



OFFICIAL USE ONLY

SD2009-0013

April 15, 2009

FROM: Vice President and Corporate Secretary

Summary of Discussion at the Meeting of the Executive Directors
of the Bank and IDA, March 26, 2009*

Contents

Page

Pakistan - Second Poverty Reduction Strategy Paper (PRSP II) and Joint IDA-IMF Staff Advisory Note; Credit for Poverty Reduction and Economic Support Operation (PRESO)	1
---	---

* This summary consists of staff notes of the discussion and is not an approved record.

Distribution:

Executive Directors and Alternates
President
Bank Group Senior Management
Vice Presidents, Bank, IFC and MIGA
Directors and Department Heads, Bank, IFC and MIGA

PAKISTAN – SECOND POVERTY REDUCTION STRATEGY PAPER (PRSP II) AND JOINT IDA-IMF STAFF ADVISORY NOTE; CREDIT FOR POVERTY REDUCTION AND ECONOMIC SUPPORT OPERATION (PRESO)

1. The Executive Directors of the Bank and IDA discussed the Second Poverty Reduction Strategy Paper (PRSP II) and Joint IDA-IMF Staff Advisory Note (JSAN) for Pakistan (IDA/SecM2009-0098, dated March 5, 2009). They also approved a credit in the amount of SDR 321.3 million (US\$500 million equivalent) to the Islamic Republic of Pakistan for a Poverty Reduction and Economic Support Operation (PRESO) (IDA/R2009-0035, dated March 5, 2009).
2. **Staff Introduction.** Staff said that Pakistan had begun to take decisive steps to stabilize the economy, culminating in a Stand-By Arrangement with the Fund in November 2008, which remained on track. The government had shown strong commitment to implementing politically difficult reforms in areas that had gone unaddressed for years, including electricity and petroleum product pricing. It had also taken important steps toward enhancing tax revenues. The current CAS will expire at the end of FY09. A new CAS, which would build on PRSP II, would be presented to the Board in the fall. The Bank would provide up to US\$800 million in budget support to Pakistan in this fiscal year, including the PRESO operation. Other budget support operations would be a US\$200 million social safety net DPL and a US\$100 million higher education DPC. Staff would also present a series of investment operations and a project to support livelihoods and service delivery to the poorest.
3. **PRSP II.** A large number of speakers commended the government for the PRSP II. They supported its nine pillars, although a number of speakers felt that it lacked a clear strategic focus. A number of speakers invited the authorities to identify core priorities and to align the costing estimates with the available fiscal envelope. Some speakers asked about the prospects for financing the initiatives and reforms under PRSP II.
4. Staff said that through prudent fiscal management, appropriate revenue generation, and concessional support, Pakistan could finance many key initiatives.
5. **Joint IDA-IMF Staff Advisory Note.** A number of speakers concurred that PRSP II provided a comprehensive framework to stabilize the economy and achieve an adequate growth rate conducive to poverty reduction. They agreed with staffs' recommendations.
6. **Macroeconomic and Structural Reform Issues/Stand-By Arrangement.** A number of speakers commended Pakistan's progress in stabilizing the economy, achieving impressive rates of growth, and promoting structural reform during the first PRSP period. They favorably noted that the authorities' program supported by the IMF Stand-By Arrangement remained on track. They were pleased that macroeconomic stability remained at the core of PRSP II.
7. **Global Economic Crisis.** A number of speakers asked management how the government was addressing the global financial crisis. Another speaker said that he would have liked to see more analysis of Pakistan's sources of growth under the deteriorated economic outlook.
8. Staff said that while Pakistan was hit hard by commodity price shocks, the impact of the global financial crisis had only begun to affect the country in the past few months. However, the sharp deterioration in the global economic outlook posed significant risks to Pakistan's exports, remittances, and external financing. This could delay recovery of growth, which admittedly in PRSP II was optimistic. The domestic downturn was also affecting Pakistan's banking sector, and the State Bank of Pakistan had prepared a contingency plan to address problem banks.
9. A speaker noted that all of the figures used in this document were pre-crisis and asked if they would be revised. He also asked about the impact on exports of the eroding trade preference arrangements and about the impact of lost remittances.

10. Staff said that a number of targets would need to be revised downward. Pakistan's export growth had been declining and was expected to decline further due to reduced global demand. Remittances had held up well so far but were expected to decline.

11. **Political and Security Issues.** A number of speakers felt that PRSP II did not sufficiently address security, particularly in the North West Frontier province. One of them urged the Bank to prioritize an engagement in difficult areas that were key for promoting peace in the sub-region and to promote trade and investment between Pakistan and Afghanistan. Another speaker called for more efforts to promote a vigorous interaction between economic stability and improvement of security.

12. **Fiscal Reform/Public Finance Management.** A large number of speakers called for fiscal sustainability through enhanced revenues rather than lower expenditures. Some speakers welcomed efforts to improve the government's fiscal stance through tax reform. A number of speakers urged the authorities to link PRSP II, the Medium-Term Development Framework (MTDF) and the budget when the MTDF expired next year. They suggested merging these documents into a single national development strategy.

13. **Financial Sector Issues.** A speaker asked what measures were envisaged to implement the numerous reforms in the financial sector and how they would be financed. Another speaker urged a careful analysis and proper documentation of Pakistan's experience in the area of access to finance, as it could be useful to other countries. A different speaker asked what steps were being taken to mobilize domestic private savings.

14. Staff said that the recent tightening of monetary policy was expected to encourage savings as real interest rates rose. The priority of financial sector reform in the short run was to strengthen banking sector regulation to promote stability.

15. **Infrastructure.** A speaker found the document to be overly optimistic with respect to the increased investment that would follow the proposed cuts in subsidies and increased tariffs. He asked staff to comment on consumer exemptions and on the state of regulation of the sector.

16. Staff said that the "lifeline" tariff, which protected poor households from hikes, remained unchanged. The Bank was supporting efforts to strengthen the capacity of distribution and transmission networks and the sector's governance through an investment operation.

17. **Governance.** A number of speakers felt that good governance, public administration and legal reform, and the division of responsibilities between the district and provincial levels were not discussed in sufficient detail in the document. Another speaker stressed the importance of enhancing transparency.

18. Staff said that the Bank was providing technical support to Pakistan's four provinces.

19. **Private Sector Development/Infrastructure.** A speaker agreed on the need to focus on reforms that reduced barriers for entrants as a means to support long-term economic growth and job creation. He urged the authorities to refrain from picking winners by promoting specific areas of production. He also welcomed the emphasis on an integrated energy development program and encouraged the authorities to explore options for public-private partnerships (PPPs). Another speaker felt that programs focused on SMEs should not be reduced but made more efficient. Some speakers asked why staff objected to the government's prioritizing certain types of businesses over others.

20. Staff said that the Bank was not opposing support to SMEs; however, the private sector consisted of many types of businesses which were also important for recovery and growth.

21. **Safety Nets.** Several speakers welcomed the emphasis on social safety nets and on improving data collection and statistical systems. Some speakers welcomed the government's commitment to reducing gender disparities. One of them called for further mainstreaming of gender in the Bank's strategy. A speaker asked about the lag between labor market reforms and implementation of social safety nets.

22. Staff said that gender was mainstreamed throughout the PRSP. The safety net reforms were proceeding at present, while the labor market reforms were medium-term reforms.
23. **Agriculture**. A speaker stressed the need to increased agricultural productivity and encouraged the government to seek PPPs for this purpose. Another speaker asked what measures were being contemplated to revive the agriculture sector and contribute to poverty reduction.
24. Staff said that the Bank was undertaking competitiveness assessments of various sub-sectors and the marketing infrastructure. Rural jobs were also critical to poverty reduction. Through the Pakistan Poverty Alleviation Fund, the Bank supported livelihood development, microfinance, and community-led programs to increase rural employment.
25. **Capacity Building**. Some speakers asked what measures were planned to address weak capacity and how the Bank could help.
26. Staff said that all Bank investment loans had a capacity building component. Development policy operations were typically supplemented with technical assistance.
27. **Results Framework**. A number of speakers welcomed the results framework. They added that alignment with the national development strategy would be of crucial importance, as well as sustained efforts to enhance capacity for poverty measurement and analysis.
28. **Closing Remarks of the Executive Director Representing Pakistan**. The Executive Director whose constituency includes Pakistan thanked staff for their work in preparing this operation and the Board for their support. He noted their suggestions, which he promised to convey to the authorities.
29. **Chairman's Summing Up**. The Chair summarized the meeting. The Chairman's Summing Up was subsequently circulated as IDA/SecM2009-0098/1, dated April 1, 2009.

Poverty Reduction and Economic Support Operation

30. **Support for the Credit**. A large number of speakers expressed support for the PRESO. They welcomed its focus on protecting the poor and on strengthening the safety net system as well as on revenue mobilization, efficiency of public spending, subsidy and tax policy, and debt management.
31. **Risks**. Some speakers noted the risks to the project enumerated in the document. One of them felt that the Bank could have been more frank about the risks and added that the high number of process-based actions did not necessarily reduce the risks but could add unnecessary transaction costs on client countries when they least needed it.
32. Staff agreed that there were considerable risks, including those associated with security concerns. Recent political events had been covered widely in the press, but there were unresolved constitutional and political differences among and within political parties and civil society.
33. **Donor Coordination**. A number of speakers asked what could be done to improve donor coordination in the framework of the PRESO. Another speaker urged donors to participate in the Pakistan Donors Conference in Tokyo on April 17.
34. Staff said that the authorities would refer to the PRSP II at the donors conference, which would be an opportunity for development partners to give feedback and strengthen implementation.

