Energy										
4 Power Sector Restructuring Program	ECO	POV	IWEN	2000	305	255	50	305	tbd	-
				Subtotal	305	255	50	305	-	-
Social Infrastructure										
5 Primary School Quality Improvement	HD	WID	AWEH	1998	71	-	50	50	21	-
6 Reproductive Health	HD	POV	AWEH	1999	43	-	30	30	13	-
				Subtotal	114	-	80	80	34	-
Judicial and Legal										
7 Judicial and Legal Reform Program	ECO	POV	PW1	1998	129	-	80	80	39	10
				Subtotal	129	-	80	80	39	10
Total					1,954	#REF!	#REF!	#REF!	567	#REF!
2002 LOAN PIPELINE										
Agriculture and Natural Resources										
1 Agriculture Program II	ECO	POV	AWAR	1999	286	50	150	200	86	-
				Subtotal	286	50	150	200	86	-
Social Infrastructure										
3 Teacher Training II	HD	POV	AWEH	2000	71	-	50	50	21	-
4 Punjab Urban Development Sector	HD	ENV	AWWU	1992/2000	114	-	80	80	34	-
5 Nutrition Improvement	HD	POV	AWEH		43	-	30	30	13	-
				Subtotal	6,549	#REF!	#REF!	#REF!	1,906	#REF!
Finance/Industry										
6 Small and Medium Industries	ECO		IWEN	2001	143	20	80	100	43	-
				Subtotal	143	20	80	100	43	-
Transport and Communications										
7 Punjab Road Sector	ECO	POV	IWTC	2000	214	75	75	150	64	-
				Subtotal	214	75	75	150	64	-
Other										
8 Civil Service Reform Program	ECO		PW1	2000	143	100	-	100	43	-
				Subtotal	143	100	-	100	43	-
Total					7,334	245	#REF!	#REF!	2,142	tbd
Total 2000-2002					9,827	#REF!	#REF!	#REF!	2,906	#REF!

^{a/} ECO = Economic Growth; ENV= Environmental Protection; GAD = Gender and Development ; HD = Human Development; and POV = Poverty Reduction.

^{b/} Includes contribution from implementing agencies, beneficiaries and Government.

PAKISTAN
LENDING PIPELINE AND TECHNICAL ASSISTANCE PROGRAM, 2000-2002

Sector/Project Name	Responsible Division	Type of TA	Amount (\$'000)		
			Bank	Others	Total
2000 TECHNICAL ASSISTANCE PROGRAM					
Agriculture and Natural Resources					
1 NWFP Rural Development Strategy	AWAR	ADTA	150	-	150
		Subtotal	150	-	150
Finance					
2 Dev. of Domestic Debt Markets and Inst'l Investments	IWFI	PPTA	150	-	150
3 Restructuring of State Life Insurance Corporation	IWFI	ADTA	800	-	800
4 Capacity Building for Debt and Risk Management of the MOF	IWFI	ADTA	995	-	995
		Subtotal	1,945	-	1,945
Energy					
5 Capacity Building of the NEPRA	IWEN	ADTA	1,000	-	1,000
6 Capacity Building of the Privatization Commission	IWEN	ADTA	1,000	-	1,000
		Subtotal	2,000	-	2,000
Social Infrastructure					
7 Punjab Urban Development	AWWU	PPTA	800	-	800
8 Poverty Assessment	PW1	ADTA	150	-	150
		Subtotal	950	-	950
Judicial and Legal					
9 Strengthening of Institutional Capacity for Judicial and Legal Reform	PW1	ADTA	2,900	-	2,900
		Subtotal	2,900	-	2,900
Transport					
10 Punjab Roads Sector Project	IWTC	PPTA	1,150	-	1,150
		Subtotal	1,150	-	1,150
Other					
11 Institutional Strengthening for Government-NGO Cooperation	SOCD	ADTA	350	-	350
12 Civil Service Reform Cluster	PW1	ADTA	1,500	-	1,500
		Subtotal	1,850	-	1,850
Total			10,945	-	10,945
2001 TECHNICAL ASSISTANCE PROGRAM					
Agriculture and Natural Resources					
1 FATA Rural Development	AWAR	PPTA	700	-	700
		Subtotal	700	-	700
Energy					
2 Capacity Building of the Nat Trans and Dispatch Co. (NTDC)	IWEN	ADTA	700	-	700
3 Support for Regulatory Framework and Economic Modelling	IWEN	ADTA	1,000	-	1,000
4 Small and Medium Scale Industries	IWFI	PPTA	600	-	600
		Subtotal	2,300	-	2,300
Social Infrastructure					
5 Low Income Housing	AWWU	PPTA	800	-	800
6 Nutrition Improvement	AWEH	PPTA	800	-	800
7 Teacher Training II	AWEH	PPTA	600	-	600
		Subtotal	2,200	-	2,200
Transport and Communications					
8 Road Sector Development (NWFP/Balochistan)	IWTC	PPTA	600	-	600
		Subtotal	600	-	600
Other					
9 NWFP/Sindh/Balochistan Public Sector Reform	PW1	ADTA	1,000	-	1,000
10 Institution Building for State Bank of Pakistan	PW1	ADTA	500	-	500
		Subtotal	1,500	-	1,500
Total			7,300	-	7,300
2002 TECHNICAL ASSISTANCE PROGRAM					
Agriculture and Natural Resources					
1 Punjab Barani III	AWAR	PPTA	800	-	800
2 Agribusiness Development	AWAR/PSG	ADTA	150	-	150
		Subtotal	950	-	950
Social Infrastructure					
3 Quetta Water Supply Institutional Strengthening	AWWU	ADTA	800	-	800
4 SAP III	AWEH	PPTA	800	-	800
5 Balochistan Non-formal Education for Rural Women	AWEH	PPTA	200	-	200
6 NWFP Health Sector Reform	AWEH	PPTA	600	-	600
		Subtotal	2,400	-	2,400
Transport and Communications					
7 Balochistan Rural Roads	IWTC	PPTA	400	-	400
		Subtotal	400	-	400
Industry/Energy					
8 Industrial Efficiency and Environmental Management	IWEN	PPTA	1,000	-	1,000
		Subtotal	1,000	-	1,000
Other					
9 Poverty Alleviation Program	PW1	PPTA	1,200	-	1,200
		Subtotal	1,200	-	1,200
Total			5,950	-	5,950
Total 2000-2002			24,195	-	24,195

NB: The CPCM Mission noted that there is additional scope for TA assistance to the provincial governments for public administration reform and restructuring.

Judicial and Legal

9 Judicial and Legal Reform	PW1	ADTA	2,900	-	2,900
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