Validation Report
November 2020

Pakistan: Public Sector Enterprises Reform Program (Subprogram 1)
ABBREVIATIONS

ADB – Asian Development Bank
CGR – corporate governance rules
CPS – country partnership strategy
CWRD – Central and West Asia Department
DMF – design and monitoring framework
ERP – enterprise resource planning
MOF – Ministry of Finance
MOR – Ministry of Railways
PBL – policy-based loan
PCR – project completion report
PPP – public-private partnership
PSE – public sector enterprise
PSERP – Public Sector Enterprise Reform Program
RRP – report and recommendation of the President
SECP – Securities and Exchange Commission of Pakistan
SDR – special drawing right
SOE – state-owned enterprise
TA – technical assistance

NOTE

In this report, "$" refers to United States dollars.

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<tr>
<th>Director General</th>
<th>Marvin Taylor-Dormond, Independent Evaluation Department (IED)</th>
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<tr>
<td>Deputy Director General</td>
<td>Véronique Salze-Lozac’h, IED</td>
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I. PROJECT DESCRIPTION

A. Rationale

1. In 2016, the Government of Pakistan owned 191 public sector enterprises (PSEs), which employed more than 420,000 workers. While some PSEs reported profits, most PSEs were poor performers reporting marginal profits or losses. As a result, PSEs relied on regular discretionary fiscal transfers and sovereign credit guarantees to maintain their operations.¹ PSE daily operations (subsidies and transfers) constituted 65% of the total budget allocations to PSE. This severely limited government investments in critical capital expenditures aimed at improving PSE efficiency. Establishing sound corporate governance, disclosure, and performance management in line with commercial principles were identified as critical elements to improve PSEs’ accountability for service delivery and revenue generation. Such measures would need to be accommodated by the government through phasing out budget transfers to support operating expenditures and providing an adequate increase in development budget funding. This would build up provisions to fund contingent liabilities.

¹ Pakistan International Airlines, Pakistan Steel Mills, power distribution companies, and Pakistan Railways (PR) were major recipients of such transfers.
related to PSE employee pensions and voluntary separation schemes and facilitating other critical development expenditures.

2. To support the government’s PSE reform agenda, the Asian Development Bank (ADB) approved a programmatic approach for the Public Sector Enterprises Reform Program (PSERP) in June 2016,2 with a loan of $300 million for subprogram 1 of the PSERP. The program aimed to reduce net fiscal transfers to PSEs from the federal budget and improve the performance of PSEs as an outcome. The program sought to introduce institutional reforms and improve the commercialization of PSEs to make them profitable in the long-term, thereby decreasing their need for government support and improve their dividend distribution to the government budget.

3. A programmatic approach was considered appropriate as there would be a number of policy actions that were politically sensitive and would require adequate time at the preparatory stage, including constituency building for reforms. A programmatic approach would facilitate chronological sequencing of reforms over an adequate period in a flexible framework and would also facilitate changes in the proposed policy actions if there were exogenous shocks.

B. Expected Impact, Outcome, and Outputs

4. The design and monitoring framework (DMF) stated that the program’s impact would be reduced net fiscal transfers to PSEs from the federal budget, while the intended outcome was improved PSE performance.

5. The project outputs included (i) policies to address labor issues and communication strategy introduced, monitoring system designed, and costs and benefits ascertained; (ii) financial transparency, monitoring, and corporate governance in PSEs improved; and (iii) restructuring and reform of selected PSEs initiated.

C. Provision of Inputs

6. The program was approved by the ADB Board on 28 June 2016 and was declared effective on 29 June 2016 (target was by 26 September 2016). The program was closed as planned on 30 June 2017.

7. There was no deviation between the actual and planned program costs. The ordinary capital resources-funded loan of $200 million was disbursed as a single tranche on 30 June 2016. The loan from ADB’s special fund resources was also disbursed on 30 June 2016 as a single tranche of $98.6 million or an equivalent of around SDR70.9 million. There were no consulting services attached to the program.

8. The program was classified category C for all three safeguard areas (environment, involuntary resettlement, and Indigenous Peoples). The program did not include a gender action plan. However, one policy action involved gender and was discussed in the effectiveness section.

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2 ADB. 2016. Report and Recommendation of the President to the Board of Directors: Proposed Programmatic Approach and Policy-Based Loans for Subprogram 1 to Pakistan for the Public Sector Enterprises Reform Program. Manila.
D. Implementation Arrangements

9. The Ministry of Finance (MOF) through its Finance Division, was the executing agency of the program. The Implementation and Economics Reform Unit within the Finance Division of the MOF was the program management unit and was responsible for general coordination and reporting on implementation arrangements. The Finance Division, Ministry of Railways (MOR); Pakistan Railways; the Privatization Commission; and the Securities and Exchange Commission of Pakistan (SECP) were the implementing agencies. The program management unit was responsible for (i) coordinating and monitoring the program, including the policy actions; (ii) preparing and submitting all required reports to the Finance Division and ADB; and (iii) submitting the necessary financial statements and reports to ADB. There were no changes to these arrangements during the implementation of the program. The project completion report (PCR) indicated that the borrower was compliant and ensured continued compliance with all the loan covenants.

10. The following were four broad categories of risk that could have had an impact on the implementation of the program: (i) continued commitment of the government toward reform measures envisaged under the program is not sustained; (ii) lack of counterpart funds, especially due to ongoing fiscal consolidation initiatives, may delay some reforms; (iii) elections and political unrest may delay the implementation of the proposed reforms under subprogram 2; and (iv) lack of financially viable public–private partnership (PPP) projects for consideration by Pakistan Railways. ADB sought to mitigate these risks by continuous engagement with the government and the provision of a technical assistance (TA) projection for PSERP. The identified risks did not impact on the program during the implementation of the subprogram. Risk (i) emerged as an issue with government commitment to the communication and privatization policies being less than anticipated.

II. EVALUATION OF PERFORMANCE AND RATINGS

A. Relevance of Design and Formulation

11. The PCR rated subprogram 1 highly relevant. Its PSE reform agenda was assessed to be closely aligned with both the government’s strategies (Pakistan Vision 2025) and policies, and ADB’s country partnership strategy (CPS) for Pakistan, 2015–2019, which supported institutional reforms and governance. The PSERP formed part of the government’s reform agenda, which included (i) improving governance within PSEs, (ii) restructuring, (iii) devising strategies to address labor issues, and (iv) creating an effective communication strategy to carry out privatization of PSEs. The programmatic approach was considered appropriate as it allowed reforms to be phased-in so that lessons from each subprogram could be applied to the next one.

12. The program supported the state-owned enterprise (SOE) governance reforms to design a communication strategy and policies to address issues pertaining to workers’ voluntary separation scheme, pensions, and training; design and initiate funding of a retirement cost fund of selected power distribution companies; design of an information technology-based performance monitoring system of PSEs; facilitate improvements in compliance with corporate governance rules (CGR); promote regular publication of a financial performance report of all the PSEs; and design a strategy to improve the level of women’s

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3 ADB. 2014. Technical Assistance to the Islamic Republic of Pakistan for the Public Sector Reform Enterprises Program. Manila. The RRP stated that this project preparatory TA project with an approved amount of $500,000 would remain active until December 2016 to support design, monitoring, and capacity development.


representation on PSE boards. In addition, the Pakistan Railways would undertake the following specific policy actions: (i) strengthening its internal control and audit function by appointing a chief internal auditor to lead the internal audit department and designing a road map for strengthening the internal audit department, including a risk-based audit plan; (ii) introducing internationally recognized accounting standards, including accrual accounting; (iii) carrying out a detailed feasibility study on departmental restructuring and workforce rationalization; (iv) establishing, operationalizing, and automating a database on land assets owned by the Pakistan Railways; (v) designing and implementing a strategy to facilitate private sector participation in select railways services; and (vi) improving transparency in the procurement of goods and services, and establishing effective internal controls.

13. This validation finds that subprogram 1 was closely aligned with government and ADB priorities targeting public sector reform and that the programmatic approach was an appropriate modality. The CPS had two pillars: infrastructure development and institutional reforms. The strategy envisaged that ADB would support reforms on PSEs to improve their performance and service delivery, reduce the fiscal burden imposed by them, and create a level playing field between public and private companies. The program was also well-aligned with Pakistan Vision 2025 where one of the seven priorities was governance, institutional reforms, and modernization of the public sector. However, the program did not meet the criteria for a highly relevant rating, as stated in the Guidelines for Evaluation of Public Sector Operations. To be considered highly relevant, the project should have (i) intended project outcomes fully aligned with country development priorities and ADB country and corporate strategies; (ii) a sound project results chain with no deficiencies in the project design; and (iii) a design with innovative features, significant demonstration value for other projects, or transformative effects. The results chain presented in the DMF had weak linkages between outputs, outcome, and impact. The outputs, many of which related to accounting practices and capacity, and reporting requirements, could not be expected to result in a 20% increase in PSE profits. The design of the reporting framework was particularly weak. The DMF really had no plan to monitor the outputs. The only sources of information listed were MOF annual reporting and the legal documents confirming the policy actions took place. This was a program regarding SOE reform but there was no plan to collect any information from the SOEs post-loan approval.

14. On project formulation, this section gave no indication of the process of project formulation in terms of stakeholder consultations, for example (particularly beneficiaries) policy analysis or the underlying governance issues that perpetuated an unstable policy environment, the weak institutional environment, and political risks to private investment and private sector development in Pakistan. An assessment of these risks is also critical to assessing the viability of sustainable government ownership and beneficiary awareness and benefits of a reform process of this kind. Furthermore, the Pakistan Country Partnership Strategy Final Review Validation, 2014–2019 noted that there was insufficient political analysis in key public sector management operations particularly the PSERP subprogram. It also demonstrated that there were few policy-based loan (PBL) operations approved in the early part of the CPS, which were effectively accompanied with TA projects. In fact, the TA loan for PSERP approved in December 2014 was canceled in July 2017. This ultimately gave way to a rushed and poorly designed program relying on a poorly resourced preparatory TA project as well.

15. Paragraphs 22 and 23 of the report and recommendation of the President (RRP) discussed the adjustment costs expected to be incurred under the program, but there was no

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mention of the actions to be taken by the government in relation to these costs. The actual adjustment costs of program were not estimated. The economic analysis simply estimated $640 million for the “Estimated Shortfall in Federal Government’s Support to PSEs for Development Loans and Development Expenditure during FY2017 and FY2018” but in reality, this was just the estimated fiscal transfer that would occur with or without a program. The item on “Contribution to Retirement Benefit Fund” of $240 million was the other major adjustment cost listed, but as previously noted this was not reflected in the DMF for subprogram 1. The $300 million was a very large resource injection for a very modest program. There appears to be a disconnect between the discussion of adjustment costs and the actions actually pursued under subprogram 1. There was also no subsequent reporting on what adjustment costs were actually incurred by the government.

16. The government’s commitment to reform, as expressed in the development policy letter, was particularly weak and did not articulate a vision of SOE reform. It was not clear if the goal was privatization where practical, whether PPPs or better service delivery, or was it simply to fix the problems of the fiscal transfers. While it could be argued that the program should have attempted a more innovative approach, it is difficult to be innovative in the unstable environment of Pakistan. A more focused approach with just a few SOEs, concentrating on the financials, targeting better service delivery, and incorporating governance reforms particular to the SOEs’ own situation could have been more effective. In other words, try out what has worked in other parts of Asia. ADB may have achieved more by selecting only a very limited number of SOEs and concentrating on the reforms relevant to these enterprises.

17. Greater value addition could have been provided by more focus on reviewing the strategic direction of enterprises and revising business plans. The fact that the PCR reported that the program’s impact was achieved while the outcome was not, also indicated weak linkage between outcome and impact. Subprogram 1 consisted of a modest set of reforms that do not meet the innovative or transformative criteria. This validation assesses subprogram 1 less than relevant.10

B. Effectiveness in Achieving Project Outcomes and Outputs

18. The PCR rated subprogram 1 effective. It noted that the program had largely achieved its outcomes through financial transparency reforms, improved monitoring, better corporate governance in PSEs, restructuring and reforming Pakistan Railways, assisting with labor issues, and improving communications with stakeholders. In particular, the PSERP has extended CGR, including the promotion of female representation in PSE boards, across all the PSEs.

19. The PCR also noted that the privatization strategies were implemented less rapidly than expected, and that some of the envisaged privatization transactions did not materialize. No major progress was made toward funding of the unfunded retirement liabilities of PSEs in the privatization list. This was the focus of the adjustment cost calculation. Also, improvements in the profitability of, and dividend income from PSEs were not achieved.

20. This validation notes that all planned actions set out in the policy matrix and DMF were fully completed, with two exceptions. The two actions partially achieved related to reforms at the MOR and Pakistan Railways. The PPP unit in the MOR was not established as a dedicated unit and operates on an ad hoc basis. The capacity and experience of the members in the unit are limited to implement the approved PPP framework. Pakistan Railways had started the process of migration from cash-based to accrual-based accounting system. However,

10 ADB Central and West Asia Public Management, Financial Sector, and Trade Division (CWPF) disagrees with this assessment. Please see the supplementary appendix (available upon request).
the preparation of financial statements for fiscal year (FY) 2017–2018 was delayed due to the non-implementation of the enterprise resource planning (ERP) as per targeted dates.

21. On output 1, while a communication strategy was introduced, it was later discontinued owing to “pressure from the status quo.” This pressure was apparently linked to the slowing down of the privatization process, which never materialized. However, based on additional information provided by the ADB Central and West Asia Department during the preparation of this validation, the privatization is still perusing a number of transactions including SME Bank and the House Building Finance Company. The PCR was not clear on the latter. It also did not provide any specific discussions on the “costs and benefits” obtained by the monitoring system.

22. On output 2, the PCR had pointed out the increase in compliance rates for PSE but did not indicate how this increase made a difference in transparency or PSE corporate governance. Discussion of the monitoring system used by SECP also did not give any clarity on the quality of the monitoring information obtained and how this was used to improve the performance of PSEs. It was also unclear if the amendments to the CGR made any difference on the level of women representatives in corporate boards. It simply stated that the amendments had increased the government's ability to enforce CGR but did not indicate the results of these strengthened abilities.

23. The PCR was unclear if the actions taken to rationalize service structure, initiate the privatization process, preparation of financial statements, and ERP made any significant difference in improving corporate governance or if the suggested progress made was actually likely sustainable.

24. On output 3, the PCR only discussed the actions taken in relation to Pakistan Railways, which were covered in 6 of the 13 policy actions. Although the program did not specifically cover the Pakistan Airlines or Pakistan Steel Mills, there was no discussion on the specific actions taken on the other seven policy actions and their results in relation to these entities either.

25. The restructuring of Pakistan Railways was initiated but there was no clear sense of the quality of the restructuring process of the human resources component and modernization of the management processes in the PCR. This was a critical issue in terms of improving its efficiency and financial viability. In particular, one of the key issues around its financial viability was related to the 78,000 employees, many of which were employed to undertake manual work. This validation notes that under the policy matrix, Pakistan Railways was required to carry out a detailed departmental restructuring and workforce rationalization of its manpower requirements by June 2016. Nonetheless, to date, an agreement on approving and moving forward on key recommendations for departmental restructuring and workforce rationalization has been pushed to the future.

26. There was no plan to monitor compliance and outputs beyond the tranche release. The only subsequent mission fielded was planned for the PCR. The back-to-office report of 11 July 2018 provided points on which indicators were not achieved (financial performance, accrual accounting, and PPP unit). The government also provided a very brief PCR, which added a comment on each action in the policy matrix. This information was incorporated in the PCR. It is worth considering why so little information is available. Perhaps ADB was working with the MOF to impose reforms on the SOEs rather than working in partnership with the SOEs—a top-down approach with very little reporting coming back up. Most of the policy actions were fulfilled but the response or impact on the individual SOEs was not reported.

The narrow focus on governance reforms rather than the actual operations of the concerned SOEs means there was no baseline against which to measure whether the SOEs benefited from the reforms or not.

27. The discussion on Pakistan Railways suggested limitations on achievements rationalizing the service structure in all cadres in the enterprise. It appears that the process was initiated but it is unclear if the expected results were achieved. A consultant was required to be hired to complete the process, but a final report was not issued at the time the PCR was completed. Although the PPP unit was established at the MOR, it remains unclear if this unit was dedicated as required under the policy actions, as staff assigned to the units were from the commercial section. The PCR stated that it “appears” that the unit was established. It also noted that there were delays in preparation of financial statements for targeted dates for Pakistan Railways resulting from the ERP platform not being established. The PCR could not verify if the process for selecting the ERP solutions platform to be adopted was underway.

28. The achievement of most of the policy actions by the government and executing agencies constituted an improvement in corporate governance within the PSE sector. However, the outcome indicator was not achieved, which was due to the poor choice of indicator during the design of the DMF (para. 12). The PCR did not provide enough evidence that the policy actions taken would deliver the outcome envisaged by the project. This validation assesses subprogram 1 less than effective (footnote 10).

29. The subprogram did not include safeguard-related plans or a gender action plan. The project safeguard performance of subprogram 1 was satisfactory.

C. Efficiency of Resource Use

30. The PCR rated the PSERP subprogram 1 highly efficient. It noted that no major change was required in the scope of the program, most policy actions were completed as planned, and the loan was disbursed on time. The PCR assessed that the efficiency was the result of thorough program preparation, effective policy dialogue with the executing agency, and the political commitment of the government.

31. The 2016 guidelines list the criteria for a highly efficient rating, for projects without an economic internal rate of return, as “intended outcomes were achieved or exceeded with significantly lower costs or within a shorter period than planned.” ADB financing was disbursed as planned in the RRP and the cost or financing was not below the planned amount. The program was closed on the target date of 30 June 2017. Since the loans were disbursed and the program closed all within the targeted timeframe, this validation assesses subprogram 1 efficient (footnote 10).

D. Preliminary Assessment of Sustainability

32. The PCR rated the PSERP subprogram 1 likely sustainable. It noted that an enabling policy framework for privatization had been established, including (i) a labor strategy that includes funding for unfunded pension liabilities, training costs, and voluntary retirement costs; and (ii) a robust communication program. The subprogram helped the government plan the financing requirements and develop a coherent well-coordinated approach for managing adjustment costs through joint support from development partners. The subprogram improved financial transparency through public disclosure of the financial performance of PSEs. It also improved MOF’s capacity to manage and monitor PSEs’ financial performance, helped the SECP improve its compliance with CGR, and promote private sector participation in the provision of public assets and services.
33. There are justifiable concerns on the likely reversal of workforce reforms as this has been documented in many other countries where the multilaterals have financed redundancies only to see rehiring a short time later. The technical and administrative reforms, which made up a considerable part of the reform agenda are unlikely to be reversed. However, in the absence of any contextually based approach to dealing with the governance issues in Pakistan and the tendency towards policy reversals (i.e., the slowing down of the privatization process, and elections results and issues around elite capture) raises concerns that in aggregate, the reform measures undertaken will not significantly impact on SOE performance.

34. The main concern regarding sustainability relates to the lack of a credible broader framework of SOE reforms, which articulates the role of the key SOEs, their mission statements, and their service delivery targets. Unless these issues are addressed, the reforms under subprogram 1 represent, at best, minor improvements, which may be rendered irrelevant when more important decisions are taken regarding the role of SOEs in the economy. The PCR suggested that the policy actions, while standard, will not be able to address the limitations of public service capacities despite what the TA project provided.

35. Clearly, the link between the reforms in subprogram 1 and SOE profitability is extremely weak. The need for significant fiscal transfers to SOEs is likely to remain. The PCR did not indicate that the policy actions will be able to deliver the expected outcome in profitability and commercialization of PSEs anytime soon. On the sustainability of the reduction of fiscal transfers, it is not clear in the PCR how the government managed to reduce fiscal transfers (achieved action) but the fact that there was no improvement in PSE performance suggests that further reduction of fiscal transfers may not be viable or sustainable.

36. There is no evidence of participation of the private sector in the design phase of the project and during its implementation even though this seems critical to the ultimate success of the reform process and overall beneficial impact of these policy actions. This validation assesses subprogram 1 less than likely sustainable (footnote 10).

III. OTHER PERFORMANCE ASSESSMENTS

A. Preliminary Assessment of Development Impact

37. The PCR rated the subprogram’s impact on institutional development satisfactory. It noted that the subprogram achieved the target impact with reduced fiscal transfer to PSEs under subsidies and grants. During implementation, the subprogram helped build consensus on reform within government. It helped reform the government, reduce overlapping mandates, and increase the efficiency of the SECP, Privatization Commission, and Pakistan Railways. The PCR also viewed that coordination among various government agencies and the MOF had improved significantly, with the MOF leading the reform agenda to ensure that the program generates the desired economic benefits in the long-term.

38. Concerns regarding the design of the program, the effectiveness of its implementation, and the likely sustainability of the reforms undertaken suggest that the impact of the program may be less than intended. This validation assesses the likely development impact of the subprogram less than satisfactory.

B. Performance of the Borrower and Executing Agency

39. The PCR rated the performance of the borrower and executing agencies satisfactory. It learned that the government, and the executing and implementing agencies, showed strong commitment in their timely compliance with the policy actions and their willingness to support the PSERP from design preparation to implementation. Although some outputs were
implemented later than scheduled, the government had engaged with ADB in a long-term partnership aimed at reforming PSEs and was able to translate that commitment into completing the agreed actions under the subprogram. The government provided a completion report to ADB in July 2018, which reported the status of completion of each action in the policy matrix. However, government commitment to the reform process was particularly weak. There is no clear articulation of a vision of SOE reform. It is not clear for example, if the goal is privatization where practical, whether it is PPPs or better service delivery, or simply to fix the problems of the fiscal transfers. Moreover, the government had dropped the planned PSERP subprogram 3. But perhaps the most important is the level of apparent interest and commitment of the government’s engagement with ADB in the formulation of PSERP subprogram 1, by helping to recognize, underline, or clarify the political economy issues that ultimately impeded the actions it needed to take to the privatization program. The absence of commitment and ongoing engagement is also reflected in how there was no plan to monitor compliance and outputs beyond the tranche release from the loan. In fact, the government provided a very brief input to the preparation of the PCR. It simply added a comment on each action in the policy matrix.

40. However, the validation recognizes that there are many factors working against Pakistan from breaking out of its pattern of managing PSEs (i.e., complex political economy issues). These issues were surely linked to the absence of a dedicated privatization law or any clear policy or strategy in place, when the PSERP program was launched. The absence of these fundamental institutional instruments also suggests that appropriate capacities did not exist in the government to undertake such a complex process. In the validation of the subprograms 1 and 2, it did occur to the Independent Evaluation Department that perhaps the provision of a senior expert or advisor within the MOF to provide oversight support and guidance on the conceptualizing, designing, and launching of what turned out to be a politically charged and important privatization process. On the basis of these considerations, the validation assesses the borrower’s performance satisfactory.

C. Performance of the Asian Development Bank

41. ADB’s performance was rated satisfactory by the PCR. This validation holds the view that ADB’s performance is less than satisfactory. ADB worked with the government and other stakeholders to design a set of reforms, which the government proved unable to implement and the weaknesses in program design detract from ADB’s performance. This desk analysis is corroborated by the findings of the Pakistan Country Partnership Strategy Final Review Validation. The few PBL operations approved in the early part of the CPS were not well accompanied with TA projects. The TA loan for the PSERP was canceled, giving way to a rushed and poorly designed program relying on an insufficiently resourced preparatory TA project. The privatization process, for example, got stalled and ADB and the government were unable to build on the first steps of the PSERP. Only five privatization transactions had been completed owing to political economy issues (i.e., status of PSE workers) that impeded government action and commitment to the privatization program and development of a viable government privatization strategy. PSEs effectively continued to be a drain on the public purse and was a critical factor in aggravating the most recent balance of payment crisis. As the MOF had noted, “the miserable performance of Public Sector Enterprises was reflected in a cumulative loss of Rs1,300 billion.”

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IV. OVERALL ASSESSMENT, LESSONS, AND RECOMMENDATIONS

A. Overall Assessment and Ratings

42. The PCR rated subprogram 1 successful. It assessed the subprogram highly relevant, being closely aligned with both government strategies and ADB’s CPS. The choice of the programmatic modality was considered appropriate to address the reform agenda. It rated the subprogram effective with the government completing almost all the actions in the policy matrix. The PCR rated the subprogram highly efficient, noting that it was declared effective and the loans disbursed 3 months before the target date. The subprogram was viewed likely sustainable as an enabling policy framework for privatization had been established and the MOF’s capacity to manage and monitor PSEs’ financial performance had been strengthened.

43. This validation is of a different view as the PCR. The subprogram does not have innovative or transformative features as required in the 2016 guidelines for rating projects “highly relevant.” In addition, there were weaknesses in the design of the DMF and the program was not set in the context of an overall SOE reform package. This validation, therefore, assesses it less than relevant. The subprogram is considered less than effective as while most of the policy actions were taken, there was no evidence provided in the PCR that these were fully implemented or enforced. There is no framework to report back on the outcomes achieved by the individual SOEs. This validation assesses the subprogram efficient as it met the planned schedule and cost, but it did not meet the criteria for a highly efficient rating. This validation also assesses it less than likely sustainable. The main concern regarding sustainability relates to the lack of a credible broader framework of SOE reforms, which articulates the role of the key SOEs, their mission statements, and their service delivery targets. Unless these issues are addressed, the reforms under subprogram 1 represent at best minor improvements, which may be rendered irrelevant when more important decisions are taken regarding the SOEs’ roles in the economy. Due to the weaknesses in program design, effectiveness, and sustainability, this validation assesses the subprogram, on the overall, less than successful (footnote 10).

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<td>Relevance</td>
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<td>The subprogram did not have innovative or transformative features as required in the 2016 guidelines for rating projects “highly relevant.” In addition, there were weaknesses in the design of the DMF and the subprogram was not set in the context of an overall SOE reform package.</td>
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**ADB = Asian Development Bank, DMF = design and monitoring framework, IED = Independent Evaluation Department, PCR = project completion report, PSE = public sector enterprise, SOE = state-owned enterprise. Source: ADB (IED).**

### B. Lessons

44. The PCR identified lessons relating to (i) the importance of stakeholder feedback, (ii) the use of active consultation within ADB to incorporate previous lesson learned, (iii) the role of policy dialogue, (iv) the process of getting reforms on the agenda, (v) managing complexity in relation to Pakistan’s political structures, (vi) implementing reforms during a period of political transition, and (vii) sustaining reforms and the responses of stakeholders.

45. This validation offers the following additional lessons:

(i) **Results framework-level lesson.** In designing the results chain, a plausible linkage between outputs and outcome and from outcome to impact is needed. The subprogram under review consisted of a relatively modest set of reforms, which could not have been expected to affect the balance sheets of the PSEs, and certainly not in the timeframe envisaged. The impact indicator was also poorly chosen as the aggregate size of transfers to PSEs from the budget was being set essentially as a matter of budget policy not as an outcome dependent on PSE performance.
(ii) **Project-level lessons.** Public sector enterprise reform programs are more likely to achieve sustainable results if they are guided by a clear statement of the vision and objectives of the reform efforts. Without a consensus on the objectives of enterprise reform, actions are often reversed by the next government, particularly in cases where significant staff redundancies take place.

(iii) **Policy-based loan and technical assistance balance.** This subprogram was supported by a very modest amount of TA whereas the problems faced by the SOE sector are large and complex. The outcome of the PBLs could be improved by a more appropriate balance between the TA amount provided to assist in implementing the reform agenda and the usually large element of loan finance provided to support adjustment costs.

(iv) **Sustaining reforms.** Effective policy analysis prior to design and consultations needs to take place before making assumptions. Such assumptions include attitudinal changes and their sustainability, and private sector response to these reform process. These also include the opportunity for their participation (as shown in the issues that arose in the reported “pressure of the status quo of many PSEs to slow the privatization process and the public’s negative sentiments and the discontinuation of public awareness campaign”).

C. **Recommendations for Follow-Up**

46. ADB’s future support in PSE reform could include building on the work undertaken in support of Pakistan Railways. As a strategically important enterprise with the potential to positively impact Pakistan’s future growth, continued support for Pakistan Railways’ structural reform and corporate governance could be combined with selected railway infrastructure investments.

47. Paragraph 2 of the RRP stated that “The proposed program will support the efforts of the government to improve the performance of PSEs by improving corporate governance and accountability and reducing PSE contingent liabilities.” The PCR did not report on whether contingent liabilities had been reduced. As ADB continues to support PSE reform in Pakistan, updating the estimates on contingent and unfunded liabilities of PSEs could be relevant to both the restructuring and privatization program and to estimate possible support from government budget.

V. **OTHER CONSIDERATIONS AND FOLLOW-UP**

A. **Monitoring and Reporting**

48. The PCR noted that the borrower was compliant with, and had ensured continued compliance with, all the covenants. It also observed that the borrower was not required to submit periodic reports on covenant compliance and there was no periodic independent monitoring from ADB. The PCR also detailed the arrangements for monitoring annual financial performance reports of PSEs.

49. This validation notes that the data on the outcome indicators were available through the MOF annual reporting mechanism. At the output level, progress and compliance were monitored through the appropriate legal documents submitted to ADB. The only ADB mission after Board approval was the program completion review mission in July 2018.
B. Comments on Project Completion Report Quality

50. While well-written, the PCR did not consider the criteria set out in the 2016 guidelines for highly relevant and highly efficient ratings. The ratings of the PCR on relevance and efficiency were not aligned with the guidelines and there were issues on the substantiation of PCR ratings on effectiveness and sustainability; thus, there was a lack of evidence in stating the overall rating as successful. For this reason, the PCR quality is rated less than satisfactory.

C. Data Sources for Validation

51. Data sources for this validation were the PCR, the RRP, back-to-office reports of project preparation and project administration missions, and the project safeguard assessment.

D. Recommendation for Independent Evaluation Department Follow-Up

52. A project performance evaluation could be scheduled at a suitable time following the completion of subprogram 2 in order to review the overall PSERP.